

Pomegranate
The Middle East

Egypt finance Sukuk it and see

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“LAWS are like sausages,” remarked Prussia’s “Iron Chancellor”, Otto von Bismarck; it is best not to ask what compromises go into them. The Muslim Brotherhood, which controls both Egypt’s presidency and its acting legislature (the creation of a full parliament awaits a new electoral law and elections), has been trying to design what might be called pork-free legislation, in accordance with Islamic *sharia*. But it is meeting resistance from an unexpected quarter, fellow Islamists.



Egypt’s economy is sinking, and its government desperately needs finance. The Brothers are not only keen to show constituents that they are doing something to stem the slide, but that they are putting a more “Islamic” stamp on the country. Since last June, when Muhammad Morsi, the Brotherhood’s candidate, won the presidential elections, they have touted the issue of *sukuk* (<http://www.economist.com/news/finance-and-economics/21569050-malaysia-leads-charge-islamic-finance-banking-ummah>), a form of bond that avoids paying fixed interest (which many interpretations of Islamic law forbid) by making its holder a theoretical partner in a specific undertaking, and therefore eligible for a fixed share of profits, as a *sharia*-compliant panacea.

Yet enacting a law to allow for issuing *sukuk* (a plural word; the singular is *sakk*) has proven a headache, and one partly of the Brothers’ own making. Last December, Mr Morsi rushed a new constitution into effect over the objections of all but his Islamist allies. One clause that especially annoyed secularists granted a vague degree of legislative oversight to the religious

scholars of Al Azhar, Egypt's 1,000-year-old seat of Islamic learning. That clause is now causing trouble to the Brothers.

Last month, the Shura Council, a previously weak upper house of parliament given temporary full powers by the new constitution (despite the fact that fewer than 10% of Egypt's electorate bothered to show up for its election last year) announced it had completed a *sukuk* law. The debate in the legislature had been fierce. The strongest objections came not from the handful of secular members, who tend to see Islamic bonds as simply an additional investment choice. It came instead from the Brothers' erstwhile allies, the arch-fundamentalist Salafists, who protested both on nit-picking religious grounds and due to nationalist fears that *sukuk* might become a back-door route to selling off Egyptian state assets to foreigners.

Outnumbered in the legislature, the Salafists threatened to challenge the law before Egypt's courts. They may not have to. The religious scholars of Al Azhar also objected, insisting, to the Brothers' chagrin, on their constitutional right of supervision. The Shura Council grudgingly agreed, but to its discomfort the clerics have torn the new law apart, demanding a dozen changes to the wording. "We will not be a party to the selling of Egypt," declared one senior scholar to an Egyptian newspaper.

Egypt's finance minister, Al-Mursi Al-Sayed Hegazy, says *sukuk* issuance could generate **\$10 billion a year** (<http://www.acus.org/egyptsource/implications-egypts-sukuk-law%20>) for the country. That is highly unlikely any time soon, considering the current junk status accorded by ratings agencies to Egypt's ordinary bond issues. But given the severity of the country's economic situation, the protracted IMF negotiations over a possible \$4.8 billion loan (which Salafists have also attacked despite a proposed interest of only 2%), and growing global demand for Islamic banking, the scholars of Al Azhar might be wise to spare the hair-splitting. Egypt right now needs every piastre of money it can find.