Did Kazakhstan make the right choice to opt for a US$500 million Sukuk issuance instead of a Eurobond? Will this become a reality, and if so, what are the factors that may hinder the issuance?

The Kazakh ministry of finance believes it can raise funds more cheaply through a Sukuk than by conventional bond issuance by widening the pool of potential investors to include those from the Gulf seeking Shariah compliance. The law has been changed to allow for the creation of the special purpose vehicles necessary for Sukuk and a number of state assets have been identified for the backing. The aim is to raise US$300 million.

Investors from the Gulf are likely to be cautious, as the credit rating of Kazakhstan debt by Moodys is 'Ba2/D' and the country was put on negative watch by S&P. The corruption index is 6.5, although the climate is improving and Kazakhstan was ranked by the World Bank as the 63rd best place to conduct business from a list of 183 countries.

Given these risks, the success of the Sukuk will depend on the terms offered. There is reason for optimism about the future for resource rich Kazakhstan, but attractive returns will be required to raise US$300 million, probably not much different to those for conventional bonds.

PROFESSOR RODNEY WILSON: Director of postgraduate studies, Durham University

Let's remember that banks in Kazakhstan bloated themselves on something like US$15 billion in Eurobond issuances during the boom years of 2002 through 2006. That all hit a hard wall by January 2009, when it was exposed like in Dubai and at Gulf Finance House where they used short term money to invest in very long term and sometimes dubious projects. Bankruptcy was the only inevitable result. Thankfully, the government in Kazakhstan looked at the debt monster and did not blink. Rather than capitulate they organized a very orderly and disciplined selective default solution on all the Eurobond debt.

While the story is not over we can all admire the achievements they have made so far. One has to look at Kazakhstan's Eurobond experience to fully understand why they dropped Eurobonds and now embrace Sukuk for this new round of funding. The Kazakhstanis are inherently wise, I think, with this choice. They know what it's like to be hostage to European debt markets. They know Muslim investors will not hold them to any different level of accountability, but at the same time they will be borrowing from people with cultures much closer to their own. And, from my many very positive experiences on the ground in Almaty and Astana, I can tell you the entire nation is witnessing an Islamic renaissance. It is truly impressive to visit a mosque on Friday, seeing whole families going in for their prayers. I for one am very pleased to see Kazakhstan go the Sukuk route. For them the other Muslim countries are a more reliable long term partner than the Eurobond market, and given their hard-won experience in issuing debt they know they must stay closer to their core allies in the long term.

JOHN A SANDWICK: Islamic wealth and asset management

Given the shift in portfolio assets now taking place from the developed world to emerging markets, a Eurobond issuance by Kazakhstan probably would have spoken more directly to a larger number of prospective investors. But Kazakhstan may be looking to address Shariah sensitive investors in the wake of its difficult experience with western institutions during the credit crisis. Ultimately, the global issuance coordinator decides, perhaps in consultation with bookrunners, who may be the best prospects for such an issue.

Investors in the Sukuk will assume frontier-market risk in an environment that has become notably more friendly to such targets this year. We are seeing similar trends elsewhere in the developing world, where issuance markets have reopened as global markets have stabilized. In this case, however, Kazakhstan will see pricing on the Sukuk ebb-and-flow, based on prospects for the hydrocarbon business to which the underlying economy is heavily exposed.

Because Kazakhstan has moved to a fixed peg arrangement (against the US dollar) from a managed float, it now has more flexibility in addressing investor concerns. Ultimately, it boils down to a balance between (1) the cost of capital and (2) the ability to attract investors. Kazakhstan will presumably offer a structure than is a strong complement to other existing Sukuk positions now open in the market.

DOUGLAS CLARK JOHNSON: CEO, Codexa Capital

Next Forum Question

Japan's tax reform proposal is intended to revive its economy. What impact will the reforms have on the global Islamic finance industry if they come through?

If you would like to air your views on the next Islamic Finance Forum Question, please email your response of between 50 and 300 words to Christina Morgan, Forum Editor, at: Christina.Morgan@REDmoneygroup.com before Monday, 27th September 2010.