El-Tahir, Hatim, Islamic securitisation market: The GCC debt market turns Sharia compliant,
In: *Islamic Finance: Innovation and Authenticity*, edited by Ali, S. Nazim.
Cambridge, Massachusetts: Harvard Law School, ILSP, Islamic Finance Project, 2010, pp.229-246

Islamic Securitization Market: The GCC Debt Market Turns *Shari'a*-Compliant

Hatim El-Tahir[1]

INTRODUCTION

Shari'a-compliant financial instruments have become increasingly popular in the Middle East and in particular in the Arab Gulf Council Countries (GCC). This is attributed to the ravenous need—of both sovereign and corporate enterprises—for capital to finance development projects in the region. The thrust of economic growth in the region has lifted business activities and corporate expansion. Surging oil prices generated unprecedented income surpluses. The gross domestic product (GDP) of the six states is estimated at $675 billion. This has meant an average GDP growth of 6.6 percent for the six nations, with the UAE and Qatar achieving a growth rate of 8.5 percent and 8.4 percent respectively.[2] At the forefront of this economic growth, the financial service industry continued to provide the necessary mechanism required to sustain growth and development in sectors of the economies. Banks expanded by leaps and bounds. More branches were opened to facilitate the growing need for financial services. GCC banks embarked on big expansions through network branching, which generated good returns to their stakeholders. The figures of return on equity (ROE) in 2006 varied from 2.75 percent to 6.94 percent, the latter being achieved by Al Rajhi Bank of Saudi Arabia.

The year 2007 was a happy year for the GCC region. GCC financial institutions adopted vital new strategies such as

---

[1] Manager of Training, Dubai International Financial Exchange, United Arab Emirates.

[2] "GCC Annual Banking Review," *Gulf News Quarterly Financial Review* 4, November 2007, pp. 54–62.

diversification, consolidation, product innovation, international integration (global *sukuk* issues), and indeed tapping on securitization. Moreover, the GCC states announced the launch of an economic common market or a GCC single market as of January 2008. Naturally, the Islamic financial industry continued to grow at the same pace and new players continued to enter the market to assume their role. The Islamic capital market thrived and introduced new innovative *shari'a*-compliant instruments. In the current wave of oil revenues and increasing demand for *shari'a*-compliant products, stakeholders are starting to realize the potential.[3] The market is set to continue to develop in 2008 and it is expected to be in excess of $1 trillion by 2010.[4]

AIMS AND OBJECTIVES

This paper will explore the merits of an Islamic Securitization Market (ISM) in the GCC region. It examines the market for, and usage of, debt and debt-based financial instruments and discusses how ISM continues to evolve through engineering innovative *shari'a*-compliant asset-backed instruments. The paper also investigates the role and impact of ISM in the emerging market of the Arab Gulf countries. The examination looks into the different structures of debt securities that have evolved and their usage. The discussion includes analysis of the factors underpinning their growth and popularity in the region. The regulatory and *shari'a* compliance challenges that impede their growth are also examined.

THE RISE OF GCC DEBT CAPITAL MARKET (DCM)

The financial and economic outlook in the GCC region is best described as rocketing—though this might look paradoxical in view of what the West is experiencing now with the credit crises and liquidity

---

[3] Zamir Iqbal and Hiroshi Tsubota, "Emerging Islamic Capital Markets: A Quickening Pace and New Potential," Washington, D.C.: The World Bank, 2005.

[4] Interview with Edwin Ball, COO, Gulf Finance House, "Banking and Finance: Investment Banking," *Gulf News Quarterly Financial Review* 3, August 2007, pp. 22–24.

scarcity. In contrast, the GCCs' Sovereign Wealth Funds (SWFs), accumulated from oil revenues, bred new forms of indigenous Sovereign Investment Corporations (SICs). [5] This has been stimulated by economic reforms devised to entice foreign direct investment (FDI) in and out of the region. This has helped the internationalization of the new indigenous investment corporations. The Gulf SWFs and their investment corporations embarked on significant investment through the acquisition of several international firms. This new phenomenal growth in GCC's outward investment created a debt-based market. International financial institutions were eager to tap into this market and help further the process and provide the necessary mechanism for its growth. This move by the latter created the recognition and support needed to develop a Debt Capital Market (DCM) in the region. European and U.S investment banks were pivotal in the issue and underwriting of significant Gulf debt securities. Bond issues and Islamic *sukuk* issues soared to record highs.

The issuing of Dubai Bonds 2003 by the Government of Dubai in 2003 is considered to be the first issue of its kind in the Gulf region by a Gulf government. Moreover, Dubai's state-owned corporations pioneered bond and *sukuk* issues in the region. The foundation of the region's first financial free zone in 2004, Dubai International Financial Center (DIFC), has changed the region's capital market forever. The Dubai International Financial Center introduced international best practices of finance and investment. The independent standard setter, Dubai Financial Services Authority (DFSA), regulated the new financial center and introduced a regulatory framework in line with international standards and best practices. The world financial market embraced the new center and many key players obtained licences to operate in the Dubai International Financial Center. The number of licensed firms in the Dubai International Financial Center now exceeds 400 organizations. This includes a wide spectrum of financial institutions and supporting service providers. Subsequently, Bahrain and Qatar followed suit by introducing Bahrain Financial Harbour (BFH) and Qatar Financial Center (QFC) respectively. Many financial analysts view this replica move as a positive development, which will

[5] The Sovereign Investment Corporations (SICs) phenomenon surfaced as a result of the accumulated Sovereign Wealth Funds generated by oil revenues. Examples include: Saudi Arabia General Investment Authority (SAGIA), Abu Dhabi Investment Authority (ADIA), Qatar Investment Authority (QIA), Kuwait Investment Office (KIO), and Dubai International Capital (DIC).

further boost the well-being of the Gulf capital market. In a recent report published by Reuters, the Dubai International Financial Center told Reuters that the region's Debt Capital Market (DCM) has the potential to be worth up to $250 billion in two to three years, from about $2.5 billion in 2007.[6] More borrowers are considering offering *sukuk* sales in Europe and the United States to gain better pricing for longer-term maturities.[7]

FACTORS UNDERPINNING THE GROWTH OF ISLAMIC DCM

Undoubtedly, the broad political and economic change in the region has contributed to the evolution of the Islamic capital market. The industry now encompasses a wide range of areas including corporate and project finance, Islamic investment funds, Islamic Real Estate Investment Trusts (IREITs), *shari'a*-compliant asset-backed securities, and *Waqf* Asset Trusts (WATs), to name a few. Among the specific factors worth noting are:

The Crux of Macroeconomics

The economic outlook remains positive with the petrodollars accelerating the rate of the infrastructure boom in the region. The economic expansion is expected to continue over the next few years supported by high levels of government investments in infrastructure and good macroeconomic management. Citibank reported that the GCC countries have accumulated a $750 billion surplus from oil revenues. The bank expects this to rise to $1.1 trillion by the end of 2008.[8] Saudi Arabia, the largest economy of the GCC, estimated a staggering US$800 billion expenditure for the next two decades to build mega-

[6] "Islamic Securitisation Market in Gulf Set for Massive Expansion," *Reuter*, August 16, 2007.
[7] "Interview with Arul Kandasamy, Head of Islamic Markets, Barclays Capital," *Emirates Today*, November 6, 2007.
[8] Citigroup Global Market, Equity Research, "Investing in the Middle East, Strategy Focus," November 16, 2007.

cities.[9] In the UAE, Dubai has led the way in services. It has become the favorite city for finance in the region. Dubai also continues to improve its leisure and tourism industry, which has generated a considerable contribution to its GDP. Unsurprisingly, the city maintains its leading role as the trade center for many Middle Easterners and African visitors. Kuwait and Qatar enjoy a similar growth rate in GDP as seen earlier. The latter has been one of the most dynamic GCC states. The development of Liquified Natural Gas (LNG) production and an open-door policy for foreign investment have been instrumental to the phenomenal economic development in Qatar. Its GDP growth is estimated to strike 8.5 percent in 2007.[10] Oman and Bahrain had lesser fortunes compared with other GCC members. The former's economy was slowed by the Cyclone Gonu disaster in the year 2007.[11] The damage was significant and it is certain that the country will have to spend significant sums of its oil surplus on infrastructure and rebuilding as a result of the damage caused by the crisis. Conversely, Bahrain's economy continued to perform well through economic diversification.

In addition, needless to say, the GCC's exchange policies remained unchanged and are set to continue at the same dollar-marriage system—de facto fixed currency pegs to the U.S. dollar—despite market rumors of possible divorce by the UAE and Qatar. The plan for a GCC single currency, expected in 2010, is moving closer to completion. Economic convergence is soon to be realized with the recent announcement of a GCC common market in 2008.

Undoubtedly, inflationary pressures in the GCC states are alarming and causing concerns in all quarters of the economy. It is interesting to see that governments are taking unfailing efforts to curb its effects on the economies. In the UAE, Qatar, Saudi Arabia, and Kuwait, governments have on many occasions reviewed civil servants' remuneration to reflect inflation. The weakness of regional currencies is also stirring discontent among migrant workers who make up the bulk of the labor force in the GCC countries. After the recent incident of South Asian workers' riots in Dubai over savings lost due to the dollar's slide, the UAE Central Bank governor, Sultan Nasser Al-Suweidi, admitted that he was under growing social and economic

---

[9] "GCC Economy Report," *Gulf News Quarterly Financial Review*, November 2007, p. 45.

[10] Ibid., p. 57.

[11] Cyclone Gonu, also known as Super Cyclonic Storm Gonu, was the strongest tropical cyclone on record in the Arabian Sea.

pressure to drop the peg.[12] But in general, the strong and improving financial strength of the GCC governments give them considerable room to maneuver.[13]

Catalyst of Microeconomics

In this strongly growing economy of the GCC region, corporations prospered and grew to new highs. This growth comes from a variety of sources. Banks have expanded their activities and made good returns, as noted earlier. Real estate developers embarked on large-scale residential and commercial developments. Infrastructure and investment development projects also helped small and local business activities and created long-term employment in many sectors of the economy.

Subsequently, the development was crowned by a more active involvement of global financial institutions in the region, primarily via operations in Dubai. This created more market makers of local stock markets and resulted in the launch of investment research on companies.[14] A vital supportive factor is the strategy of "peripheral growth" in neighboring emerging markets in the wider Middle East and North Africa (MENA) and Indian Subcontinent regions. Emaar Properties and the telecommunication giant Etisalat of the UAE are among the most active in cross-border expansion.

Risk Factors

Given the scale of the dependency of many GCC corporations (especially in the UAE, Qatar, and Bahrain) on real estate and its supporting services, fears have surfaced over the risk of future oversupply in the residential and commercial developments. Any slowdown in demand could create supply-demand disequilibrium, resulting in a correction that could in turn have a negative impact on

---

[12] Babu Das Augustine, "UAE Talks Tough on Price Rises as Pressure Mounts," *Gulf News*, 3 December 2007.
[13] Moody's Investors Service, "Global Credit Research, Potential Changes in the GCC Exchange Rate Policies," January 2007.
[14] Andrew Howell and Shakir Iqbal, "Investing in the Middle East," Citigroup Global Market, Equity Research: Citigroup, 16 November 2007.

other parts of the economy as well as on the good of corporations and enterprises.

THE ROLE OF *SHARI'A*-COMPLIANT DEBT-BASED INSTRUMENTS IN THE GCC

Islamic debt-based instruments now make up a considerable percentage of the region's debt market. In the UAE, semi-government investment corporations—largely investing in real estate—such as Nakheel and Emaar are tapping into the *sukuk* market. This pattern is also experienced in Qatar, Bahrain, and Saudi Arabia. The Dubai International Financial Center's (DIFC) investment arm, DIFC Investments, had listed a US$1.25 billion *sukuk* issue in the Dubai International Financial Exchange (DIFX). The five-year issue has attracted more than US$2 billion in orders. More than two-thirds of the subscriptions came from outside the Middle East region, with 54 percent of subscribers being banks and 35 percent being fund managers.[15] Table 1 charts the recent *shari'a*-compliant corporate issues in the GCC. The GCC total issues of *sukuk* in 2007 amounted to US$16.2 billion. This represents 19 percent of the worldwide total US$87.4 billion issues. The trend is expected to continue over the next few years.

Two observations can be made here. First is the growing Islamic mortgage finance market, which creates increasing *shari'a*-compliant capital requirements in the region. The demographic change in the region and the land law reforms created numerous demands for homebuyers, in particular from expatriates, who were denied this right of ownership in the past. Statistics that might indicate the size of this market in the region are unavailable, but individual countries have estimated their needs on varying methodological forms. The value of mortgages in the UAE nearly doubled to $12.5 billion in the first half of year 2007.[16] The largest potential remains with Saudi Arabia due to its size and population. No accurate figures are available to determine the true current demand for mortgage finance, but housing finance is estimated at a mere 2 percent of the GDP.[17] The second is the growing demand for project finance in the region. Governments continue to

[15] IntelliNews, "Islamic Bond Report," July 2007.
[16] *Gulf News*, Gulf Annual Banking Review, November 2007, p. 31.
[17] Ibid.

announce new mega-projects in the oil, gas, and petrochemical sectors, as well as in real estate and infrastructure development. Equally, the increasing role of the private sector in the GCC infrastructure created significant demands for *shari'a*-compliant financing. Traditionally, the dominant family-owned private sector advocates *shari'a*-compliant investment. History tells us that almost all the Islamic banks were started by private investors who preferred their business to be financed in compliance with *shari'a*.

Table 1: GCC Islamic Corporate Issues: 2007

Issuer	**Coun-try**	**Lead Manager/ Bookrunner**	**Type of Issue**	**Value in US$ million**
Tamweel PJSC	UAE	Barclays Capital	Exchange-able *Sukuk*	300
Jebel Ali Free Zone FZE (JAFZ)	UAE	Barclays Capital Deutsche Bank Dubai Islamic Bank Lehman Brothers	*Sukuk Al-Musharaka*	2,042
Dubai International Fin Center	UAE	NA		1,000
The Nakheel Group	UAE	JP Morgan	Exchange-able *Sukuk*	750
RAK Properties	UAE	NA	*Sukuk*	1,500
Dana Gas	UAE	JP Morgan	*Mudaraba*	1,000
Omniyat Holdings	UAE	NA	*Sukuk*	150
Ras Al Khaimah Investment Authority	UAE	Credit Suisse HSBC Amanah National Bank of Dubai	*Sukuk Al-Wakala*	325
Thani Investment Group	UAE	Emirates Islamic Bank Liquidity Management Center	*Sukuk Al-Musharaka*	100
Total UAE Issues				**7,167**
Saudi Basic Industries Corp. (SABIC)	S. A.	NA		1,336

Saudi Electricity Company (SEC)	S. A.	-		1,336
Zamil Group Holding Company	S. A.	-	*Sukuk Al-Ijara*	1,000
Dar Al-Arkan Real Estate	S. A.	-		1,000
Total Saudi Arabia Issues		**-**		**4,672**
Kuwait Resorts Company	Kuwait	Kuwait Financial Center	*Sukuk Al-Ijara*	50
Abyaar Real Estate Development	Kuwait	Merrill Lynch	*Murabaha*	700
Total Kuwait Issues				**750**
Doha Bank	Qatar	Doha Islamic	*Sukuk*	1,000
Qatar Real Estate Investment Company (Alaqaria)	Qatar	NA	*Sukuk*	270
Qatar Real Estate Investment Company (Alaqaria)	Qatar	-	*Sukuk*	300
Barwa Real Estate	Qatar	-	*Sukuk*	800
Total Qatar Issues		**-**		**2,370**
Bahrain Islamic Bank	Bahrain	-	*Sukuk*	1,000
Gulf Holding Company	Bahrain	-	*Sukuk*	NA
Bahrain Financial Harbor	Bahrain	Liquidity Management Ctr	*Sukuk Al-Ijara*	250
Total Bahrain Issues				**1,250***
Total GCC Issues				**16,209**

Source: Utilized different sources including IFIS's *Sukuk* Report, 2007.
* not including the Gulf Holding Company.

THE NEED FOR ISLAMIC SECURITIZATION OR *SHARI'A*-COMPLIANT INSTRUMENTS

A recent report reveals that the issuing of asset-backed Islamic bonds is likely to surge in the Gulf as growing assets and new laws allow many of the region's rapidly expanding firms to borrow more cheaply.[18]

Asset-Based Versus Asset-Backed

Most of the issued *shari'a*-compliant bonds and *sukuk* have been asset-based. Their returns are derived from underlying assets to comply with Islam's ban on interest. However, note holders only have recourse to the borrower, not the assets, in case of a default. On the other hand, in asset-backed and securitized bonds, including *sukuk*, the note holder has recourse to the assets, potentially making the debt more secure. The assets used in a securitization can be rated independently of the borrower, giving their bonds a higher debt rating than for the borrower themselves, making borrowing cheaper. Moody's senior credit officer, Phillip Lotter, claims "the structure is particularly suited to firms with significant assets, or those hoping for credit enhancement over a lower rating the company itself might otherwise achieve."[19]

STRUCTURES OF *SHARI'A*-COMPLIANT ASSET-BACKED INSTRUMENTS

Shari'a-compliant asset-backed notes (*sukuk*) are generally issued by sovereign governments, banking institutions, and corporate enterprises. The commonly used types or structures are: *sukuk al-ijara*, *sukuk al-murabaha*, *sukuk al-mudaraba*, and *sukuk al-musharaka*. Figure 1 illustrates the structure of the *ijara sukuk*, while Figure 2 shows the basic Islamic securitization structure.

[18] "Islamic Securitisation Market in Gulf Set for Massive Expansion," *Reuter*, 16 August 2007.
[19] Ibid.

Figure 1

The Structure of *Ijara Sukuk*

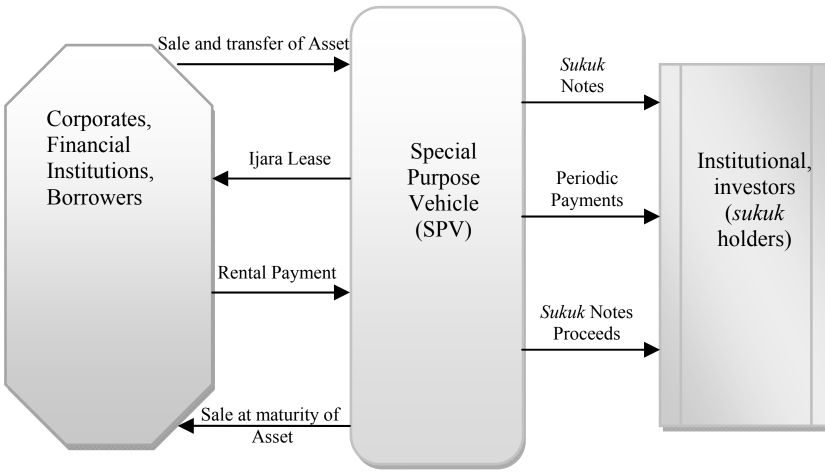
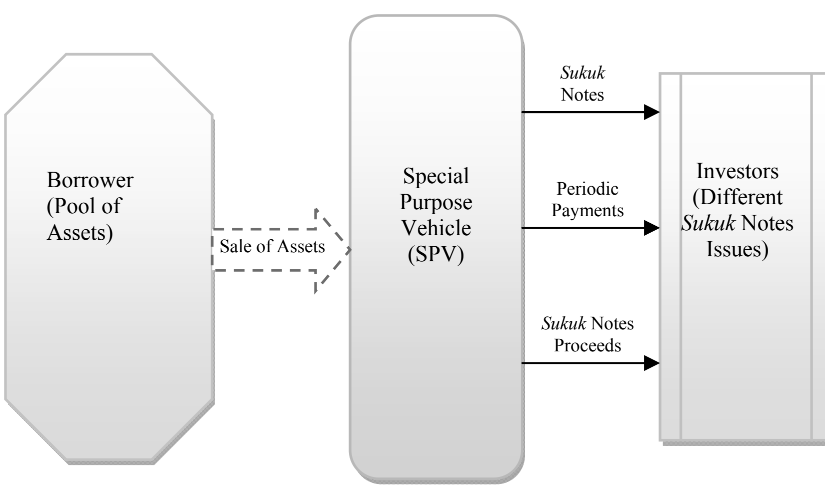


Figure 2

Basic Islamic Securitization Structure



A milestone development in the region is the recent launch in of the Emirates National Securitization Corporation (ENSC), the UAE's debut in asset-backed securitization. The firm is a specialized structuring and advisory organization focused on the securitization and structured products arena of the international capital markets. ENSC has structured two major asset-backed securities including Tamweel Residential ABS. The issue is the first internationally-rated, residential asset-backed securitization issued in the Middle East.

REGULATORY AND COMPLIANCE ISSUES

The growth opportunity, as well as the challenges facing the rise of the Islamic securitization market (ISM) in the global financial market, have raised public policy issues in the jurisdictions in which they operate and internationally. These have led international standard setters, national regulatory authorities, law firms, policy makers, and academics to examine various aspects of Islamic financial systems and institutions, each from their own perspective. Focus has been directed notably on Islamic financial institutions' (IFIs) risk management practices, the broad institutional environment in which they operate, and the regulatory framework that governs them.[20] In the GCC, for instance, the mortgage finance market offers great potential for asset-based securitization finance. What is required from the GCC governments is to improve laws and regulations that govern land ownership by foreign entities or investors. The land registry laws and regulations cause great concern for rating agencies, investors, law firms, and issuers alike. The Government of Dubai has made strenuous efforts to introduce new land registry laws that conform to international best practice and cater to local demographic requirements. Similar work has been done in Abu Dhabi, Qatar, Bahrain, and to a lesser degree in Saudi Arabia. The challenge is to sustain growth in this important sector and provide the necessary regulatory framework that ensures its integrity and growth.

The Islamic finance industry in general has been positively engaged in dialogue and debate aimed at educating investors, issuers, and stakeholders of its merits and value propositioning. More importantly, the industry policy makers set practice standards in line with international best practices. Equally, international regulators recognized the Islamic finance industry as a major economic driver not only in the Muslim world but also in Europe, the United States, and

---

[20] Dahlia El-Hawary, Wafik Grais, and Zamir Iqbal, *Regulating Islamic Financial Institutions: The Nature of the Regulated*. Washington, DC: The World Bank, 2004.

elsewhere in the world. Michael Ainley of the Financial Services Authority (FSA), UK, noted that "what is important for the wider acceptance of Islamic banking in developed countries is the harmonization of standards . . . the FSA is happy to participate in discussion seeking to reconcile Islamic and Western standards."[21] Rodney Wilson asserts that "many Western bankers view Islamic finance as a curiosity, and perhaps even a business opportunity . . . it can be regarded as an area in which those from the West can engage in dialogue with Muslims."[22]

Another important factor that improved regulatory systems in the region is the creation of an onshore, free zone financial center in Dubai. The Dubai International Financial Center's initiative led to greater change in the region. The industry's view is that many other countries in the GCC responded to legal and regulatory changes introduced by the Dubai International Financial Center. Saudi Arabia's new Capital Market Authority (CMA) set another example of introducing international standards in the region. Bahrain Monetary Agency (BMA) revamped to become the Central Bank of Bahrain (CBB) and introduced a new regulatory framework including the Islamic business rules. Oman has similarly established a new financial regulator in the country, the Capital Market Authority (CMA). Qatar Financial Center (QFC) is perhaps the most obvious response to Dubai International Financial Center.[23] The difference is that the Dubai International Financial Center (DIFC) is a free financial zone that is regulated independently by Dubai Financial Services Authority (DFSA). The other GCC regulators tend to perform the role of a single regulatory system in each country.

Moreover, it is also evident that the Islamic finance industry is working on greater harmonization in *shari'a* research and *fatawa*, which could lead to standardized contracts and better understanding among investors, issuers, regulators, and stakeholders at large. This should make the task of compliance much easier than in the current situation.

---

[21] Interview with Michael Ainley, the FSA, UK, *Gulf News Quarterly Financial Review* 3, August 2007, pp. 12–15.
[22] Rodney Wilson, "Where East Can Meet West in Warm Embrace," *Gulf News Quarterly Financial Review* 3, August 2007.
[23] Niall O'Toole and Ashley Painter, "Pursuing Excellence," *Gulf News Quarterly Financial Review* 3, August 2007, pp. 19–20.

CREDIT RATING AND RISK ASSESSMENT

A number of questions arise when we consider corporate credit rating (CCR) or issue rating and risk assessment in the GCC. How would corporations and governments benefit from seeking lengthy, costly, and difficult rating processes? Is it worth it? There has been a lot of development as far as the practice is concerned. GCC corporations and government sovereigns sought issue-ratings to meet international standards and requirements when they consider issuing securities in the international financial marketplace. Early in 2008 Moody's Investor Services established their MENA office in the Dubai International Financial Center (DIFC) and Standard & Poor's was set to make a similar move by the end of 2008. However, what is important for the GCC corporations is to continue improving their management systems and corporate governance frameworks. The latter is lacking in almost all of the GCC enterprises as well as in the Middle East in general. The Dubai International Financial Center envisaged the importance of corporate governance and boldly set up the Institute of Corporate Governance—Hawkamah. The Institute is working with international organizations such as the World Bank's International Financial Corporation (IFC) to develop a framework that works for the MENA region and to adopt the international best practice in corporate governance. The Hawkamah has already embarked on an educational program and a series of workshops in the UAE and elsewhere in the region.

Another important factor is that most rating agencies view *shari'a*-compliant instruments as being no different from their conventional counterparts. Fitch Ratings considers that the majority of risks in *sukuk* instruments are no different from those seen in the bond structures. However, it claims that *ijara sukuk* will likely be the preferred choice by corporations.[24] What matters more to the rating agency is whether the lease obligation in *sukuk* structures ranks equal to the issuer's other conventional debt obligations.[25] Moody's view is no different. Its rating process connotes that "the building blocks of finance are the same: Cash flows, Risk, Return, Losses, Contracts, Rights, Obligations,

---

[24] Fitch Ratings, "Demystifying Corporate *Sukuk*," Fitch Special Report, March, 2007.
[25] Ibid.

Assets, etc."[26] Moody's approach to rating mortgage-based securities in the wider region of Middle East combines the use of Moody's Individual Loans Analysis (MILAN) model for portfolio analysis—which determines the credit enhancement relating to specific category—and a cash flow model such as Moody's Analyser of Residential Cash Flows (MARCO). Each of the markets requires specific parameters and inputs, reflecting, for example, potential changes in property prices, regional concentration, and the length and cost of foreclosure procedures.[27] In a recent industry-briefing event organized by Standard & Poor's Corporate Ratings in GCC, the rating agency emphasized its methodology in two broad categories, business risk and financial risk. The rating agency also considers corporate governance, country risk, and ownership structures as vital parts of the process.[28] In its second quarter report, the rating agency raises concerns about the lack of investment risk management among Middle Eastern issuers.[29]

The Fitch ratings recently assigned the Government of Abu Dhabi a long-term issuer default rating of AA, just two notches away from the best possible rating of AAA. It made the Emirate the highest-rated sovereign in the Gulf.[30] Likewise, Moody's Investor Service provided significant sovereign and corporate rating services. Table 2 shows the GCC demand for rating while Table 3 lists recently rated corporations in the region.

---

[26] Khalid Howladar, "Rating *Shari'a Sukuk* Workshop," DIFX Academy, Dubai, November 2007.
[27] Moody's Investors Service, "Moody's Approach to Rating RMBS in Emerging Securitisation Market—EMEA," June 2007.
[28] Peter Tuving, "Corporate Ratings in GCC Workshop," Presentation at Standard & Poor's Conference, Dubai, United Arab Emirates, April 2007.
[29] Standard & Poor's, "Middle East Outlook," *Standard and Poor's Quarterly Report*, Second Quarter 2007.
[30] Charles Seville, "Setting Benchmarks for Growth," *Gulf News Quarterly Financial Review* 3, August 2007, pp. 32–34.

Table 2: GCC Demand for Rating

Country	Bank	Corporate	Sovereign	Securitization	Total	New 07
Bahrain	8	1	3	0	12	1
Kuwait	9	1	2	0	12	2
Oman	6	1	2	1	10	3
Qatar	3	6	2	0	11	2
Saudi Arabia	11	3	2	0	16	4
UAE	13	10	3	3	29	12
Total	**40**	**22**	**14**	**4**	**90**	**24**

Source: Moody's Investors Service, 2007.

Table 3: Moody's Recent GCC Ratings

Country	**Corporate**	**Rating**	**Country**	**Corporate / Govt.**	**Rating**
Bahrain	Golden Belt 1 *Sukuk* Company	Baa1	**Saudi Arabia**	Saad Group Limited	(P) Baa1
				Saad Trading, Contracting Fin. Servicing Company	Baa1
Kuwait	Boubyan Bank	Baa2		Saudi Basic Industries Corporation (SABIC)	A1

	National Industries Group Holding NIG	Baa2		Saudi Orix Leasing Company	Ba1
Oman	Oman Power & Water Procur. Co	A2	**UAE**	Abu Dhabi Government	Aa2
	Bank Dhofar	A3		DIFC Investments	A1
Qatar	Qatar Fertiliser Company (SAQ)	Aa2		DP World	A1
	Qatar Real Estate Investment Co.	A2		Dubai Electricity & Water Authority	A1
	-			Dubai Holding Commercial Operations Gr LLC	A1
	-			Dubai *Sukuk* Center	A1
	-			EMAAR Properties	A3

Source: Moody's Investors Service.

CONCLUSION

Although the Islamic securitization market is in its infancy stage, the GCC capital market—given its current strong economy and future potential—offers a significant incubator platform for growth and development of innovative and highly sophisticated products. The relatively quick globalization of *sukuk* issues and its diversified participation as a new investment asset class could be repeated in the *shari'a*-compliant asset-backed instruments. The prospect of its growth and integration into the mainstream of international capital market depends on three main factors:

1. GCC financial regulators continuing to improve legislation and business rules that match international financial markets, including property laws, arbitration and enforcement laws, corporate governance, and risk management in investment, to name a few.

2. Policymakers continuing to encourage—through economic incentives—the participation of global financial institutions in the structuring, underwriting, and issuing of these instruments.

3. GCC financial institutions could leverage from the peripheral growth opportunities offered by adjacent emerging markets in the Indian subcontinent and MENA. Historically, the GCC built strong political, social, and economic ties with countries of the two regions. Although regulatory and investment legislation in these countries may not meet international investors' expectations, a local GCC corporate guarantor can readily be structured into the deal to overcome this problem.