

A decade of Islamic finance in Ireland

KEN OWENS and FAISAL ISMAIL look at the key milestones of Islamic finance in Ireland. From the launch of two investment companies in 2003 to 2013 which 'has been a significant year in terms of sukuk listing.' They say Ireland has made significant inroads so far but that there are still a number of lucrative opportunities. They list seven ways Ireland can enhance its Islamic finance industry.

Ireland has been celebrating its 10th successful anniversary in Islamic finance, another historical landmark for Ireland. A number of developed nations could have wished for what Ireland has achieved in this space so far.

Despite all the challenges in the economy, the Celtic Tiger never gave up, and its roar is louder than ever when it comes to Islamic finance. The launch of Shariah compliant funds and Sukuk listing by international players in the Green Isle demonstrates the confidence and respect others have for Ireland's leadership in this area.

To recap, Islamic finance encourages the transformation of conventional money lending into transactions based on tangible assets and real services to generate employment opportunities and stimulate sustainable economic growth. Islamic financing does not require the financier or fund user to have a particular religion, ethnicity or language. Islamic finance is based on the principle of justice given that the financier and fund user share the outcome without throwing the risk burden on one side while relieving the other.

Ireland's proactive, positive, innovative and friendly approach made it easy for Ireland to be a gateway to Europe. Ireland's current focus is on commercial investments, especially in small and medium enterprises (SMEs) to generate sustainable economic growth. These investment opportunities align with Shariah principles which make Islamic finance and Irish investment a winning combination. Let us now consider the trajectory of Islamic finance in Ireland over the past ten years.

2003-2013: The ten candles on the cake of Islamic finance in Ireland

Ireland first dipped its toes into the waters of Islamic Finance in 2003 when Oasis Global Management Company (Ireland) Limited received an approval for the launch of two investment companies - Oasis Global Investment Fund (Ireland) plc and Oasis Crescent Global Investment Fund (Ireland) plc in Ireland.

The following year in 2004, Bank of

Ireland group signed an agreement with the Arab Banking Corporation (ABC) to launch an Islamic home financing scheme.

The Central Bank of Ireland established an expert team in Islamic funds to streamline the approval process for Shariah compliant funds in 2005, the same year that the Irish Stock Exchange also listed its first sukuk.

The listing of the first sukuk transaction on the Irish Stock Exchange in 2005 has not only enhanced Ireland's profile in the global Islamic finance industry, but is a perfect illustration of the flexibility of the Irish Stock Exchange towards Shariah compliant products.

In 2006, the NICBM Sukuk was admitted to the official list of the Irish Stock Exchange.

2007 saw the launch of Shariah compliant funds in Ireland by both iShares and SEI. iShares is managed by Blackrock, the world's largest asset manager and a leading provider of investment, advisory, and risk management solutions. SEI is a leading global provider of asset management, investment processing and investment operations solutions for institutional and personal wealth management.

The following year in 2008, a MoU was entered into between the Dubai Financial Services Authority and the Central Bank of Ireland. This was also the year that Ireland signed a double taxation agreement with Turkey.

In 2009, The Irish tax authorities confirmed that Shariah compliant funds, Ijarah transactions (Leasing) and Takaful (Insurance) arrangements were to be taxed on the same basis as comparable conventional financial products. It was also the year that BNP Paribas launched its first sukuk fund in Ireland. Ireland also signed a double taxation agreement with Bahrain and signed an amendment to an existing double taxation agreement (originally signed in 1998) with Malaysia.



Faisal Ismail

Under The Finance Bill 2010, the Irish Government introduced significant amendments to Irish tax legislation to further facilitate Islamic finance transactions in Ireland, specifically banking and sukuk arrangements. The Central Bank of Ireland has entered into a memorandum of understanding (the MoU) with the Emirates Securities and Commodities Authority of UAE, the Central Bank of Bahrain and the Qatar Financial Centre Regulatory Authority. National Bank of Abu Dhabi launched an Irish domiciled exchange trading fund in 2010. Ireland also signed double taxation agreements with Kuwait and UAE.

Twelve months later, the Taoiseach, Enda Kenny launched the *Strategy for the International Financial Services Industry in Ireland 2011-2016*, setting out a vision for the future development of Ireland's International Financial Services Centre. It laid down a number of initiatives, including enhancing the skills and operating environment to support Islamic finance. The Chartered Institute of Management Accountants (CIMA) launched the CIMA Diploma in Islamic Finance (CDIF) in Ireland in 2011. In addition, Central Bank of Ireland entered into a MOU with the Securities Commission Malaysia.

CIMB-Principal Islamic Asset Management launched the first Malaysian promoted Shariah compliant funds in Ireland in 2012. A global advisory firm in Islamic finance, Amanie Advisors established an operation in Ireland. NCB Capital, Saudi Arabia's largest wealth manager became the first Saudi institution to establish a range of funds in Ireland. Dublin City University and the Global University of Islamic Finance, Malaysia presented a one-day conference on Islamic Finance in Ireland. A significant number of sukuk were listed on the Irish Stock Exchange in 2012, including \$650 million JAFZ Sukuk, \$1.5 billion Turkey 2018 (Sukuk), \$700 million QIIB Sukuk and \$750 million QIB Sukuk. Ireland also signed double taxation agreements with Egypt and Qatar.

This year, 2013, Amanie Advisors organised a Dublin Islamic Finance

Forum (DIFF) with a support from the Industrial Development Authority (IDA). Ireland also signed a double taxation agreement with Saudi Arabia. 2013 was also a significant year in terms of sukuk listing; with the following sukuk being listed on the Irish Stock Exchange; \$2 billion Saudi Electricity Global Sukuk, \$1 billion DIB TIER 1 Sukuk, \$250 million ASYA Sukuk, \$425 million DANA GAS Sukuk, \$500 million SIB Sukuk and \$750 million DAR AL-ARKAN Sukuk.

Ireland has made significant inroads so far but there are still lucrative opportunities that Ireland can tap into to further strengthen its position and raise the Celtic Tiger's profile as an Islamic Financial hub of Europe. The following are the opportunities where Ireland might enhance its competitive position further and continue to be a European role model:

1) NRPF €6.4 billion fund

The Irish Government has recently launched the Ireland Strategic Investment Fund (ISIF) to redeploy €6.4 billion from the National Pensions Reserve Fund (NPRF) towards commercial investments in the Irish economy. As well as money from the NPRF, the ISIF will seek matching commercial investment from private investors, and target investment in areas of strategic significance to the future of the Irish economy.

2) €250 million investment in energy efficiency programmes

The Irish Minister for Communications, Energy and Natural Resources Pat Rabbitte at the Construction Industry Federation Conference in March 2013 commented:

'Under EU legislation, Ireland must achieve very ambitious energy efficiency targets to reduce our energy consumption by 20 per cent, by 2020. The Government has identified key priority areas including construction, energy, food and ICT, where there is significant opportunity to innovate. The Programme for Government commits to a move away from Exchequer-funded grants and the introduction of sustainable financing initiatives.'

It could be lucrative to get Islamic financial investors on board with the Irish Government on this programme.

3) Sukuk

Raising finance by issuing sovereign sukuk might raise Ireland's profile to the next level and at the same time it would diversify its lenders, generate more employment opportunities and bring

sustainable economic growth. Turkey has taken the lead recently by issuing sovereign Sukuks' worth of \$1.5 billion. It was oversubscribed by \$6 billion and investors from the GCC countries were the main subscribers.



Ken Owens

4) Tourism

Tourism is close to a €5 billion industry in Ireland. The Tourism Minister, Leo Varadkar, initiated various measures to stimulate growth and job creation in the tourism sector and is keen to attract more investments which may be attractive for Shariah compliant financings. As per the 'Turnaround Plan' for the Irish Tourism Industry by the Irish Tourist Industry Confederation: 'A more dynamic results-oriented and market-responsive approach is called for with a more effective partnership between public and private sector stakeholders displaying a 'can do' approach to the challenges facing the industry'.

5) Dairy sector

The Irish Dairy Sector enjoys global recognition and exports around 80 per cent of all Irish dairy production. The lifting of EU milk quotas in 2015 and the growth in world population means there is an opportunity to increase milk output, the scale of the dairy sector and profit from the Irish cost-effective environmentally sustainable grass-based production system.

The Irish Dairy Board chairman Vincent Buckley says it is vital that future processing facilities are flexible enough to provide them with the extra product they will need but says it is not possible for the processing industry or farmers to fully fund that processing requirement.

Oil rich Gulf Arab nations have shown increased interest in the dairy sector and other agricultural assets overseas to ensure reliable food supplies. Huge investments have been made in Argentina, Pakistan and Indonesia by these nations and they are looking for more opportunities.

Opening the Irish dairy sector for Islamic finance could certainly be helpful in achieving a much needed boost in the export of the Irish dairy products to Gulf nations.

6) Memberships

Ireland could look to obtain memberships of globally recognised Islamic finance organisations such as the Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI) and Islamic Financial Services Board..

7) Islamic finance road map

Ireland should develop an Islamic finance road map and a detailed framework to implement this.

In order to do so, an effective collaboration among various state agencies and representative bodies such as IDA Ireland, Irish Business and Employers Confederation (IBEC), Enterprise Ireland, Irish Funds Industry Association (IFIA), Fáilte Ireland, Ireland Strategic Investment Fund (ISIF), Irish Dairy Board (IDB), International Financial Services Centre (IFSC), Central Bank of Ireland and Department of Finance as well as among relevant professional firms, would have been crucial to implement those strategies.

8) Other opportunities

Other areas of potential opportunity for Ireland include: connecting Islamic finance with other areas such as Green Ireland, section 110 vehicles for Sukuk, enabling the fast track approval process for Shariah compliant funds, forming Islamic finance working groups and a panel of reputable Shariah scholars, linking Middle Eastern investors with Ireland's privatisation plan and selling NAMA's asset portfolio.

Over the past decade, Ireland, as European Islamic Financial Leader, has explored and successfully profited from many opportunities to increase their presence in the global Islamic Financial market, from extensive double-tax treaties, the listing of sukuk on the Irish Stock Exchange, educational links and fiscal facilitation.

Other opportunities, as outlined above, are emerging, and it is vital over the next few years that we continue to tap into these opportunities, so that we continue to build on our reputation as an Islamic Financial hub, not just in Europe, but worldwide.

As the Islamic Finance reaches its teenage years in Ireland the future looks very bright for the Celtic Tiger and Shariah compliancy, and long may it continue.

Ken Owens is a partner at PwC and Faisal Ismail is a senior manager in PwC's asset management practice.