

The simmering Spanish market

Without a doubt, interest toward Islamic finance is growing in Spain. This has not led to anything concrete yet but more and more companies, particularly the ones with clients from the Gulf, are starting to take a closer look at Shariah compliant products and how they are structured. MARC ROUSSOT reports.

If Islamic finance picks up in Spain, it would be mainly driven by the needs of the wholesale market. In recent times, many trading, investment, construction and engineering companies and banks and not forgetting legal and consulting firms have been showing some interest in Islamic finance.

"We have been receiving an increasing number of questions and requests about Islamic finance, occasionally asking for financial institutions offering Shariah compliant products in Spain, but in most cases, simply requesting information about Islamic finance in general," shares Olivia Orozco de la Torre, the coordinator of education and economics at Casa Arabe.

Questions have been arising as numerous Spanish companies and banks that have been operating in the Middle East for several years are now asked by their clients to make some of their operations in a Shariah compliant manner, according to Gonzalo Rodriguez, the general coordinator of the Saudi-Spanish Center for Islamic Economics and Finance at IE Business School.

The companies that are the most interested in Islamic finance are those dealing with Muslim countries, either in export transactions or in engineering and construction projects, confirms Jose Antonio Rodriguez, a partner at Marimon Abogados, a member of ISFIN, a global Islamic finance legal network. "In some cases, the financing of the project is Shariah compliant and Spanish companies are not used to these schemes, therefore, [they] have to look for advisory," he says.

In such cases, Spanish companies have found assistance either from specialized legal or consulting firms, or from official export agencies like Instituto de Crédito Oficial and Instituto Español de Comercio Exterior. The Spanish Company of Export Credit Insurance is

also giving support in structuring Islamic finance procedures.

"Only a reduced group of SMEs, connected to some Muslim communities in Spain, are looking to Islamic products out of religious motivations," adds de la Torre, who also believes that some corporates decided to look to alternative sources of capital and foreign direct investments because of last year's economic crisis. The few companies and financial institutions that are interested in attracting alternative sources of capital are mainly looking at Sukuk, while SMEs are more interested in Takaful and Islamic mortgages, among other Shariah compliant products, she affirms.

Spanish banks are also realizing the growing importance of Islamic tranches in syndicated financing. As a result, a number of them are actively participating in think tanks and research groups to adapt Shariah compliant products to the Spanish law, shares Antonio Rodriguez. "It would soon be possible to find Spanish banks in Shariah compliant syndicated financing agreements," he believes.

The lifeless retail market

One would have thought that Spain's shared history with Islam would have helped the development of Islamic finance in the country. It is not the case. "In Spain, the retail market is not developed. There is just no demand," affirms Celia de Anca, the director of the Saudi-Spanish Center for Islamic Economics and Finance at IE Business School. Contrary to other European countries like the UK, France or Germany, the majority of Spanish immigration comes from Latin American countries. And even though a small portion of migrants are coming from Morocco, Islamic finance has just started there.

"The lack of demand from the retail market does not push any political party to take a closer look at Islamic finance," explains de Anca, who is not aware of any commission studying the different ways to accommodate Islamic finance in Spain.

Antonio Rodriguez agrees that accommodating Islamic finance is not a priority for the Ministry of Finance. "Unfortunately, present circumstances

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— difficulty in defining a majority in the parliament and the public perception on any issue related to Islam — are not at the best to hope that there will be a change in the shorter term," he says.

Yet, authorities are fully aware of the potential of Islamic finance and the growing need from corporates. Bank of Spain has been one of the most active institutions in the field. "In May 2016, during a seminar organized in Madrid by the IFSB, Bank of Spain and Instituto de Empresa, the governor of Bank of Spain expressed his conviction on the necessity to work on adapting Shariah compliant products to the Spanish law. That being said, it is difficult to find any concrete results from this seminar," shares Antonio Rodriguez.

"I think that we will still need some more time before we see significant advances in Islamic finance in Spain," agrees de la Torre, who believes that in the next five years, more Spanish companies and financial institutions will tap the Islamic finance industry. However, this will take place outside of Spain or while working with partners and projects in the Middle East and North Africa.☺