



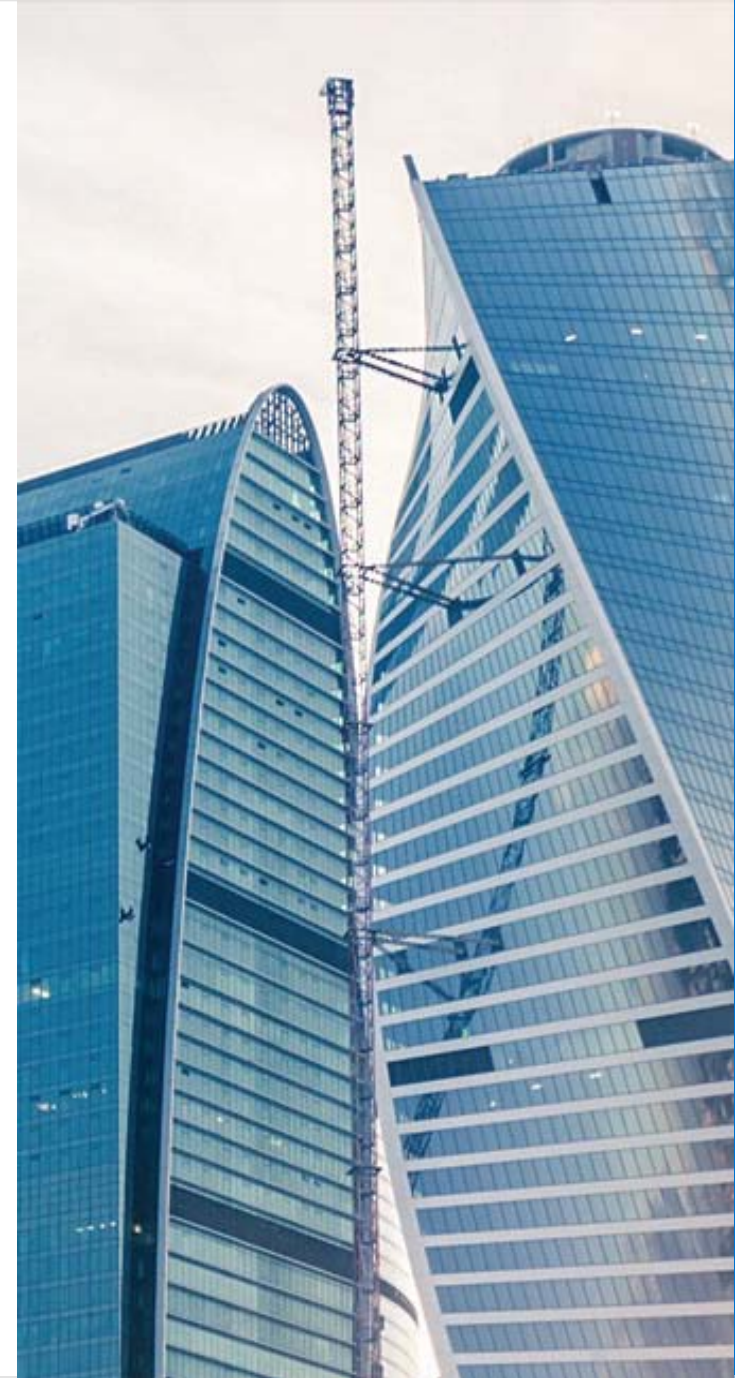
# CAPTURING THE OPPORTUNITY

*What can Russia and CIS learn from the growth of Islamic finance around the world?*



# Agenda

- 1** Putting these opportunities into context
- 2** What are the opportunities for Russia and CIS in the current economic climate?
- 3** How have tax and regulatory hurdles been overcome in other 'new' geographies?
- 4** Structuring around some of the challenges
- 5** Concluding remarks



# The industry in context

- Financial system tied to the basic tenets of Islam (going back centuries), but core of the industry's development can be traced back to 1975
- According to theory, Islamic finance should serve as a 'pure' economic system
- However, Islamic finance accounts for less than 2% of the global financial services industry
- Hubs in South East Asia and the Middle East, but now broadening geographically into Europe, the United States and Africa

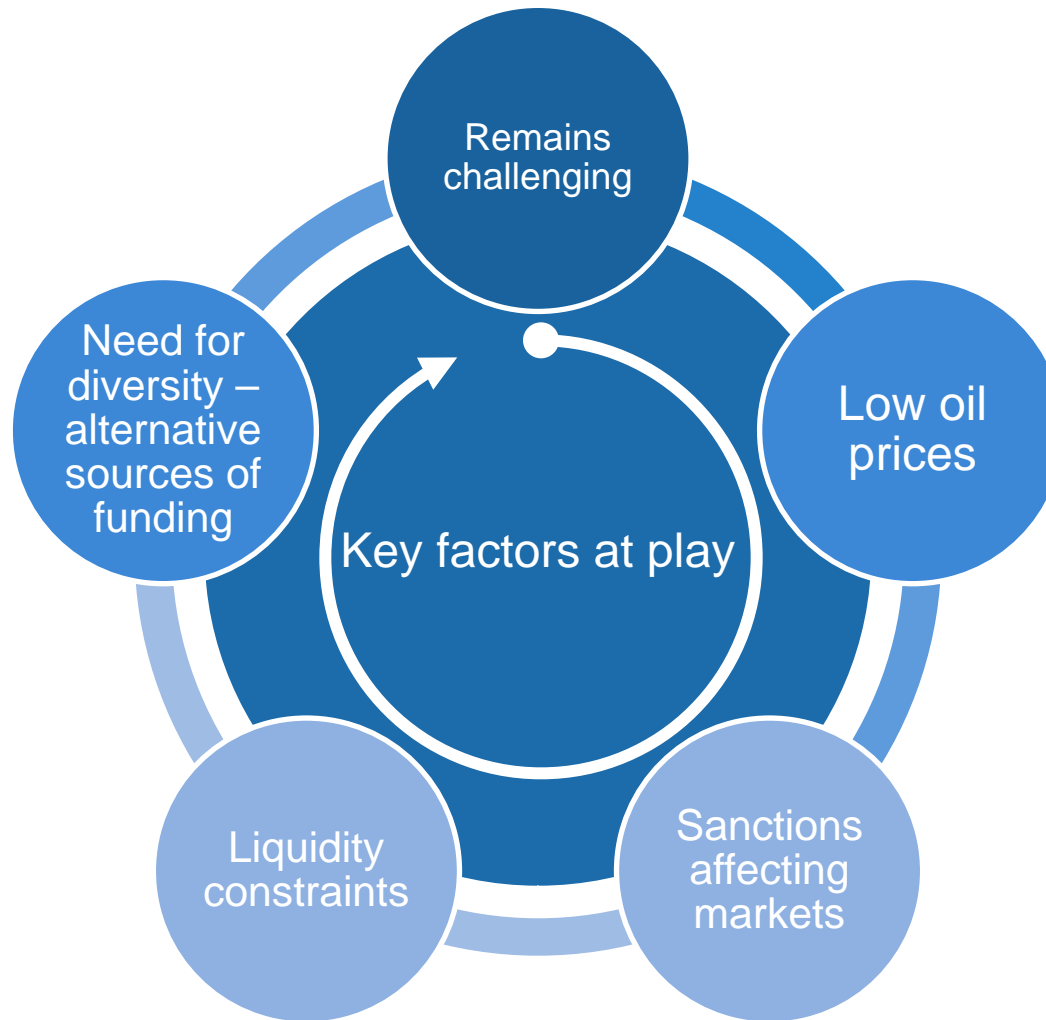
Steady growth (double-digit) year-on-year

Currently estimated to have assets of over **US\$ 2 trillion**

# Opportunities for Russia and CIS

- New geographies / new markets / diversity
- Cater for ethical / religious preferences
- Stronger ties with key trading partners, trade finance
- Infrastructure and transportation sectors could benefit more from Islamic funding
- Corporate finance / SMEs
- Alternative source of funding
- Demand for quality assets and/or strong credits
- Real estate markets have helped drive global growth

# Russia and CIS current economic environment





# The concept of riba

*The prohibition of interest on money, but covers other things too...*

Underlying concept: money has no intrinsic value – it is only a measure of value (or means of exchange) and there should be no charge (i.e. interest) for its use:

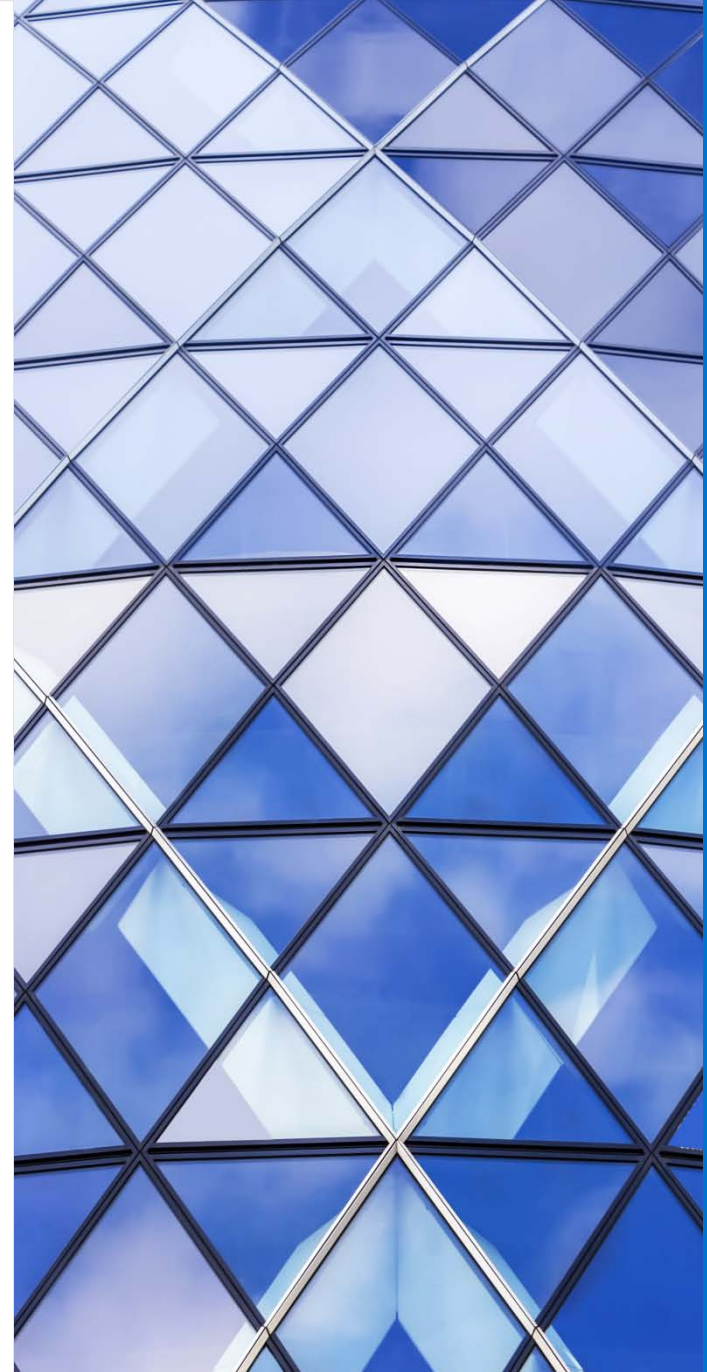
trade

investment

The prohibition of riba does not preclude a rate of return on a trade or an investment (usually in the form of a profit or a rental)

## Key premise of Islamic finance

Islamic finance is sometimes said to be **asset-based** instead of currency-based and trades or investments are structured on ownership / exchange of assets (where money is just a payment mechanism)



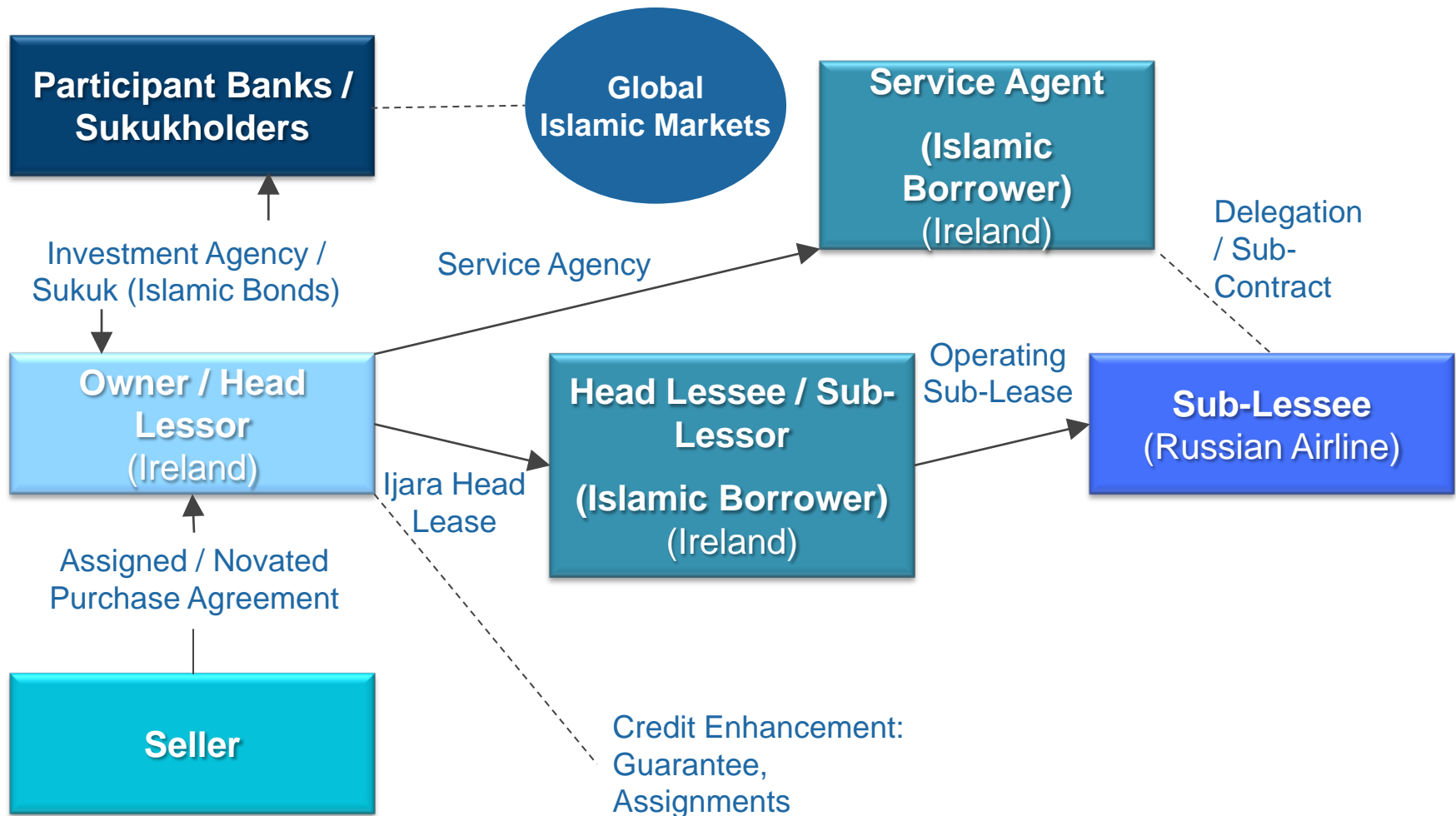
# Which of these structures / products can be realistically implemented?

- **Murabaha** (cost-plus financing)
- **Tawarruq / Commodity Murabaha** (murabaha financing)
- **Ijara** (leasing)
- **Sukuk** (Islamic bond)
- **Istisna'a** (construction financing)
- **Bai Salam** (forward financing)
- **Mudaraba** (participation financing)
- **Musharaka** (equity financing)
- **Wakala** (agency)
- **Qard Al-Hasan** (interest free loan)
- **Takaful** (co-operative form of insurance)





# Offshore ijara (Irish registration)



# Key points to note

Commercial and operating arrangements need to be considered on a **case-by-case basis**

Typically involves **transfer of legal / registered title**, but beneficial ownership interests (or trust arrangements) can sometimes be considered

Structures heavily **tax-driven**

**Bank debt** (bilateral, club or syndicated) versus **debt capital markets** (sukuk)

Delivery options / jurisdiction-shopping for **registration** etc.

**Size of issuance / facility** is restricted by the value of the assets which are transferred under this kind of Ijara structure

# Concluding remarks

- Already developments across CIS, support of Central Bank
- Islamic Corporation for the Development of the Private Sector (ICD) – IDB Group
- Islamic Business and Finance Development Fund (IBFD Fund)
- Foreign relations and support from trading partners in GCC, Iran and Malaysia will be key
- Tax and regulatory challenges remain, particularly with cross-border deals, which means that assets or equipment located in offshore jurisdictions can be attractive for Islamic structuring purposes
- Nomura (Japan) and GE (US) sukuk issuances are good examples of structures that made use of underlying aircraft assets located in tax / regulatory favourable jurisdictions
- Awareness and education important: including looking at what hasn't worked well for other countries

