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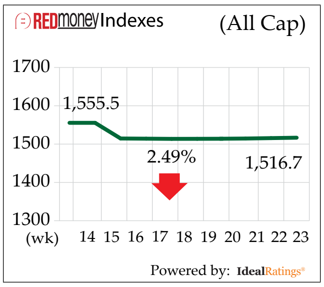


COVER STORY

7th June 2023 (*Volume 20 Issue 23)*

Qatar: Diversification crucial

FIFA World Cup 2022 has really shone the spotlight on Qatar as a formidable economic and financial powerhouse, but the resilience and robustness of the Qatari Islamic banking and finance industry have been a long-standing fact evident from it persevering through multiple shocking events including the 2008 financial crisis and the four-year-long international blockade it endured in 2017. However, as experts discussed at the recent IFN Qatar Dialogues 2023, the State still faces certain gaps preventing it from fulfilling its full Islamic finance potential. VINEETA TAN highlights the key outcomes from the two successful Chatham House-style high-level IFN Qatar Dialogues.

Sound system

Home to four fully-fledged Islamic banks, Qatar is consistently ranked as one of the top global Islamic finance markets: the IFSB most recently placed it as the fifth-largest Islamic banking market as Shariah compliant assets command almost 30% of its total banking sector as at the end of June 2022.


Dr Dalal Aassouli

What is perhaps most telling about the deep demand and high potential for Islamic finance in the State is the fact that the Gulf state has seen two major mergers in the last four years (Barwa Bank and International Bank of Qatar, Masraf Al Rayan and Al Khalij Commercial Bank). Both deals involved Islamic and conventional banks and, in both transactions, the surviving entities were Islamic banks.

This is a testimony to the strength of the existing Islamic finance framework in general, including the regulatory and business aspects, according to dialogue participants, who also noted that these also reflect the demand for Islamic finance in Qatar.

"Qatar has evolved tremendously over the last 10 to 15 years. In particular in Islamic finance, there has been a renewed focus," observed one dialogue participant, adding: "We have done a tremendous job so far, but there's still a lot of room to grow — we need to focus a bit more on diversifying the markets."

Capital market gap

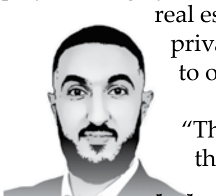
While Qatar's Islamic banking sector is sound, participants highlighted the gap in its Shariah capital market. Both the government and Qatari corporates are familiar with Sukuk; however, non-sovereign Sukuk activities have almost exclusively been in the dollar market, leaving the local currency corporate Sukuk market relatively underdeveloped.


Akber Khan

"I think further opportunities would arise if we can develop the local currency capital market further because effectively, more growth as far as Islamic finance is concerned would come from the development of the investor base in Qatar," opined one expert.

Another expert echoed those sentiments. "Encouraging the diversification of the investor base would be one of the main drivers of the capital market."

Currently in Qatar, the main investment play has largely been in public equities, real estate, public debt and private equity, according to one investor.


Ayman Doukali

"The demand is already there as long as there

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is diversification and a broadening of the product range — the investors are waiting. So, the onus is on all of us who are in the industry to deliver what the customer wants, and that pressure is on us and also importantly, on the regulators and the regulatory framework."

> **“There is an opportunity to take the market to the next level, not necessarily through the banking system, but through a capital market by way of Sukuk for corporates”**

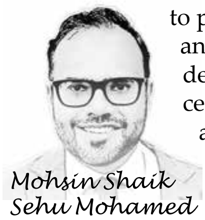
Dialogue participants are optimistic about the enthusiasm of Qatari corporates to leverage on Islamic financial instruments to tap liquidity to grow their operations and market share.

"We have great corporates and we have great systems and regulations, but we need capital. This is where I believe there is an opportunity to take the market to the next level, not necessarily through the banking system, but through a capital market by way of Sukuk for corporates," one speaker shared.

Another salient point raised during the dialogues is the vital role pension and sovereign wealth funds can play in advancing the Islamic finance proposition.

"If a certain amount of investment can be allocated into Islamic investments, that would really contribute toward the development of capital markets both domestically and offshore. In addition to that, when it comes

George Barakat



Mohsin Shaik Sehu Mohamed

to project financing and infrastructure development, a certain percentage allocated toward Islamic financing will also help to further develop this important industry."

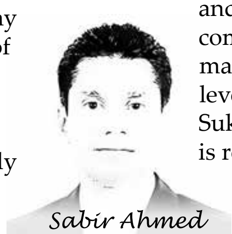
Room for regulatory enhancement

"Qatari banks are one of the more stable banks in the region from a performance perspective, from a regulatory perspective. We have already seen that regulatory robustness on the public equity side, and we definitely want to see that trend continue as we venture into a new phase of domestic capital market development where new asset classes are being introduced," said one industry leader.

The State is already working on expanding its investment universe. The Qatari bourse, for example, in March issued a new regulatory framework for listed derivatives with hopes of introducing a new derivatives market to allow investors to trade in futures and options on local stocks. The Qatar Central Bank late last year launched treasury Sukuk.

The cap on foreign investment is also a challenge. At the moment, banks are only allowed to invest up to 15% of their Tier 1 capital in any investment class outside of Qatar.

"It is a very limited scope and most banks are already on that limit so they struggle to find ways



Sabir Ahmed

and structures to deploy that liquidity into. I would highly recommend the regulator to look into this, and if possible, be a little bit more flexible on this one," raised one participant.

With regards to Sukuk, there are also some thorny issues.

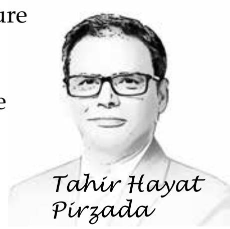
Munaf Usmani

"There are some impediments in initiating and executing a transaction as Clearstream does not have a Qatari account. But work is being done to get that account open to create and facilitate a smooth transaction between primary and secondary investors," highlighted one participant.

Like many of its peers, Qatar also has a tepid secondary Sukuk market, although it is learned that the regulator is currently working on developing a framework to promote and encourage the active trading of Sukuk.

Private jump-start

Several participants highlighted the nature of business in Qatar which may explain the lack of corporate participation in the Sukuk market.



Tahir Hayat Pirzada

For family offices and private companies, they may not be comfortable with the level of disclosure required for a public Sukuk offering, and especially when it is relatively less onerous to secure bank financing.

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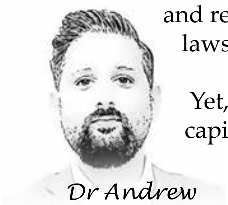
"If you are looking at local stakeholders, I think that's where private markets become important," noted an expert. "It assists in that transition [toward a higher level of disclosure and complexity], so people get more into that exercise from going from a bilateral term sheet to a more structured financing exercise."


Dr Andrew Dahdal

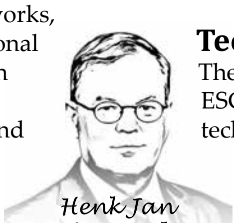
It is learned that authorities are exploring ways to develop the private market to ease the transition of corporates into the wider financial markets.


Dr Ahmet Aysan

"The liquidity is there and corporates are hungry for Shariah compliant products; the regulator is there and ready to facilitate. The only thing that we need is the link between those dots," said one participant. We need somebody or an entity — which may be driven by the regulator — to bring us all to the same table, at least for the first couple of [Sukuk] issuances."

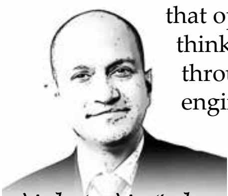
The future in ESG

Experts on both dialogues have acknowledged and identified opportunities for Islamic ESG financing. Qatari banks, Islamic and conventional, have designed and put in place sustainable finance frameworks, in line with the Qatar National Vision 2030, which has seen the establishment of the Ministry of Environment and Climate Change in 2021, ESG guidelines from the Qatar Stock Exchange and reforms to the country's labor laws as recently as last year.


Henk Jan Hoogendoorn

Yet, despite all of that, the actual capital that has been deployed under sustainable finance frameworks has been described as "very minimal" and one dialogue participant has attributed it to the lack of credit growth in the Gulf state.

"We need to narrow down where we can play a role — perhaps it is renewable energy — and Islamic banks can tap into a small portion of that market where there is credit growth. And when you have credit growth, then everything falls into place, whether it's technology-based innovation or something else. But we have to tap into that opportunity and I think that will come through some financial engineering rather than just technological innovation," opined one speaker.


Mohsin Mujtaba

Another expert believes the bigger Islamic ESG financing opportunity lies beyond Qatar. "Islamic banks need to find a new niche, and perhaps this new niche will not be within Qatar but outside of Qatar and it would revolve around climate finance."

Tech advantage

The discussion on Islamic ESG also intertwined with technology.

"Unfortunately, for Islamic ESG, the pricing is higher yet yields and returns are slightly lower; technology is definitely going to be one of those aspects where it can assist with those elements and will make Islamic ESG financing more competitive as it takes away significant back-office legwork with regards to initial assessment on the credential of the financing as well as the ongoing monitoring of the project."

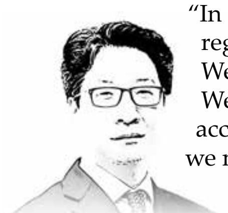

Ibrahim Mohammed Hassan

> **"We need somebody or an entity — which may be driven by the regulator — to bring us all to the same table, at least for the first couple of [Sukuk] issuances"**

Qatar, with its regulatory sandbox and accelerator programs, is aggressively pushing its digital agenda as a means to compete with its global peers, and also open up and accelerate new finance segments such as SME financing. The regulator is currently developing a digital asset framework to leverage blockchain technology and smart contracts to tokenize asset classes.


Nurein Said Mohamed

"In general, we don't need a complete regulatory overhaul or innovation. We have a strong set of regulations. We are fine-tuning it to accommodate for the future so that we may be future-proof," opined one participant.


Simon Chan