

Sarwa Capital successfully launches Sukuk issuance



EGYPT

By Dr Walid Hegazy

Last month, Sarwa Capital, one of only two licensed Sukuk issuers in Egypt, issued EGP2.5 billion (US\$158.78 million)-worth of Sukuk in a private placement targeting wealthy investors and financial institutions. This issuance is the largest Sukuk issuance in Egypt to date. The originator was Contact Finance, a prominent Egyptian auto financing company. The Sukuk were divided into 25 million certificates valued at EGP100 (US\$6.35) each. Investors agreed to receive a variable profit rate and will start receiving returns this month.

Sarwa Capital's Sukuk issuance follows the Mudarabah (silent partnership) structure with a tenure of seven years. It was given an 'A-' rating by the Middle East Rating and Investment Service. The United Ahli Bank and CIB acted as arrangers for the issuance, which Sarwa Capital also coordinated with Banque Misr and Misr Capital Company as

underwriters. Sarwa Capital obtained its Sukuk license last July from the Financial Regulatory Authority (FRA) and is also handling the Amer Group issuance, which will be valued at EGP2 billion (US\$127.02 million).

Previously, Sarwa Capital only offered conventional bonds. The company has issued a combined EGP23 billion (US\$1.46 billion) in bonds. Sarwa Capital's turn toward Sukuk demonstrates confidence in the market and in the value of Sukuk as a financing tool. FRA requirements stipulate that the issuer must be established with the sole purpose of issuing Sukuk. Therefore, Sarwa Capital founded Sarwa Sukuk Company as its subsidiary to handle such issuances.

Islamic finance experts have praised the initial forays into the Sukuk market. However, they have also noted the need for more Egyptian companies to apply for FRA Sukuk licenses. Sarwa Capital and EFG Hermes are currently the only licensed Sukuk issuers, and it would be limiting for the market in the long term

if they were to hold a duopoly on Sukuk issuances in Egypt.

A roundtable on 'The Competitive Advantages of Sukuk' was due to be held on the 14th December 2020 in Egypt that will drum up interest in the market among potential issuers, originators and Sukukholders.

Currently, only Egyptian companies can act as issuers in the Sukuk market. Given the government efforts to promote the national economy through domestic corporations, it is unlikely that the legislature will further amend Capital Markets Law No 95/1992 to permit foreign Sukuk issuers until the Sukuk industry is more firmly established in Egypt. Even so, the Sarwa Capital issuance is another positive step forward for the Shariah compliant finance sector. ☺

Dr Walid Hegazy is the managing partner at Hegazy & Partners in cooperation with Crowell & Moring. He can be contacted at whegazy@hegazyllaw.com.

Can social Islamic finance instruments help the economic growth in 2021?



ITALY

By Stefano Loconte

The consequences of the pandemic due to COVID-19 are real and they are expected to affect the global finance markets even more during 2021.

As shown in the S&P Global Ratings report, it is clear that industry players need to recognize the potential use of social instruments to help companies and individuals to struggle against this current situation.

In particular, Islamic social finance instruments can make a difference and can help core Islamic countries, banks, and corporations navigate through this difficult time with the aim to expand access and increase the socially transformative role of the sector.

So, the stakeholders are realizing the importance of standardization as government coffers are depleted and

access to Sukuk remains time-consuming and more complicated than conventional instruments.

In fact, COVID-19 offers an opportunity for more integrated and multifaceted growth with higher standardization, stronger focus on the industry's social role, and greater use of fintech, so this can be achieved through higher coordination between the industry's different stakeholders.

The instruments provided by Islamic finance that can support the growth are, for example:

- the Qard Hasan, which could provide cost-free breathing space until the environment stabilizes;
- the social Sukuk, which could help support the education and healthcare systems amid the current slump and attract ESG (environmental, social and governance) investors and/or Islamic investors;
- the Waqf with the aim to provide affordable housing solutions or access

to healthcare and education for people that might have lost a portion of their income;

- but also the Zakat to help compensate for lost household income because of COVID-19.

These instruments, together with green Sukuk and the additional layer of governance Islamic banks and instruments are subject to could help to put the industry more prominently on ESG investors' radar.

In conclusion, while Islamic banking continues to face significant repercussions related to COVID-19, the crisis could represent an important watershed in the global growth of the industry and could lead to a turning point of awareness for the countries that still have not implemented the basis for the use of Islamic finance products and services. ☺

Stefano Loconte is the managing partner at Loconte & Partners. He can be contacted at stefano.loconte@studioloconte.it.