ICIEC powers into the future
One major Gulf investment house has expressed the wish that banking nowadays should be more about how innovative a funding structure can be, rather than the proverbial “offering the best service.”

Currently, there are signs that Gulf Cooperation Council Islamic finance institutions are increasingly looking to the UK in particular and the eurozone to a lesser extent to increase and diversify their trade finance, real estate and other investment portfolios. London is already one of the world’s largest domiciles for Murabaha business mainly through contracts based on London Metal Exchange warrants.

Implementation of the Basel Committee leverage ratio requirements has now begun with bank-level reporting to national supervisors on both the ratio and its components, and there will be public disclosure starting in 2015. The committee says it will carefully monitor the impact of these and “any final adjustments to the definition and calibration of the leverage ratio will be made by 2017.”

Follow us on twitter @cashandtrade

©CMM: All material is strictly copyright and all rights are reserved. No part of this publication may be reproduced in whole or in part without written permission of the copyright holder. Opinions expressed in Cash & Trade are not necessarily those of Cash Management Matters (CMM) by Dar Alkhaleej Printing & Publishing. Dar Alkhaleej Printing & Publishing does not accept responsibility for advertising content.
Dear Reader,

The work of the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC), the standalone export credit and investment risk insurance agency of the Islamic Development Group, has changed the face of business in its 56 member countries.

And this year, as it celebrates 20 years of outstanding success, ICIEC has designed a new strategy focusing more on investment insurance and project finance. But, at the same time, it will naturally continue to underwrite its export credit insurance business, which it sees as an essential part of its mandate to support the exports of its member countries.

Indeed, all those that it deals with will have reason to congratulate the corporation for coming such a long way in realising its vision of becoming “the internationally recognised leader in the provision of Shariah-compliant export credit and investment insurance and reinsurance in its member countries” and effecting its stated mission of providing such services to encourage intra-Islamic trade, especially exports, and to facilitate the flow of foreign direct investments between member countries.

Currently, intra-Islamic trade constitutes some 18 per cent of the total trade of the Organisation of Islamic Cooperation (OIC) countries, but, as we report in this issue, ICIEC now has its sights on increasing this to 25 per cent by 2020.

Also in this edition, we look at how MENA is said to be punching below its weight in terms of international trade. Although countries in the region have furthered their integration into the global trade system over the past decade, it’s believed that they still have considerable work to do to improve their position.

Some of the region’s countries have yet to become members of the World Trade Organisation and the GCC has still not concluded a free trade agreement with the EU, which is now its biggest trading partner (trade between the two climbed to €148bn in 2012). On the subject of the EU, another correspondent points out there are signs that the Gulf Cooperation Council Islamic finance institutions are increasingly looking to the UK in particular and the eurozone to a lesser extent to increase and diversify their trade finance, real estate and other investment portfolios.

London is already one of the world’s largest domiciles for Murabaha business mainly through contracts based on London Metal Exchange warrants. In fact, London-based, DDCA Limited is one of the largest such commodity brokerage and intermediation firms serving the global Islamic finance market. But over the past few years it has also emerged as a major domicile for inward Islamic investment into the real estate, corporate finance and equity market in the UK.

The announcement of seven UK government initiatives on Islamic finance by British Prime Minister David Cameron at the World Islamic Economic Forum (WIEF), which was held in a non-Muslim country for the first time at the end of 2013, seems to have given an added momentum to Shariah-compliant investments, especially in the trade finance and real estate sectors in the UK and, by association, in Europe.

At a wider level, we look at the latest Basel Committee’s bid to maintain banking stability. In essence, it believes that a simple, non-risk based “backstop” measure will restrict the build-up of excessive leverage in the banking sector.

Implementation of the leverage ratio requirements has now begun with bank level reporting to national supervisors of both the ratio and its components, and there will be public disclosure starting 1 January 2015. The committee says it will carefully monitor the impact of these and “any final adjustments to the definition and calibration of the leverage ratio will be made by 2017”.

Another article in this issue looks at one major corporate’s wish for banking nowadays to be more about how innovative a funding structure can be, rather than the proverbial “offering the best service”.

In this respect, we publish a classic example of just that, giving readers an in-depth look at how a “unique” financial structure allowed an Indian company to feel secure about a large contract with Iraq. The key to it all was receiving assurance on payment, “due to limited control after supplying the material and the volatile nature of the country”.

Hani Al Maskati
Editorial Director and Publisher:
www.iccevents.com

For more information, contact
Emma Dannevik, Project Officer | emma.dannevik@iccwbo.org | Tel: +33 1 59 53 35 96

Find the programme at www.iccevents.org

Letter from the editorial director
Cash management: innovation is vital

The survey found that “the industry has voiced a clear need to drive innovation in the cash management space with 25 per cent of respondents willing to invest $500k–$1m+ towards advancement in the next 12 to 24 months.”

“Of the interviewed, 90 per cent considered cost and quality of innovation as a roadblock to growth in the space. A little over 25 per cent were wary of implementing innovation due to their reluctance to adopt new technology coupled with lack of understanding of the current products and services available in the market.”

Commenting on the analysis, Oliver Baillie, head of cash management, Middle East at Barclays, said, “Corporations of all sizes are increasingly turning to their financial institutions to provide them with cash and treasury management services that genuinely transform the way that they operate. Demand from corporate clients, in addition to the competitiveness of the cash management marketplace, is driving an abundance of innovation in this space.”

It was clear that banks that invested in enhancements to core products and functionality were able to move up the value chain, had more strategic dialogue and helped clients deliver improved efficiency. As per the survey, corporates said that innovation would lead to improving process efficiency, reduce cost, facilitate business activity and build improved customer experience.

He added, “Nearly 70 per cent of the surveyed consider banks as their most important partner for innovation and 80 per cent of our clients have placed us in their innovation agenda going forward.”

The overall feeling was that with entrepreneurship on the rise in the Middle East and businesses enjoying rapid growth, scalable and efficient cash management practices were essential to maintaining control of corporates’ finances.

Global solutions for trade finance

Deutsche Bank has announced the creation of a “global solutions” function within its trade finance/cash management for corporates business in its global transaction banking division.

TF/CMC Global Solutions will focus on accelerating business growth by systematically tailoring and replicating solutions across target industries and geographies, focusing on large corporate clients.

The newly created business is headed globally by Shahrokh Moinian, previously head of TF/CMC for the Americas. Based in Frankfurt, he reports to Michael Spiegel, head of TF/CMC.

At a regional level, the global solutions teams are being led by Suman Chaki for Asia Pacific and Arthur Brieske for the Americas. Deutsche Bank has also announced the appointment of James Binns as managing director and regional head global solutions EMEA, joining the bank from HSBC. He will be based in London and report to Moinian.

Spiegel commented, “Global solutions will play a critical role in our growth aspirations for TF/CMC. It is a global key initiative and perfectly complements the client-centric approach of our business.”

Riyad Bank showcases its corporate offerings

Riyad Bank recently held three seminars in Riyadh, Jeddah and Al-Khobar under the title “Trade and Cash Solutions for Corporate Customers”. They were organised by the bank’s corporate banking division and were well attended by a large group of the bank’s corporate clients in all three regions.

Opening remarks were made by Ossama A. Bukhari, executive vice-president – corporate banking division. These were followed by engaging and informative presentations on trade finance, cash management and e-channels.

The seminars showcased both existing and forthcoming product offerings by Riyad Bank in the areas of trade finance and cash management. The bank informed the audience of its plans to introduce new trade solutions under open account trade, including the Bank Payment Obligation (BPO). On top of that, it said it also offered faster processing for customers using the bank’s e-trade solution.

Riyad Bank is one of the leading banks in the Kingdom and the event emphasised the wide range of trade and cash solutions available to customers to meet their business requirements.
Collections: accolade for NBAD

The National Bank of Abu Dhabi (NBAD) has been ranked the “Best Bank for Payments and Collections” in the Middle East by Global Finance, the international financial magazine. To rank Best Treasury and Cash Management Banks and Providers, Global Finance used a multi-tiered assessment process, which included a readers’ poll, input from industry analysts, corporate executives, technology experts and independent research.

The award considers various criteria including profitability, market share and reach, customer service, competitive pricing, product innovation and the extent to which treasury and cash management providers have successfully differentiated themselves from their competitors around core service provision.

“The award considers various criteria including profitability, market share and reach, customer service, competitive pricing, product innovation and the extent to which treasury and cash management providers have successfully differentiated themselves from their competitors around core service provision.”

“Being selected the best bank for payments and collections in the Middle East reflects NBAD’s strength and its ability to deliver value to clients,” said Vineet Varma, managing director and head of global transaction banking at NBAD.

NBAD provides a wide range of products and tailor-made solutions in cash management as well as a team of experts and advisors to support clients in achieving their business goals.

In 2013, NBAD was selected “best cash management services in the Middle East” at the EMEA Finance Treasury Services Awards.

NBAD’s growth ambitions are guided by its West-East Corridor Strategy, which “represents vast potentials with unlimited resources, growing economic activities, and an emerging middle class”. It plans to use its strategic locations to tap into the growing economies that span from West Africa across to East Asia.

Mysteries of trade finance unravelled

A book entitled Financing Trade and International Supply Chains by Cash2Trade contributor Alexander R. Malaket is said to take the mystery and complexity out of trade finance.

The book suggests that every trade or supply chain finance solution – no matter how elaborate – addresses some combination of four elements: facilitation of secure and timely payment, effective mitigation of risk, provision of financing and liquidity, and facilitation of transactional and financial information flow. It also includes observations on the effective use of traditional mechanisms such as documentary letters of credit, plus an overview of emerging supply chain finance solutions critical to the financing of strategic suppliers and other elements of complex supply chain ecosystems.

On top of this, the important role of export credit agencies and international financial institutions is explored, and innovations such as the Bank Payment Obligation are addressed in detail.

One reader, Stephen S. Polor, governor of the Bank of Canada and past president and CEO of Export Development Canada, said, “Malaket offers an insightful compendium of facts, figures, practices and case studies that show the reader how the world’s trade finance architecture actually works.”

“His portrayal is thematic, and grounded in theory, but he somehow manages to bring that theory to life. He also captures the evolutionary nature of the system – the fact that we are watching a movie, not examining a snapshot, comes through loud and clear. This book will be required reading for beginners and veterans alike.”

For further details about Financing Trade and International Supply Chains, visit www.governpublishing.com/isbn/9781629484606.

Trade: MENA needs a shake-up

MENA countries have furthered their integration into the global trade system over the past decade, but they still have considerable work to do to improve their position. Of course, crude oil is by and large the region’s calling card to the rest of the world, and helps open doors for other products and services. But in trade terms it is punching below its weight and many impediments remain. With the right initiatives, some of these could be swept away quickly. But there are also deeper-seated problems that will be more difficult to fix.

Some of the region’s countries have yet to become members of the World Trade Organisation (see table) and the GCC has not concluded a free trade agreement with the EU, which is its biggest trading partner (trade between the two climbed to €46bn in 2012). Algeria, Egypt, Jordan, Morocco and Tunisia hold Euro-Mediterranean association agreements with the EU, but Lebanon and the Palestinian Authority are party to an interim agreement, and Syria to a co-operation operation.

Progress needs to be made not simply to facilitate trade outside the region, but also to overcome barriers to trade between MENA neighbours. An Arab customs union is set to go live next year, and a full common market is planned for a 2020 rollout. This has the potential to create an EU-style bloc. But the fact that the GCC customs union has yet to be fully implemented after years of haggling does not bode well for wider integration. The GCC union is a vital first step in removing double customs duties which are keeping a lid on many transactions – especially in the field of e-commerce. “For many Arab countries, regional trade accounts for less than 10% of total trade,” World Bank experts told Cash2Trade (see World Bank Q&A article on page 1c).

Kheireddine Ramoul, at UNCTAD’s Trade Negotiations and Commercial Diplomacy Branch, Division on International Trade in Goods and Services and Commodities, notes that while some countries that recently joined the WTO, such as Saudi Arabia, Oman, Jordan and Yemen, had to go through extensive trade and economic reforms to meet accession requirements, some that were already members and those which are still out of it, their system seems to be reluctant to introduce any significant changes to trade, finance and banking systems.

While civil unrest has been an impediment in some cases, there has also been a lack of external pressure and incentive, he said, noting that his views are his own, and do not necessarily reflect UNCTAD’s official position.

Trade barriers and trade tariffs are harming MENA countries’ global competitiveness and while some countries have shown considerable improvement in this area, there are also lags in need of urgent reform. Of course, for some tackling this problem will have to wait.

Egypt, which is in the throes of political change, and Iraq, which is beset by sectarian tensions, will need to address security issues before trade reform takes its place on the agenda. The same applies even more so to Syria, which is ravaged by civil war and subject to international sanctions.

High hopes for AFTIAs...

But for MENA countries not subject to political upheaval, trade reform needs to take centre stage.

“While MENA’s economies have great (international and intra-regional) trade promise, insufficient regional and global integration have restricted the region’s economic growth, resulting in fewer employment opportunities, and unfulfilled potential,” explained Dominic Broom, head of sales and relationship management, BNY Mellon Treasury Services, EMEA.

“Efforts to align policies and tariffs can serve to remove physical and economic barriers to trade, allowing the region to become more competitive and,
in turn, attract inward investment and create jobs and wealth,” he adds.

A step in the right direction was taken when the Aid For Trade Initiative For The Arab States (AFTIAS) was set up. Officially launched in November 2013, it aims to enhance trade and economic co-operation amongst the Arab states while at the same time generating more jobs.

The project will mobilise additional resources in order to focus on employment for women and the region’s growing young population. “AFTIAS also intends to review and assess areas in which there is the possibility for investment and growth, including transport, energy, communication and pipeline infrastructure, much of which is very poorly integrated at regional level,” notes Broom. He points out that trade in services is also a potential growth area – in MENA and internationally – and it is expected that AFTIAS will include plans to promote this burgeoning area of opportunity.

Broom believes that a focus on breaking down the barriers that hinder the physical movement of goods would help the region’s domestic markets to move goods more freely across borders. “Physical inter-connectivity can be difficult in the region (particularly since the Arab Spring), a fact that can be exacerbated by complex border controls, and limited ground transportation infrastructure. Poor co-ordination between bordering countries can also create shipment delays,” he adds.

AFTIAS aims to corral resources from an array of agencies, and there is hope that this “all hands on deck” approach will yield results. It is being implemented by the Saudi Arabia-based Islamic Development Bank (IDB), its trade unit, the Islamic Trade Finance Corp (ITFC), five UN agencies (UNDP, UNCTAD, UNIDO and ILO), League of Arab States, GCC, Agadir Technical Unit and Maghreb Arab Union, and seven donors (Saudi Arabia, Kuwait, Egypt, and Sweden, in addition to the UNDP, IDB, and ITFC).

Governed by a project board composed of the donors and implementing agencies, it is chaired by the ITFC’s CEO, Waleed al-Wohaib. At its launch he explained that AFTIAS aims to attract both technical and financial support from international financial institutions and donor countries in order to enhance trade capacity.

The ITFC itself was set up as recently as 2008 to consolidate the IDB’s trade financing activities under a single unit. It has deployed public and private funding, and technical expertise in Shar’i compliant trade finance to businesses and governments in countries that are part of the Organisation of Islamic Co-operation (OIC) of which MENA countries are members.

For example, in July last year it provided a $USM Murabaha financing facility to help Jordan’s national electricity company purchase crude oil and petroleum products. Of this amount, $USM was syndicated to 16 banks and financial institutions. The transaction helped reduce the government’s arrears to Jordan Petroleum Refinery Company.

Since it was started ITFC has provided $USM for trade finance, and total number of transaction approvals have reached $USM. While the ITFC can consider all types of Shar’i compliant trade financing, it says that the most widely used are Murabaha, instalment sales and Istisna’a. It is looking at using more methods in the future, including leasing, Bai Salam, Wakalah and Jualah.

**Initiative starts to stutter…**

Unfortunately, AFTIAS already appears to be running into problems. UNCTAD’s Kheireddine Ramoul comments that there appears to be a lack of political will and commitment from some donors. He says that the UN agencies have fully cooperated and supported the AFTIAS, completing all the required technical work and then submitting this plan for its adoption in November last year.

But at that point, an agreement was reached to start implementation on 1 January this year on a “fast track modality” to give a number of “quick wins” (deliverables) during the first phase, which lasts through 2014. “But so far,” says Ramoul, “the allocation of the necessary funding to the respective agencies was not effected.” He complains that no activity was launched as planned, and reveals that the whole initiative is now in “stalemate.”

**Slippage by oil importers**

Trade tends to be more restricted in the countries that are not supported by petrodollars. “Trade has not been a significant engine of growth in the MENA oil importers,” warned the IMF in its November 2013 Regional Economic Outlook: Middle East and Central Asia. “The ratio of exports to GDP is significantly below the average for emerging markets and developing countries and the gap has widened,” said the report. It noted that trade patterns, particularly in North Africa, remain oriented toward Europe, and the region has “benefited little from the high growth of emerging markets.”

Although some countries, such as Lebanon, have relatively low tariffs, or have taken steps to lower them (such as Morocco and Tunisia), the region’s average tariff remains high, said the IMF (see Global Competitiveness table). The fund said that the transition towards higher value-added exports has been slow, in part due to low foreign direct investment (FDI). But the gains to be made from deeper trade integration are considerable. It asserts that raising the MENA region’s openness to the level of emerging Asian countries could increase GDP growth by as much as a full percentage point.

---

*Adapted From WEF Global Competitiveness Report 2013-14 and Human Capital Report (published 1 October, 2013).*

---

**MENA Global Competitiveness, Selected Rankings**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Qatar</td>
<td>13</td>
<td>3</td>
<td>59</td>
<td>43</td>
<td>48</td>
<td>12</td>
<td>18</td>
</tr>
<tr>
<td>UAE</td>
<td>19</td>
<td>5</td>
<td>58</td>
<td>34</td>
<td>47</td>
<td>8</td>
<td>24</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>20</td>
<td>34</td>
<td>82</td>
<td>91</td>
<td>104</td>
<td>76</td>
<td>39</td>
</tr>
<tr>
<td>Oman</td>
<td>33</td>
<td>31</td>
<td>60</td>
<td>34</td>
<td>50</td>
<td>9</td>
<td>41</td>
</tr>
<tr>
<td>Kuwait</td>
<td>36</td>
<td>115</td>
<td>57</td>
<td>108</td>
<td>129</td>
<td>143</td>
<td>59</td>
</tr>
<tr>
<td>Bahrain</td>
<td>43</td>
<td>19</td>
<td>61</td>
<td>43</td>
<td>74</td>
<td>6</td>
<td>40</td>
</tr>
<tr>
<td>Turkey</td>
<td>44</td>
<td>97</td>
<td>89</td>
<td>18</td>
<td>47</td>
<td>50</td>
<td>60</td>
</tr>
<tr>
<td>Jordan</td>
<td>68</td>
<td>50</td>
<td>108</td>
<td>57</td>
<td>74</td>
<td>72</td>
<td>52</td>
</tr>
<tr>
<td>Morocco</td>
<td>77</td>
<td>20</td>
<td>129</td>
<td>57</td>
<td>47</td>
<td>12</td>
<td>82</td>
</tr>
<tr>
<td>Iran</td>
<td>82</td>
<td>113</td>
<td>147</td>
<td>83</td>
<td>74</td>
<td>136</td>
<td>94</td>
</tr>
<tr>
<td>Tunisia</td>
<td>83</td>
<td>96</td>
<td>140</td>
<td>94</td>
<td>138</td>
<td>134</td>
<td>105</td>
</tr>
<tr>
<td>Algeria</td>
<td>101</td>
<td>143</td>
<td>134</td>
<td>97</td>
<td>149</td>
<td>134</td>
<td>115</td>
</tr>
<tr>
<td>Lebanon</td>
<td>103</td>
<td>83</td>
<td>81</td>
<td>43</td>
<td>30</td>
<td>114</td>
<td>74</td>
</tr>
<tr>
<td>= Libya</td>
<td>108</td>
<td>121</td>
<td>1</td>
<td>N/A</td>
<td>N/A</td>
<td>135</td>
<td>N</td>
</tr>
<tr>
<td>= Egypt</td>
<td>113</td>
<td>136</td>
<td>143</td>
<td>26</td>
<td>47</td>
<td>122</td>
<td>111</td>
</tr>
<tr>
<td>Mauritania</td>
<td>141</td>
<td>138</td>
<td>101</td>
<td>82</td>
<td>104</td>
<td>124</td>
<td>121</td>
</tr>
<tr>
<td>Yemen</td>
<td>145</td>
<td>142</td>
<td>76</td>
<td>124</td>
<td>47</td>
<td>128</td>
<td>122</td>
</tr>
</tbody>
</table>

*Released 1 October, 2013, NI= Not Included in the ranking N/A=Not Available, = Libyan data is only to 2006 Adapted From WEF Global Competitiveness Report 2013-14 and Human Capital Report (published 1 October, 2013).*
Too many partial agreements

A World Bank working paper on Assessing MENA’s Trade Agreements published in August 2014 also identified problems. It said that while intra-regional agreements are estimated to perform about as well as standard trade agreements, those with the EU, US and Turkey have typically done less. “The paper cautions against “more of the same” noting that the EU-MENA and US-MENA agreements that are in force have in practice had a marginal impact. There are “too many overlapping and partial agreements” and this “spaghetti bowl” will serve as a distraction of scarce trade negotiating resources”, said the paper. It concluded that regional integration can help MENA countries stimulate trade and investment, but that the largest gains are likely to come from domestic reforms.

Imran Ahmed, CFO at Al Jomaih & Shell Lubricating Oil Company, based in Saudi Arabia, agrees. He believes that while tackling trade barriers is important, changing the underlying business environment of global banking providers in the GCC countries – where there has been an abundance of investment opportunities – has inadvertently given rise to a significant gap in regional banking technology sophistication, says Dominic Broom.

“Collaborative unions between the region’s indigenous banks and global operators could help to bridge this gap,” he notes, pointing out that “as a result, local banks will be in a stronger position to support the uptick in trade that AFTIAS hopes to spark.”

In MENA borders are not the easiest to cross, and there is a lack of clarity on regulations, so whether AFTIAS is able to fulfil its objectives, or becomes just another strand of pasta in the bowl remains to be seen. The initiative is only just being implemented. While hopes are high that a multi-agency approach will make a difference, there is still much for the governments of each country to do in order to foster the right environment for the free enterprise that will not only help grow GDP, but add to the list of products that can be exported.

MENA Countries – WTO Status

<table>
<thead>
<tr>
<th>Country</th>
<th>Status</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>Observer</td>
<td>Working party formed June 1997, 11th meeting April 2013</td>
</tr>
<tr>
<td>Bahrain</td>
<td>Member from 1 Jan 1995</td>
<td></td>
</tr>
<tr>
<td>Egypt</td>
<td>Member from 30 June 1995</td>
<td></td>
</tr>
<tr>
<td>Iran</td>
<td>Observer</td>
<td>Working party formed May 2006, has not yet met</td>
</tr>
<tr>
<td>Iraq</td>
<td>Observer</td>
<td>Working party formed Dec 2004, met 2nd time April 2008</td>
</tr>
<tr>
<td>Jordan</td>
<td>Member 11 April 2000</td>
<td></td>
</tr>
<tr>
<td>Kuwait</td>
<td>Member 1 Jan 1995</td>
<td></td>
</tr>
<tr>
<td>Lebanon</td>
<td>Observer</td>
<td>Working party formed 24 April 1999, 7th meeting Oct 2009</td>
</tr>
<tr>
<td>Libya</td>
<td>Observer</td>
<td>Working party formed 27 July 2004, has not yet met</td>
</tr>
<tr>
<td>Mauritania</td>
<td>Member 31 May 1995</td>
<td></td>
</tr>
<tr>
<td>Morocco</td>
<td>Member 1 Jan 1995</td>
<td></td>
</tr>
<tr>
<td>Oman</td>
<td>Member from 9 Nov 2003</td>
<td></td>
</tr>
<tr>
<td>Qatar</td>
<td>Member 13 Jan 1996</td>
<td></td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>Member 11 Dec 2005</td>
<td></td>
</tr>
<tr>
<td>Syria</td>
<td>Observer</td>
<td>Working party formed May 2010, has not yet met</td>
</tr>
<tr>
<td>Tunisia</td>
<td>Member 29 Mar 1995</td>
<td></td>
</tr>
<tr>
<td>UAE</td>
<td>Member 10 April 1996</td>
<td></td>
</tr>
<tr>
<td>Yemen</td>
<td>Accession*</td>
<td>Cleared final hurdle Dec 2013, must ratify deal by 2 June 2014</td>
</tr>
</tbody>
</table>

Source: WTO, “Will become full WTO member 30 days after gives notice of accession acceptance

Adapted from WEF Global Competitiveness Report 2003-2014 (imports, exports) and WTO database (trade to GDP ratio – 2010-2011)

MENA Global Competitiveness (Imports, Exports); Trade To GDP Ratio

<table>
<thead>
<tr>
<th>Country</th>
<th>Overall Global Rank</th>
<th>Imports as % of GDP global rank</th>
<th>Exports as % of GDP global rank</th>
<th>Trade to GDP Ratio (from WTO)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qatar</td>
<td>13</td>
<td>119</td>
<td>22</td>
<td>87.9</td>
</tr>
<tr>
<td>UAE</td>
<td>19</td>
<td>29</td>
<td>18</td>
<td>152.8</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>20</td>
<td>131</td>
<td>40</td>
<td>81.3</td>
</tr>
<tr>
<td>Oman</td>
<td>33</td>
<td>76</td>
<td>24</td>
<td>108.9</td>
</tr>
<tr>
<td>Kuwait</td>
<td>36</td>
<td>132</td>
<td>25</td>
<td>93.1</td>
</tr>
<tr>
<td>Bahrain</td>
<td>43</td>
<td>49</td>
<td>14</td>
<td>128.1</td>
</tr>
<tr>
<td>Turkey</td>
<td>44</td>
<td>116</td>
<td>123</td>
<td>54.0</td>
</tr>
<tr>
<td>Jordan</td>
<td>68</td>
<td>24</td>
<td>66</td>
<td>116.1</td>
</tr>
<tr>
<td>Morocco</td>
<td>77</td>
<td>81</td>
<td>85</td>
<td>81.6</td>
</tr>
<tr>
<td>Iran</td>
<td>82</td>
<td>147</td>
<td>103</td>
<td>51.3</td>
</tr>
<tr>
<td>Tunisia</td>
<td>83</td>
<td>43</td>
<td>57</td>
<td>104.2</td>
</tr>
<tr>
<td>Algeria</td>
<td>100</td>
<td>123</td>
<td>76</td>
<td>68.8</td>
</tr>
<tr>
<td>Lebanon</td>
<td>103</td>
<td>101</td>
<td>61</td>
<td>145.4</td>
</tr>
<tr>
<td>Libya</td>
<td>108</td>
<td>108</td>
<td>47</td>
<td>96.1</td>
</tr>
<tr>
<td>Egypt</td>
<td>118</td>
<td>109</td>
<td>134</td>
<td>46.3</td>
</tr>
<tr>
<td>Mauritania</td>
<td>142</td>
<td>30</td>
<td>26</td>
<td>142.2</td>
</tr>
<tr>
<td>Yemen</td>
<td>145</td>
<td>98</td>
<td>84</td>
<td>62.4</td>
</tr>
</tbody>
</table>

Trade reform in MENA

Too many partial agreements

A World Bank working paper on Assessing MENA’s Trade Agreements published in August 2014 also identified problems. It said that while intra-regional agreements are estimated to perform about as well as standard trade agreements, those with the EU, US and Turkey have typically done less. “The paper cautions against “more of the same” noting that the EU-MENA and US-MENA agreements that are in force have in practice had a marginal impact. There are “too many overlapping and partial agreements” and this “spaghetti bowl” will serve as a distraction of scarce trade negotiating resources”, said the paper. It concluded that regional integration can help MENA countries stimulate trade and investment, but that the largest gains are likely to come from domestic reforms.

Imran Ahmed, CFO at Al Jomaih & Shell Lubricating Oil Company, based in Saudi Arabia, agrees. He believes that while tackling trade barriers is important, changing the underlying business environment of global banking providers in the GCC countries – where there has been an abundance of investment opportunities – has inadvertently given rise to a significant gap in regional banking technology sophistication, says Dominic Broom.

“Collaborative unions between the region’s indigenous banks and global operators could help to bridge this gap,” he notes, pointing out that “as a result, local banks will be in a stronger position to support the uptick in trade that AFTIAS hopes to spark.”

In MENA borders are not the easiest to cross, and there is a lack of clarity on regulations, so whether AFTIAS is able to fulfil its objectives, or becomes just another strand of pasta in the bowl remains to be seen. The initiative is only just being implemented. While hopes are high that a multi-agency approach will make a difference, there is still much for the governments of each country to do in order to foster the right environment for the free enterprise that will not only help grow GDP, but add to the list of products that can be exported.

MENA Countries – WTO Status

<table>
<thead>
<tr>
<th>Country</th>
<th>Status</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>Observer</td>
<td>Working party formed June 1997, 11th meeting April 2013</td>
</tr>
<tr>
<td>Bahrain</td>
<td>Member from 1 Jan 1995</td>
<td></td>
</tr>
<tr>
<td>Egypt</td>
<td>Member from 30 June 1995</td>
<td></td>
</tr>
<tr>
<td>Iran</td>
<td>Observer</td>
<td>Working party formed May 2006, has not yet met</td>
</tr>
<tr>
<td>Iraq</td>
<td>Observer</td>
<td>Working party formed Dec 2004, met 2nd time April 2008</td>
</tr>
<tr>
<td>Jordan</td>
<td>Member 11 April 2000</td>
<td></td>
</tr>
<tr>
<td>Kuwait</td>
<td>Member 1 Jan 1995</td>
<td></td>
</tr>
<tr>
<td>Lebanon</td>
<td>Observer</td>
<td>Working party formed 24 April 1999, 7th meeting Oct 2009</td>
</tr>
<tr>
<td>Libya</td>
<td>Observer</td>
<td>Working party formed 27 July 2004, has not yet met</td>
</tr>
<tr>
<td>Mauritania</td>
<td>Member 31 May 1995</td>
<td></td>
</tr>
<tr>
<td>Morocco</td>
<td>Member 1 Jan 1995</td>
<td></td>
</tr>
<tr>
<td>Oman</td>
<td>Member from 9 Nov 2003</td>
<td></td>
</tr>
<tr>
<td>Qatar</td>
<td>Member 13 Jan 1996</td>
<td></td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>Member 11 Dec 2005</td>
<td></td>
</tr>
<tr>
<td>Syria</td>
<td>Observer</td>
<td>Working party formed May 2010, has not yet met</td>
</tr>
<tr>
<td>Tunisia</td>
<td>Member 29 Mar 1995</td>
<td></td>
</tr>
<tr>
<td>UAE</td>
<td>Member 10 April 1996</td>
<td></td>
</tr>
<tr>
<td>Yemen</td>
<td>Accession*</td>
<td>Cleared final hurdle Dec 2013, must ratify deal by 2 June 2014</td>
</tr>
</tbody>
</table>

Source: WTO, “Will become full WTO member 30 days after gives notice of accession acceptance

Adapted from WEF Global Competitiveness Report 2003-2014 (imports, exports) and WTO database (trade to GDP ratio – 2010-2011)
Trade reform in MENA

How different the future could be...

In a question-and-answer response to Cash & Trade, the World Bank urged MENA to consider the benefits of trade reform

C&T: What reforms do you think need to be made across MENA to better facilitate trade?

WB: The region’s share in total world exports of non-oil goods has remained flat at around two to three per cent for more than 30 years. Despite doubling its services exports, MENA’s share in total trade services has also stagnated at around 2.8 per cent from 1990 through 2006. The World Bank’s 2010 report, MENA Regional Economic Update: Recovering from the Crisis, reveals serious competitiveness issues and suggest that the region has missed opportunities to integrate into the world economy, increase growth, and create new productive jobs. And intra-regional trade in MENA has also failed to take off.

MENA countries have generally suffered from domestic inefficiencies: relatively high trade and investment barriers, poor trade facilitation and logistics, lack of trade services integration, and weak rules and disciplines for trade and investment, including intra-regional trade agreements. According to the Deauville Initiative For Arab States (AFTIAS), although many MENA countries are WTO members many are not. Border reforms are WTO members many are not. Border reforms are and on trade corridors. Border-crossing procedures can do to better facilitate trade?

Trade costs are high mostly due to supply chain inefficiencies, especially between MENA countries themselves, which can be explained partly by a deficit in logistics performance and facilitation bottlenecks (the cost of trade between neighbours is typically twice as high among MENA countries as compared with those in Western Europe). Markets for logistics services are typically small (domestic), confined to traditional activities (trucking brokerage), protected, and do not offer high quality domestic services to traders. Logistics skills are limited in the region, with limited externalisation and value-added in logistics.

C&T: Is there anything else that individual countries (and banks and companies) can do to better facilitate trade?

WB: The majority of reforms can be put in place at country level. Each country has its own share of responsibility. Almost all countries in the MENA region have been reforming their foreign trade and domestic investment regimes to make the policy environment more conducive to fuller integration into the world economy. Some have concluded Association Agreements with the EU but these could be deepened to include services and agricultural goods. Other MENA countries have yet to join the WTO and reap the benefits of more open and predictable market access, and the protection of the multilateral trading system. Although many countries in the MENA region are WTO members many are not. Border reforms also have to complement efforts for more global integration. In particular, the investment/business environment has to be strengthened to promote private investment from domestic and foreign sources. The package needed to achieve this objective would include the provision of adequate infrastructure services, finance, and training, supportive exchange rate policies, and elimination of administrative barriers, as well as sector-specific policies.

Financial services are one of the areas where there is a huge potential for reform. Liberalisation of trade in financial services would help the MENA countries take advantage of regional opportunities. The banks can play an important intermediary role between large capital pools in the Gulf and the countries with large current account deficits. Proceeding with necessary financial sector reforms as well as maintaining macro-financial frameworks, which are conducive to support the reform process, are essential. Financial institutions in the region provide fairly adequate pay related services such as foreign exchange and fund transfers services to support the current trade volumes. However, financial sectors lack depth and breadth across virtually all the region. The systems mainly consist of commercial banks as non-bank financial services are underdeveloped. Consequently, financial backing of trade transactions is weak.

C&T: What expectations, if any, do you have of the new Aid for Trade Initiative For Arab States (AFTIAS)?

WB: We welcome this Initiative, given that it aims at supporting and funding trade-related technical assistance in Arab countries. If implemented on the basis of needs assessment, it has the potential to become a useful mechanism. By definition, “aid for trade” covers trade facilitation, including support for improving ports or customs facilities, strengthening partners’ trade negotiation or regulatory capacity, or helping countries meet specific health and safety standards. And the MENA region is in high need of these reforms.

Trade costs are high mostly due to supply chain inefficiencies, especially between MENA countries themselves, which can be explained partly by a deficit in logistics performance and facilitation bottlenecks (the cost of trade between neighbours is typically twice as high among MENA countries as compared with those in Western Europe). Markets for logistics services are typically small (domestic), confined to traditional activities (trucking brokerage), protected, and do not offer high quality domestic services to traders. Logistics skills are limited in the region, with limited externalisation and value-added in logistics.

C&T: Some experts say that more needs to be done to encourage entrepreneurship and the development of products that could be exported through encouraging SMEs – do you agree?

WB: It is actually somewhat of a chicken-and-egg situation. Entrepreneurs of the region need to become more innovative - and international experience in emerging economies indicates that the main drivers of innovation and new ideas are trade and foreign investment – but there also has to be a more supportive Investment climate. So there is an urgent need to move from the current vicious cycle of “closedness” and lack of competition to one of openness and increased competitive pressures from trade, FDI, technology and knowledge transfer on which more dynamic entrepreneurialism can be launched.

At the same time, if the right types of entrepre

ners can break out of their current low level-non-competitive equilibrium and produce more dynamic goods this could also help drive more trade and possible cross-border investment. The World Bank Group leads a number of activities and projects to support the private sector such as entrepreneurship training, micro-financing support, trade facilitation, matching grants to support new exports either for new products or to new markets.

It is to be expected that the Gulf countries will be highly specialised in oil and gas and given their natural resource endowment, and, for the smaller Gulf economies, the size of their populations limits the scope for an indigenous broad-based economy. For all these countries, it is difficult for the SME sector to attract entrepreneurs given continual increases in public pay and numbers. While SME support programmes are one policy that could enable the building of a pool of entrepreneurs over time, they are not a substitute for a knowledge of oil economy that could also be tackled, such as anti-competitive practices (barriers to entry, collusion) and regulatory protection of incumbents through licensing, permits and customs. While none of these policies will give the Gulf a more diversified economy overnight, they can help tilt the non-oil economy towards a more productive composition of products and services in contrast to the current dominance of household leisure services, construction and trading companies.

C&T: Do you see any significant trade reforms being put in place this year?

WB: The Arab Spring has unfortunately slowed down the pace of trade-related reforms in the region. In the context of pressing priorities that have emerged and governments have reshuffled many times in a number of countries (including important trade and investment policy reforms being put in place this year? a new Levant identifies complementary policies, and assistance depends on the country

The World Bank Group is engaged with a number of MENA countries on the trade agenda. The pro- gramme and assistance depends on the country context and readiness for reforms. In addition, we will be increasingly working closely with private sector, academia, think tanks, the diaspora and local experts in the region to introduce a regional economic integration agenda that brings short and medium-term actions.

For example, the recent World Bank study Over the Horizon: A New Levant identifies complementary economic activities among a number of countries in the region that can be developed to exploit the untapped potential in both investment and trade in goods and services.
Finding the cutting edge...

Banking nowadays is more about how innovative the funding structure can be, rather than the proverbial ‘offering the best service’. This is the view of a leading Gulf investment house, which explains its rationale to PAUL MELLY

A s global economic recovery takes hold, the Gulf’s major companies are gearing up to seize fresh opportunities – but it is vital to build new growth on solid foundations. And that is certainly the view at KAMCO (KIPCO Asset Management Company), one of the leading investment houses in Kuwait.

After a rigorous strategic overhaul, the group is preparing to push forward once more, and the business environment looks favourable.

“KAMCO’s key business is AMIB (asset management and investment banking) and the financial and economic indicators for both asset management and investment banking sectors have been very positive,” says Sriman Chandran Subramanian, the group’s chief financial officer.

“Though KAMCO is all geared up to cater to different segments of our customers and clients in equity, real estate, fixed income and private equity, we will still have a large focus on the equity markets, as our managed equity funds and the wider investment banking climate depend on the performance of the equity markets. In our opinion, after four years of a downward trend in the markets over 2009–2012, the equity markets started their upswing in 2013 – and this is expected to continue northwards in the years to come. That will play a major role in the growth of our business, too.”

More capital efficient

Over the past two years, KAMCO has restructured its assets and liabilities to make its future earnings more capital efficient.

“We have reduced our assets by more than half in the last three years and have consequently made our equity and debt structure more efficient, too. Our asset growth in coming years will be in the core AMIB business, through seed funding of new managed funds, and less through other investments,” says Subramanian.

“In 2014, KAMCO will continue to focus on further strengthening its core AMIB business by launching more managed funds to service clients of different asset classes and by putting more resources into our investment banking side to enable us to garner a bigger market share of the increasing number of debt and equity issues and M&A (merger and acquisition) activities in the region.

“Our priority will be to ensure that financial resources are effectively employed in our core business, on both the equity and debt fronts, and to manage the efficiency of the cost of funding by consistently monitoring our banking facilities in light of the evolution of interest and foreign exchange rates. We also are continuously equipping ourselves with the best tools and processes, to keep the company strongly entrenched in the ever evolving corporate governance and compliance climate.”

KAMCO’s treasury activity is managed by a small dedicated team within the finance department.

The treasury team is watching the development of services on the Cloud with interest. But it thinks that at this stage that technology still carries risks.

Subramanian explains that KAMCO deals mainly in Kuwaiti dinars (KD). But the group has a range of investments and managed funds in US dollars and it also deals in other Gulf region denominations, as it manages portfolios for its clients in various currencies.

“However,” notes Subramanian, “we ensure that we maintain a manageable wider network of banking relationships that can provide us with more choices and different competencies on the funding and forex transactions. We do believe in the concept of ‘thin resources and thicker choices’ when it comes to the efficient management of treasury.”

Treasury caution

The treasury team is watching the development of services on the Cloud with interest. But it thinks that at this stage that technology still carries risks.

“We believe in efficient resources within the company, and wider choice on the outside. We are aware that the world is moving towards Cloud computing and we may have little choice but to adopt it some day.

“However, as things stand today Cloud computing is still going through teething problems on the security and data control side, especially on the banking side: there are numerous threats of fraud, both internally within the banks and from external hackers,” says Subramanian.

“Adopting Cloud services for the accounting and business operational areas seems far less risky by
comparison with the money side. But KAMCO prefers to wait and watch before embarking on the use of Cloud treasury services. Naturally, though, KAMCO regards continuing investment in its own internal systems as a crucial priority. “We are always trying to keep pace with technological change and our systems have been regularly updated and upgraded to keep them robust and dependable, especially since we also manage the funds of our clients. The pace at which the technology is evolving today makes it a tough race to keep up in and our IT team constantly strives to bridge the gap through efficient spending,” explains Subramanian.

“Generally, we are of the opinion that a three-four year time-frame is reasonable for bringing a system to the next level – unless a breakthrough technology such as Cloud computing ‘unshackles’ the current technical constraints. But such a breakthrough technology still needs to be tried and tested if it is to gain wider acceptance.”

‘Selective’ strategy
KAMCO is open-minded about the range of banks that it might be willing to use. “We base our treasury strategy on a ‘relationship with a manageably wider band’ of banks. Banking is as much about relationship as it is about cost and service efficiency. So having a select band of banks in our fold and trying to make them compete healthily among themselves for our business is the strategy we are adopting. We carefully balance the cost and relationship factors, as the recent financial crisis clearly showed how relationships matter much more than ruthless cost management. “Kuwait has a wide choice of banks. However, when it comes to forex funding, companies generally tend to add external banks into the range of those they use, because of regulatory restrictions on forex funding by local banks. At the moment, KAMCO is using only local banks; but we have an open mind about adding new relationships, if they make economic and long-term relationship sense”.

So what are the key factors that matter most to KAMCO in assessing the services a bank offers? “KAMCO, with its growth strategy clearly focused on managed funds, will have a mixed basket of currencies to deal with in the coming years as we expand and grow into the region, after being mainly Kuwait-based, as we are now. So, for us, forex funding could be a key factor – and that translates into the need for a bank with international capacity,” says Subramanian. “Another factor that we look at is banks’ capability in innovative structuring within prevailing regulatory frameworks. Banking nowadays is more about how innovative the funding structure can be, rather than the proverbial ‘offering the best service’. The competitive element
However, Subramanian adds, KAMCO also regards the quality of the relationships it has with its current banks as an important factor. “From the service point of view – the room for banks to make a difference may be limited, especially for a client like KAMCO, which already has a good reputation backed up by its parent company KIPCO. “So, among our existing banks, we don’t generally have favourites. Basically, we look at how best they can compete for our business while not jeopardising their own business economics. “Being a financial service provider ourselves, we also have a give-and-take relationship with most of the banks and hence there are considerations beyond the basic banking economics that sometimes need to be factored into the balance. “Forex and funding both are ever-evolving dynamics – and, hence, for a treasury team, both management tools and resources are key for success. But, equally, the support and advisory services of the banks will also always play a major role.”

Treasury strategy is based on a ‘relationship with a manageably wider band’ of banks. Banking is as much about relationship as it is about cost and service efficiency.
Unique ‘cash margin’ structure turns deal

NEERAJ KANAGAT of Jindal Saw Ltd explains how L/C issuance and independent confirmation enabled his company to do business with Iraq

The Indian steel and manufacturing company Jindal Saw received an order worth $168m from Iraq, with another potential order of $150m. Citi won the contract to supply the extra assurance that was desired. Its strategy was to design a unique structure where a 100 per cent cash margin was placed by Trade Bank of India with Citi in Dubai subsequent to the issuance of the L/C, thus covering Citi in Dubai of all risks under the $168m L/C issued by the Trade Bank of Iraq. Upon export, Jindal Saw would submit the documents under the L/C to Citi in India, which would jointly scrutinise the documents and immediately release the payment to Jindal Saw.

Overcoming Obstacles

The challenges of cross-border risk mitigation and realising secured payments as quickly as possible were the two primary challenges associated with financing this deal. The importer in Iraq would need credit and would not agree to an upfront payment, while the credit appetite of the original L/C issuing bank, the Trade Bank of Iraq which was facilitating the deal locally, also needed to be taken into consideration.

An innovative one-off “double L/C” solution was developed to meet the various demands, including the supplier’s demand for risk assurance and quick payment after shipping.

The deal was complex due to the limited capability of banks to add confirmation on the original L/C as a result of fears about political instability in Iraq. Citi in India discussed the challenges with the Citi team in Dubai and they in turn discussed the trade finance solution with the Trade Bank of Iraq, hammering out the final details.

Citi was chosen to implement the strategic one-stop-shop solution whereby Citi in India could independently confirm the L/C issued by the Trade Bank of Iraq, even though the importer was located in a trade sensitive location. The $168m instrument was issued without actually placing any credit risk on the L/C issuing bank as Citi agreed to take this on as part of its own fee.

The unique structure for the confirmation of the L/C was a true differentiator for both the client and the market, and it ensured a successful delivery and subsequent order for $150m this year.

The key benefits of the bespoke L/C arrangement were:
- significant risk reduction
- quick payment
- an expanded role for treasury within the corporate and the establishment of a template for future deals
- compliance with all necessary regulatory, governmental and financial control requirements.

Conclusions

The trade finance solution developed by Citi for Jindal Saw addressed the concerns of both the treasury and the senior management at the firm to release the funds immediately after the shipment of goods and to minimise the risk. The eventual solution deployed offered the ability to remain with the existing L/C issuing bank, Trade Bank of Iraq, as preferred by the applicant, while still delivering the desired capability to cover the associated sovereign risks and the flexibility needed to approve the large value order internally at the manufacturer.

The structure of the solution reduced the days sales outstanding (DSO) drastically and required no utilisation of credit lines, so working capital was not adversely affected. The structure was particularly innovative because the participants: reissuing the L/C from Dubai to India to add the required confirmation and structuring on the back of the original L/C with a 100 per cent cash collateral margin kept by Trade Bank of Iraq, covered the credit risks involved with the instrument and enabled the deal to go ahead. It also provided a template for future deals and acted as a trade finance solution by facilitating a deal that may not have happened otherwise.

All parties were satisfied with the solution and Iraq got some of the industrial and manufacturing equipment that it needs to rebuild.

This case study appeared originally on gnews.com, and is based on an entry that won the Supply Chain/Trade Finance category in some global corporate treasury and finance awards. Reprinted with permission.
New aims for the future: ICIEC powers forward

This year, as it celebrates two decades of outstanding success, ICIEC has designed a new strategy focusing more on investment insurance and project finance. But, at the same time, it will naturally continue to underwrite its export credit insurance business, which it sees as an essential part of its mandate to support the exports of its member countries.

The demonstrative effect of ICIEC’s impressive success and achievements over the last two decades despite volatile global economic conditions and an under-developed insurance culture in member countries per se is implicit.

The Corporation’s current membership comprises 42 share-holders, comprising the IDB and 41 countries, including 17 Arab countries, 35 African countries and nine Asian and other countries.

The impact of the Corporation’s products and services on the real economic and business development in member countries continues to grow. Business insured in 2013 (1434H) totalled US$3,362 billion compared with US$3,074 billion in 2012 (1433H).

Through our comprehensive product profile covering our Trade Credit Insurance Programme (TCIP), Foreign Investment Insurance Programme (FIIP), Reinsurance Programme and Technical and Advisory Services, we have made a real impact on companies and agencies in member countries to expand their exports and to facilitate intra-Islamic investment. These include Saudi Arabia, the UAE, Oman, Sudan, Turkey, Nigeria, Indonesia, Malaysia, Pakistan and South Africa.

Two of our trade credit products - Documentary Credit Insurance Policy (DCIP) and Bank Master Policy (BMP) – have proved particularly popular with major banks in Saudi Arabia, UAE, Turkey, Bahrain, etc.

We have also signed landmark DCIP agreements with government export programmes and multilaterals. In December 2013, for instance, we signed a DCIP agreement with the Bahrain-based Arab Petroleum Investments Corporation (APICORP), the multilateral development bank owned by the ten member nations of the Organisation of Arab Petroleum Exporting Countries (OAPEC).

The DCIP will support APICORP’s trade-finance business growth by easing risks in trade finance transactions through helping it effectively manage risks affecting its Letter of Credit (LC) transactions and LCs of petroleum products exports in ICIEC member countries.

ICIEC has a similar agreement in place with the Saudi Export Programme (SEP). Recently this agreement was further enhanced through the joint marketing of certain products, including the DCIP. We are also reinsuring some of their transactions, and are also working on a cooperative arrangement whereby SEP will finance transactions insured by ICIEC for Saudi exporters.

Similarly under our FIIP, ICIEC offers insurance covering equity investment, financing facilities, guarantees and the non-honouring of sovereign obligations.

Under its Reinsurance Programme ICIEC provides reinsurance support to ECAs in member countries or elsewhere through its Quota Share Treaty and Reinsurance Facility Agreement with major international reinsurers.

Product innovation remains at the core of ICIEC’s future strategy. We have recently launched the Bank Master Policy for Istinsa Financing, which will protect Islamic banks against non-payment risks of obligors in Istinsa financing structures especially related to the construction and project industry.

We have also pioneered a unique product, Sukuk Insurance Policy (Sukuk Takaful), which will allow Sukuk issuers (initially sovereign ICIEC member countries) to utilise Sukuk Al Ijarah to tap into capital markets, with an ICIEC insurance cover providing added security to the Sukuk investors, against the non-payment risks of the Sukuk issuer/sponsor.

This product will enable, in particular, those member countries whose initial investment grade are unrated, to gain access to international capital markets. ICIEC’s insurance cover, given its Aa3 rating by Moody’s, will serve as a strong credit enhancement mechanism, and encourage international banks and investors to participate in such Sukuk offerings.

The Corporation’s international standing among peer institutions is proven. It is a member of the Berne Union, the association of ECAs globally.

It enjoys close cooperation with the Multilateral Investment Guarantee Agency (MIGA), the investment guarantee entity of the World Bank Group, which views our Corporation as a strategic reinsurance partner in our member countries.

It is a founder member of the AMAN Union, which brings together export credit and investment risk insurance agencies in the Arab and Islamic world under one umbrella.

For the last two years ICIEC held the General Secretariat of the Union and, under its watch the insured business by members reached US$39.04 billion in 2012 – an increase of 11.5 per cent on the US$35.04 billion in 2011.

In Doha in December 2013, the AMAN Union also launched a Credit Information Database, which is the first of its kind established for the benefit of members for the exchange of credit information, opinions and underwriting experiences.

ICIEC is also expecting more business to come from export credit agencies (ECAs) in industrialised countries, and has already signed agreements with Atradius, the Dutch ECA, and with Ducroire Delcredere, the Belgian ECA. This is because of a change in ICIEC’s mandate to also support the imports of capital and strategic goods into its member countries.

Under the reinsurance agreement with the Belgium ECA, ICIEC is able to issue policies on behalf of Ducroire in all ICIEC member countries, and Ducroire will provide reinsurance to ICIEC for these policies. Already three policies with total business insured in excess of US$40 million were issued in 2013.

We have also done some transactions with SinoSure, the Chinese export credit agency, which is the largest in the world in terms of volume of business insured.

Another major achievement in 2013 is our cooperation with Cargill Inc., one of the world’s largest commodity traders, which has operations in almost all ICIEC member countries. ICIEC cooperates with Cargill to provide non-payment risk insurance cover to the company for obligors, which may be based in ICIEC member countries and elsewhere.

Given that a major portion of Cargill’s business is in the food commodities sector, the relationship is a perfect fit for the mandate of the Corporation, to promote food security in our member countries.

Going forward, in the wake of the Arab Spring, the Eurozone sovereign debt crisis, and the on-going challenging business environment globally that is continually changing at an increasingly rapid pace the demand for political risk and sovereign risk insurance especially is increasing.

During 2014, our strategy is to focus more on investment insurance structures and project finance, but at the same time continuing to underwrite our export credit insurance business because it is an essential part of our mandate to support the exports of our member countries.
Bank Payment Obligation: it’s still early days

The BPO is an electronic trade finance payment assurance and risk mitigation tool created by banks to add value for corporate customers in a world where open account trade is growing, while growth in trade using bank partners and traditional letters of credit has remained stagnant. Here, a global survey reveals its uptake and other banking strategies.

In a 2012 survey by international business consultants Misys - working with Finextra Research to evaluate the state of the global transaction banking sector - 18 per cent of respondents said they were engaged in pilots or planning to offer BPO-based products when ICC URBPO rules became available in 2013.

Looking at the first question below, which asked about products coming online within the next 12 months, Misys said its view was that during 2013 “that figure would be 26 per cent. and given that 26 per cent of respondents say they plan to invest in BPO enablement in 2013-2014, that figure should continue to steadily grow as bank’s offerings come to market”.

But, it added, “lack of education and lack of automation could continue to keep growth rates of BPO adoption low, with 41 per cent of respondents citing this as a risk to more widespread adoption in the market.

The largest single factor, with 32 per cent, is weakness in the business case and there is still a debate in the market as to whether the BPO was conceived as a tool to achieve the goals of banks, rather than designed purely with the needs of corporates in mind”.

Which of these supply chain services do you currently provide, or plan to deliver in the next 12 months?

<table>
<thead>
<tr>
<th>Service</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Invoice discounting</td>
<td>54%</td>
</tr>
<tr>
<td>Approved payable financing/reverse factoring</td>
<td>49%</td>
</tr>
<tr>
<td>Factoring</td>
<td>45%</td>
</tr>
<tr>
<td>Early payment (dynamic discounting)</td>
<td>37%</td>
</tr>
<tr>
<td>BPO</td>
<td>26%</td>
</tr>
<tr>
<td>Data matching (TSU)</td>
<td>22%</td>
</tr>
<tr>
<td>Credit notes</td>
<td>15%</td>
</tr>
<tr>
<td>Bulk financing</td>
<td>15%</td>
</tr>
</tbody>
</table>

The online channel

On another front, 80 per cent of respondents said adding new online services was a strategic priority and many stuck to that goal, with 85 per cent saying they had an online portal offering for corporates. The majority still offer only siloed services or fundamental transactional services online though, “with very little in the way of joined up offerings delivering visibility across trade, payments and cash”.

Only 12 per cent of responding banks claimed to offer all 12 of the services listed in the question “which online banking services do you currently offer to corporates”?

The average number of services offered was seven.

“The big change was the addition of FX to online portals. In 2012, 50 per cent of banks said they offered online FX, and that has now risen to 75 per cent, driven by customer demand for self-service currency and risk management.

“Also, cashflow forecasting online has jumped from 36 per cent to 56 per cent – again a sign that corporates are demanding more and more control over working capital and risk mitigation.

“Trade and supply chain finance services are available more frequently online too – up from 52 per cent to 60 per cent in 2013.”
Mobile ubiquity

In 2012, Misys predicted that as the transaction banking self-service channels evolved, banks would get better at managing the ongoing development of the mobile channel alongside the more established browser-based or desktop applications. It said, “Driven by customer input and a desire among banks to be seen as innovative, new functionality that is better suited to the interface and portability of smart devices continues to emerge. Seventy-seven per cent of respondents said they currently offer mobile banking with 25 per cent saying they would add or extend this capability within the next year. “Beyond mobile channel enhancements, 2013 was expected to see more of a focus on cash management transparency, confirmation matching and real-time payments.”

Customer connectivity

...and what do you plan to add within the next twelve months?

---

<table>
<thead>
<tr>
<th>Service</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobile banking</td>
<td>25%</td>
</tr>
<tr>
<td>Information on cash location and amount</td>
<td>20%</td>
</tr>
<tr>
<td>Confirmation matching</td>
<td>14%</td>
</tr>
<tr>
<td>Payment initiation and real-time payment tracking</td>
<td>12%</td>
</tr>
<tr>
<td>Invoice and payment reconciliation</td>
<td>11%</td>
</tr>
<tr>
<td>Cash flow forecasting tools</td>
<td>9%</td>
</tr>
<tr>
<td>Trade services (MTT96)</td>
<td>7%</td>
</tr>
<tr>
<td>Ability to make transfers</td>
<td>7%</td>
</tr>
<tr>
<td>Supply chain finance services</td>
<td>6%</td>
</tr>
<tr>
<td>Ability to trade FX online</td>
<td>6%</td>
</tr>
<tr>
<td>Information on accounts held with other banks</td>
<td>6%</td>
</tr>
</tbody>
</table>

---

E-mail is the most frequent customer engagement channel for transaction banks and their customers, outstripping the more immediate interactions achieved through phone calls or meeting in person. “Interestingly” said Misys, “it is also used more frequently than the online portals.

---

Payments priorities and areas for investment

A successful payments operation is a major driver of customer satisfaction, according to the survey. “If a bank can make sure the correct message is delivered on time without mistakes, and resolve issues quickly if there are errors or lost messages, it can quickly engender feelings of trust and reliability with a customer. But being able to do this well is quite difficult and expensive for banks with multiple, often legacy, systems. “It is clear that, rather than looking to innovate in their payments business or break into new regions, banks are focusing firstly on improving the quality of their payments operations. Eighty-one per cent of respondents said that reducing manual exceptions was a priority. “Given the high level of investment over the past decade in reconciliation and exception management systems, this may seem surprising. But even if great progress has been made from the days of paper-based reconciliation, pushing further for incremental improvements in straight-through processing can still yield significant cost savings and improved customer satisfaction.

“Although only 57 per cent of respondents said that being able to deploy new services and products rapidly was a strategic priority, they are focused on delivering real-time payments transparency for customers. This was not only the second highest priority for the payments part of the business (at 73 per cent) but was also ranked the most important challenge that needs to be addressed.”
Transaction banking: the future, Part 2

Looking ahead

Misys said that “taking into account the questions in this survey that specifically asked about priorities and plans for the next 12 months and beyond, as well as the changing responses we’ve had over the past four years of running this annual survey, we anticipate a number of trends:

- the average number of transaction banking products offered online will increase, as banks react to market opportunities and benefit from their planned investment in payment processing efficiency and trade and supply chain finance capabilities. The big trend for new services in 2013 will be cross-border and real-time payments offerings and delivery of greater transparency into transactions, cash movement and location.
- soon nearly all transaction banks will offer an appropriate subset of their online channel products and services via mobile.
- further development and uptake of banks’ supply chain finance services will be driven by increasing ERP system integration with large corporates, solid online collaboration tools and more standardised online delivery and on-boarding capabilities for SMEs and suppliers.
- banks will increasingly look at how they can offer global transaction services across new regions to grow their business by overcoming the operational hurdles with improved global processing and cross-border payments processing.
- the number of banks capable of offering a BPO service to clients will rise steadily, with a higher proportion being banks operating in Asia. By 2015, well over half of transaction banks active in trade finance will offer BPO services, but expectations of uptake will be realistic and the BPO will only really take off when corporates of all sizes see the true value and the BPO is seen as a facilitator in a more open four-corner model for supply chain finance.

What are the strategic priorities for your payments business?

- 61% Reducing manual exceptions
- 73% Delivering real-time payments transparency for customers
- 64% Enabling greater interoperability, processing capabilities and ROI of existing systems
- 57% Rapid deployment of new services and products
- 56% Better metrics and reporting for monitoring service levels and charges
- 54% Simplified processes for making changes to payment standards and business rules
- 45% Enhance ability to track payments as they pass through your systems
- 42% Increasing return on investment in existing systems and technology
- 26% Deployment in new regions and reduction of correspondent banking
- 20% Improve quality of outputting messages

How important will it be for your business to address the following challenges in the next two years?

- 46% Implementing real-time payments
- 32% Implementing B2B standards for cross-border payments
- 36% Implementing ISO 20022 standards for domestic payments
- 28% Implementing SWIFT MX standards
- 34% Implementing ISO 20022 standards for domestic payments
- 26% Implementing SWIFT MX standards
- 22% Implementing ISO 20022 standards changes

Tajara Spotlight: Almarai

Brand of the future

CAROLINE MAGIN looks at one of the growing number of companies in the KSA that is transforming itself into an international powerhouse

The new corporate powerhouses in MENA started to announce further progress last year and it is a very exciting time to be a progressive corporate in the KSA, pro-active in the commercial equivalent of London’s financial Big Bang of the 1980s.

Similarly to the way that banks stretched their boundaries then, a growing group of home-grown companies have undergone a transformation in this millennium by restructuring their production and/or sourcing, expanding their domestic market penetration and successfully tapping regional and overseas export markets on the back of strong brand and quality.

Almarai is one such company. It evolved a multi-pronged strategy to transform both the dairy farming and food production industry in the KSA to become one of the world’s largest vertically integrated dairy businesses. The company has balanced its investment by continually upgrading its traditional business lines to increase quality whilst diversifying its product base with fruit juices, bakery, poultry and, latterly, infant products; thus generating a healthy earnings growth to its broadening investor base of more than 70,000 shareholders. It is an example in action of the country’s shift from import substitution to export promotion in the non-oil related flows.

Its acquisition and capex spend in its strategic lines continued apace in 2013 with a tightly managed control of the EBITA challenge and an innovative approach to managing debt diversification. This was fundamental to its ability to manage the cash flow bridge. Additionally, it added to the depth and breadth of funding relationships beyond banks whilst also using its healthy revenues to fund growth.

Source: Almarai
Company 2013 Q4
Earnings presentation
Financial Highlights

Operational Achievements

Balance Sheet / Market Changes

What underpins Almarai’s financial highlight is the complex production, marketing and logistics model which encompasses decentralised local production and distribution of some products in some markets e.g. raw milk in the KSA, UAE, Egypt and Jordan and centralised production and international distribution of others e.g. infant nutrition products.

Its financial success is the lagging indicator of its strategically planned and meticulously executed business success. Its business strategy, which has been wholesome since it first started in the 1970s as a private company to serve its customers with high quality nutritious food, has always been brave and progressive.

It has also ventured into geographical markets, such as Argentina and Egypt that others considered too risky.

With one of its latest ventures, infant products, developed as a joint venture with Mead Johnson, it is now autonomous and independent. With poultry, which it started in 2009, one of its later ventures, it is quite honest regarding the challenges it faces but takes heart and reasoned optimism because of its stamina in other businesses in the past and its ability to add industrial scale and capacity in a largely family run sector to meet the sizeable local demand in the KSA and wider MENA for a quality product.
Developing an increasingly balanced business portfolio to serve its growing satisfied customer base has been the result of a layered tactical approach to strategic partners, namely:

- developing one of the largest vertically integrated dairy food businesses in the world by rationalising and merging originally small, privately owned farms into a centrally managed manufacturing and sales operation with leading technology and human know-how
- selectively partnering with best-in-class companies such as PepsiCo, in fruit juices, and Mead Johnson in its infant products has been a cornerstone of its success. In the latter, now that it has achieved production excellence according to Mead Johnson’s own quality control, it has developed and had the confidence in its internal talent to go on to assume 100 per cent management control and ownership of its operations. This was done by amicable agreement ratified by both parties in 2013
- developing sophisticated highly targeted sourcing of the ingredients that go into their products – eg mangoes from India and guavas from Egypt
- long-term investments and more vertical integration to secure and control the cost of critical and sizeable supply lines of feedstock through investment in plantations in Poland, Ukraine and Argentina. This makes them both more self-sustaining and financially less vulnerable to international commodity prices. Fondomonte in Argentina is eventually expected to supply 20 per cent of the company’s feedstock need and is on target to deliver its first shipment in Q4 2013
- tightly managed financing, across the company, to fund working capital requirements from the growing business itself, as far as possible, and a broad network of Islamic and Conventional Islamic Financing solutions, including trade finance and cash management. This has been with an almost textbook model-like management of diversified funding and of bank lines and charges (reduced in 2013) and a cost of financing required over time – such as could only be wished for by many other companies. In effect, it is a paradigm banking shift in banking relations and financial management. In a matter of years it has switched from the loan side of a bank balance sheet to the investment side with a “perpetual” sukuk, sold very selectively to a mixed group of local and foreign banks and investors and become a listed company with robust financial indicators
- shifting away from letters of credit to guarantees and open account for its rising trade finance needs, leveraging its trusted buyer status and negotiating power to reduce its cost of goods purchased.

The cash flow bridge is constructed around the group tailoring its funding mechanism and instruments to appeal to an increasingly diversified group of financiers much as it has diversified production, marketing and logistics operation, serving to make it a very real role model of financial and operations integration.
Almarai’s bank charges

Source: CMM analysis; Corporate Trade Monitor

The evidence of Almarai’s thought-out bravery is exemplified very clearly by its diversification in Argentina and Egypt, among others.

In Argentina, for example, the company is not unduly concerned about the potentially adverse political stability negatively affecting this supply chain. It worked to make it become a reality. It is an Almarai-style case study - making long-term investments to manage forward, long-term, the cost of production and the vulnerability of supply and P&L erosion of volatile open market supply side costs. Its seasoned understanding of the markets and belief that Argentina will deliver exports, which, come rain or shine, are that country’s lender of last resort and principal cash stand-by underpinning its keenness to release exports to realise the receipts can be, in fact, a strength at times of political instability.

In Egypt, Almarai expanded its footprint at a time when others paled and, regrettably, sometimes failed. Despite the fact that new ventures are not without their teething problems, or for the faint-hearted, Almarai has been active in sourcing ingredients, farming production of juices and dairy products for exports. It gathered experience of the Egyptian market through its sourcing activities for fruit, selling its dairy products and, latterly, infant nutrition products. Based on market knowledge, it progressed to invest in building a farm and manufacturing capability, all supported by a state-of-the-art logistics operation at its sales depot.

Whilst international analysts recently quizzed the company on its full-year results and, in particular, about mortality rates in poultry, its CFO Paul Gay spoke with depth and honesty about the firm’s challenges and with resonant enthusiasm about its very real successes in Egypt and elsewhere and the investment and know-how being applied to improve the productive life-span of the company flock, as well as tapping into sizeable demand and capitalising on growth opportunities.

In summary, the company has succeeded with both financial and commercial integration and is one to watch as a brand for the future according to, amongst others, Credit Suisse and the Financial Times. It is a fine example of the type of new generation industrialisation that is achievable in the KSA - and other GCC countries – and it has some real spring in its step.

Unsurprisingly, Almarai will expect a lot from its trade finance and cash management providers in the management of its increasingly diverse business lines with the attendant risks and the need for transparency and efficiency on a day-to-day basis across a growing volume of everyday transactions.

In fact, bankers are already competing for invitations to Almarai’s increasingly rich table.
Cash and Trade March / April 2014

MENA: new direction for Islamic finance

Confident that his successor as Finance Minister, Luxembourg’s former minister of finance has recently confirmed cross-party support for the country’s Islamic finance proposition.

Luxembourg’s former minister of finance has also launched a Shariah-compliant UK Equity Index to attract GCC and Malaysian investment into FTSE 100 companies.

Not surprisingly, Gulf Islamic banks are rethinking their strategies regarding the UK and the eurozone. In January 2014, one of Qatar’s largest Islamic banks, Masraf Al Rayan, completed its £242.25m acquisition of the Islamic Bank of Britain plc (IBB), the UK’s only Shariah-compliant retail bank, which was established in 2004.

The acquisition, according to a statement from IBB, was done through Al Rayan UK Limited, the London-based subsidiary of Masraf Al Rayan. The completion of the takeover of IBB by Al Rayan UK follows a cash offer made on 28 November 2013 for which Masraf Al Rayan received valid shareholder acceptances exceeding 95 per cent, together with approval of the UK’s Prudential Regulation Authority.

The £100m Shariah-compliant Technology Fund is the brainchild of Boris Johnson, the Mayor of London. The aim is to attract technology entrepreneurs from Muslim countries to launch start-ups in Britain.

It is in the UK that GCC countries to launch start-ups in Britain. He emphasised at the launch of the fund that “Britain is a global hub for the tech industry, while the Islamic world has young entrepreneurs with ambitious ideas. It’s very important that London should be a strong Islamic financial centre – and it’s clearly going to be of great benefit to those who need Shariah-compliant loans and mortgages. But, above all, it enables us to go ahead with the financing of quite stupendous projects.”

The fund is a joint venture between the British government and other Muslim countries such as the UAE, Saudi Arabia and Malaysia, which have all invested in technology hubs in their own countries. Quantum Capital and Ernst & Young’s Global Entrepreneurial Network are involved in the establishment of the fund, which will primarily fund start-ups and give technical advice on various related issues.

In the equities sector, the London Stock Exchange has also launched a Shariah-compliant UK Equity Index to attract GCC and Malaysian investment into FTSE 100 companies.

The £100m Shariah-compliant Technology Fund is the brainchild of Boris Johnson, the Mayor of London. The aim is to attract technology entrepreneurs from Muslim countries to launch start-ups in Britain.

The £100m Shariah-compliant Technology Fund is the brainchild of Boris Johnson, the Mayor of London. The aim is to attract technology entrepreneurs from Muslim countries to launch start-ups in Britain.

The £100m Shariah-compliant Technology Fund is the brainchild of Boris Johnson, the Mayor of London. The aim is to attract technology entrepreneurs from Muslim countries to launch start-ups in Britain.

The £100m Shariah-compliant Technology Fund is the brainchild of Boris Johnson, the Mayor of London. The aim is to attract technology entrepreneurs from Muslim countries to launch start-ups in Britain.

The £100m Shariah-compliant Technology Fund is the brainchild of Boris Johnson, the Mayor of London. The aim is to attract technology entrepreneurs from Muslim countries to launch start-ups in Britain.

The £100m Shariah-compliant Technology Fund is the brainchild of Boris Johnson, the Mayor of London. The aim is to attract technology entrepreneurs from Muslim countries to launch start-ups in Britain.
MENA: new direction for Islamic finance

outpaced most other markets in recent years.”

performance of London’s property market, which has
underpinned the acceptance and growth of Islamic finance products and
financial services sector to encourage the global ac-
tivity for Masraf Al Rayan to expand its footprint and
introduce its range of products to a fertile market, which has great potential for continued growth. It will also enable Masraf Al Rayan to offer its existing Gulf-based customers additional services as they expand their activities into the UK. Masraf Al Rayan’s vision is to become a leading and innovative international financial institution and acquiring IBB represents an important step in achieving this.”

Another major Islamic bank, Abu Dhabi Islamic Bank (ADIB), last year opened a branch in Knightsbridge in London. It did not take long for ADIB to expand into the UK market. For instance, it arranged a £20m structured Islamic financing facility – its debut deal in the UK real estate sector – to fund the development of Westbourne House, an office-com-

A former Luxembourg Minister of Finance, Luc Frieden

Other Islamic bank making waves in UK-GCC investment relations is Gulf-owned EIB (European Islamic Investment Bank), which is regulated by the UK’s Prudential Regulation Authority (PRA). EIB has set up a joint venture with Rasmala, a Dubai-based GCC family investment bank and asset management firm, EIB-Rasmala, which recently launched the Rasmala Trade Finance Fund. The joint venture has already launched Rasmala Global Sukuk Fund, the Rasmala Leasing Fund and the Rasmala GCC Islamic Equity Income Fund.

Another Islamic bank, which has been active in the UK real estate sector for some time, is Gatehouse Bank, which is part of the Masraf Al Rayan Group. Gatehouse Bank currently has a real estate portfolio worth in excess of £2bn across the UK and US. Gatehouse Bank also issued two Sukuk in December 2013, comprising £8.2m each, with a total of £16.4m. The Sukuk are secured by existing real estate assets - under-management, the regional British Telecom (BT) headquarters in Leeds, UK, and paying a distribution of 4.25 per cent and 6.25 per cent per annum over a seven-year term. “Investors,” said Gatehouse Bank in a statement, “will earn a return by virtue of the proﬁt earned through the rent agreement of the building. Both sukuk were arranged following a refinancing of a major headquarters building let to British Telecommunications Plc until September 2020.” Rental payments from the tenant will be applied to fund payments to the Sukuk holders (largely from Kuwait and the GCC) on each periodic distribution date. One Sukuk benefits from a repurchase under-taking from Gatehouse Bank on the third anniversary of issuance and also beneﬁts from security over the underlying real estate asset, while the second remains subordinated.

As Abdulaziz AlDowesh, chief investment of-
ciner at Gatehouse Bank, explained, “Gatehouse Bank is posi-
tioned to expand the Sukuk offering of the business in line with an increase in demand. The UK remains a great opportunity for developing this product offering.”

Former Luxembourg Minister of Finance Luc Frieden

Based on the performance of the London property market, the increase in demand for Islamic finance products, and the expansion of Islamic banks into the UK market, it appears that Islamic finance is becoming a significant player in the UK real estate sector. This is evidenced by the recent establishment of a joint venture between the Masraf Al Rayan Group and Gatehouse Bank, which is aimed at expanding the offerings of Islamic finance in the UK. This move highlights the potential for continuing growth and acceptance of Islamic finance in the UK, as well as the increasing demand for Islamic products in other sectors such as real estate.
Portfolio of trade finance transactions exposed to different geographies, industry groups and individual companies in order to lower exposure to rising interest rates. The fund will obtain enhanced investment returns from assets that can often be undervalued due to lack of recognition of their intrinsic payment capabilities. The overall strategy of the fund is expected to provide it with a means to achieve global diversification in both the primary and secondary trade finance markets.

EIIB-Rasmala, like Gatehouse Bank, is also ventured outside the UK. It acted, for instance, as lead arranger and book runner for the $100m Sukuk al-Ijarah issued on behalf of the issuer and obligor, ATL-Atlantic, a subsidiary of its parent company with growing interests in the Takaful (Islamic insurance) sector, and the first tranche of $20m, which according to FWU Group was well oversubscribed.

The programme and first tranche Sukuk were issued through Salam III Limited, a Jersey-registered Special Purpose Vehicle on behalf of the issuer and obligor, ATL-Atlantic, a subsidiary of FWU Group. International ratings agency Fitch assigned an investment grade BBB- rating to both the Salam III Limited’s $100m Sukuk Programme and to the first $20m tranche. Each tranche will have a term of five years, with profit distributions made quarterly to investors on a fully amortising basis. The profit rate is projected at seven per cent per annum.

The group plans to issue a series of Sukuk under the programme during 2014. This issuance follows on from FWU’s debut $55m Sukuk Al-Ijarah issued in November 2012. The transaction, said EIIB-Rasmala in a statement, is a securitisation of Takaful (Islamic insurance) insurance policies and provides an opportunity for investors to participate and invest in Sukuk certificated backed by ATL, which is a multinational insurance provider.

According to Harris Irfan, managing director of EIIB, “this issuance is unique in that it facilitates investor exposure to a quality, fully Shariah-compliant and rated European credit. Moreover, the issuance is asset-backed rather than asset-based, due to its securitisation of Takaful insurance policies - a movement in the right direction for the Islamic finance industry by linking the financial economy with the real economy”.

Similarly, Dr Markus E. Fischer, chief financial officer of FWU Group, is confident that “this issuance represents an important step for FWU to expand its funding sources into the Shariah-compliant capital markets. This issuance also further strengthens FWU’s ‘SALAM’ brand in the Islamic finance market”.

The Sukuk is a novel securitisation of Takaful assets – the first of its kind (a Shariah-compliant insurance-linked securitisation) to date in the sector. FWU AG similarly in its debut issuance also pioneered the first Sukuk to utilise a computer software programme and the associated intellectual property rights under an Ijara (leasing) structure.

This latest Sukuk will fund a set of re-takaful (or re-insurance) transactions for one of FWU’s five main subsidiaries, ATL. The proceeds from the asset-backed Sukuk will be used to fund sales commissions on unit-linked life insurance policies and upfront acquisition costs of new business.

Elsewhere, Bahrain-based First Energy Bank (FEB) recently also arranged a $25m Murabaha facility for the Holland-based Kore Coal Finance B.V., which is a subsidiary of Sapinda Holding B.V.

Bahrain-based First Energy Bank (FEB) recently also arranged a $25m Murabaha facility for the Holland-based Kore Coal Finance B.V., which is a subsidiary of Sapinda Holding B.V.

The Murabaha facility complements the recent $25m conventional Profit Participation Notes issued by Kore Coal Finance, the proceeds of which will be used to invest in the same coal mining assets. The Murabaha facility matures in October 2016. FEB acted as the arranger and book runner for the $25m Sukuk Programme and the associated intellectual property rights under an Ijara (leasing) structure.

The Basel Committee believes that a simple, non-risk based ‘backstop’ measure will restrict the build-up of excessive leverage in the banking sector to avoid destabilising banking stability.

A n underlying cause of the global financial crisis was the build-up of excessive on-and-off-balance sheet leverage in the banking system, according to the Basel Committee. It said that “in many cases banks built up excessive leverage while apparently maintaining strong risk-based capital ratios.

“But, at the height of the crisis, financial markets forced the banking sector to reduce its leverage in a manner that amplified downward pressures on asset prices. This de-leveraging process exacerbated the feedback loop between losses, falling bank capital and shrinking credit availability”.

The result of this was the Basel III framework, which introduced a simple, transparent, non-risk based leverage ratio to act as a credible supplementary measure to the risk-based capital requirements.

This was intended to:

- restrict the build-up of leverage in the banking sector to avoid destabilising de-leveraging processes that could damage the broader financial system and the economy.

- reinforce the risk-based requirements with a simple, non-risk based “backstop” measure.

Now, early this year, the Basel Committee has issued the full text of Basel III’s leverage ratio framework and disclosure requirements following endorsement by its governing body, the Group of Central Bank Governors and Heads of Supervision (GHOS).

It reiterates that a simple leverage ratio framework is critical and complementary to the risk-based capital framework that will help ensure broad and adequate capture of both the on- and off-balance sheet sources of banks’ leverage.

Basel III’s leverage ratio is defined as the “capital measure” (the numerator) divided by the “exposure measure” (the denominator) and is expressed as a percentage. The capital measure is currently defined as Tier 1 capital and the minimum leverage ratio is three per cent.

The committee will continue to monitor banks’ leverage ratio data on a semi-annual basis in order to assess whether the design and calibration of a minimum Tier 1 leverage ratio of three per cent is appropriate over a full credit cycle and for different

---

**MENA: new direction for Islamic finance**

**Bid to maintain banking stability**

**Basel III leverage ratio**
Implementation of the leverage ratio requirements has now begun with bank-level reporting to national supervisors of both the ratio and its components.

Types of business models. It will also continue to collect data to track the impact of using either Common Equity Tier 1 (CET1) or total regulatory capital as the capital measure.

To put this into perspective, a consultative version of the leverage ratio framework and disclosure requirements was published in June 2013. After carefully considering comments received and thoroughly analysing bank data to assess potential impact, the committee adopted a package of amendments, which pertains to the leverage ratio’s exposure measure.

Thereafter, the committee thanked those who provided feedback and comments as, it says, “these were instrumental in revising and finalising the leverage ratio standard.”

The technical modifications to the June 2013 proposals relate to:

- Securities financing transactions (SFTs). SFTs include transactions such as repos and reverse repos. The final standard now allows limited netting with the same counterparty to reduce the leverage ratio’s exposure measure, where specific conditions are met.

- Off-balance sheet items. Instead of using a uniform 100% credit conversion factor (CCF), which converts an off-balance sheet exposure to an on-balance sheet equivalent, the leverage ratio will use the same CCFs that are used in the Basel framework’s Standardised Approach for credit risk under the risk-based requirements.

- Cash variation margin. Cash variation margin associated with derivative exposures may be used to reduce the leverage ratio’s exposure measure, if provided specific conditions are met.

- Central clearing. To avoid double-counting of exposures, a clearing member’s trade exposures to qualifying central counterparties (QCCPs) associated with client-cleared derivatives transactions may be excluded when the clearing member does not guarantee the performance of a QCCP to its clients.

Written credit derivatives. The effective notional amounts included in the exposure measure may be capped at the level of the maximum potential loss, and there will be some broadening of eligible offsetting hedges.

Implementation of the leverage ratio requirements has now begun with bank-level reporting to national supervisors of both the ratio and its components, and there will be public disclosure starting 1 January 2015.

The committee says it will carefully monitor the impact of these disclosure requirements and “any final adjustments to the definition and calibration of the leverage ratio will be made by 2017, with a view to migrating to a Pillar 1 (minimum capital requirements) treatment on 1 January 2018 based on appropriate review and calibration.”

The committee is also undertaking to monitor accounting standards and practices closely “to address any differences in national accounting frameworks that are material to the definition and calculation of the leverage ratio.”

Finally, the committee will continue to test a minimum requirement of three per cent for the leverage ratio during the parallel-run period (ie from 1 January 2013 to 1 January 2015).

Backings for Basel Committee action

The Basel III leverage ratio revision has been applauded by BAFT-IFSA, the leading international transaction banking association, formed by the merger of the Bankers’ Association for Finance and Trade (BAFT) and the International Financial Services Association (IFSA).

President and CEO Tod Burwell said, “We commend the Basel Committee for adopting the final calibration of the Basel III leverage ratio, recognising how important trade finance is to economic growth. Amendments on the treatment of off-balance sheet trade finance instruments recognise the intrinsically safe nature of these products and their importance to companies, consumers and job creation. Through this agreement, the Basel Committee has taken significant steps to ensure trade finance remains available and affordable to importers and exporters.

“This is a positive outcome for the real economy, and we recommend that amendments supporting the growth of international trade be swiftly adopted in member jurisdictions around the world.”
Safest Bank in Emerging Markets and one of world’s highly rated banks

<table>
<thead>
<tr>
<th>Moody’s</th>
<th>S&amp;P</th>
<th>Fitch</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aa3</td>
<td>AA-</td>
<td>AA-</td>
</tr>
</tbody>
</table>

Global Finance magazine ranked the National Bank of Abu Dhabi (NBAD) as the Safest Bank in Emerging Markets in 2013, the Safest Bank in the Middle East, and one of the 50 Safest Banks in the world since 2009. These significant recognitions are the result of continuous efforts towards excellence.