



Doha skyline: the wealthy emirate has raised its international profile but is also seeking Islamic legitimacy
Getty

ADCB rewarded for transparency

Markets watch

After the lender came clean about dud loans, the stock soared 43%, writes Robin Wigglesworth

While the shares of most banks in the United Arab Emirates have picked up in the second half of the year, in spite of ongoing worries over bad loans, one lender in particular has shone.

Even after a modest correction in November, shares in Abu Dhabi Commercial Bank (ADCB) have soared 43 per cent so far in the second half of 2010, compared with the 9 per cent gain of the Abu Dhabi Stock Exchange (ADX) in the same period. The recent performance of ADCB's stock is largely a reward for its openness over the extent of its dud loan and investment portfolios, say analysts and fund managers.

The lender's shares started rallying soon after the lender on August 1 reported a Dh531m net loss in the second quarter, considerably below analysts' expectations, and revealed that it had a Dh6.6bn total exposure to Dubai World, the emirate's most troubled conglomerate.

"They have come clean, and been really honest about their exposures. That's what it comes down to, and the markets are giving them credit for that," says Saleem Khokhar, a senior fund manager at National Bank of Abu Dhabi.

ADCB continues to trade at about half its peak value, after a series of bruising financial blows during the financial crisis, but its shares have since recovered some of the ground, and have

significantly outperformed local banking rivals.

The ADX sub-index of banks and financial companies has gained only 11 per cent so far in the second half of the year, while the Dubai Financial Market's banking sub-index has climbed about 14 per cent.

The Abu Dhabi-based bank's rally should be food for thought at many other lenders in the UAE, where transparency and disclosure are often far from perfect, and uncertainty regarding the extent of non-performing loans (NPLs) is deterring some investors.

Provisions for bad loans surged 41 per cent in the 12 months up to the end of August to Dh37.2bn (\$10.1bn), according to the central bank, but the true level of bad debts could be higher.

Analysts say many banks have preferred to extend loans rather than book losses, but this ties up valuable capital, and just pushes potential problems into the future.

Transparency on dud loans and investments is likely to improve when banks report their full-year earnings early in 2011. The UAE central bank also recently issued fresh guidelines that analysts say will standardise and improve accounting on NPLs.

However, that could lead to unpleasant surprises at banks that have continually pushed back their forecasts for when NPLs will peak. "Banks would definitely do a lot better if they covered and were more transparent about the breakdown of the loan books and non-performing loans," says Raj Madha, a senior banking analyst at Rasmala. "Banks should, if they can, take a big hit and get it over with, rather than just provision gradually quarter after quarter."

Cleric sets Qatar a test of faith

A leading scholar's attitude to the west highlights the choice faced by the increasingly progressive emirate, says David Lepeska

During a recent Friday sermon Sheikh Yusef al-Qaradawi, arguably the world's leading scholar of Sunni Islam, uttered a few words that drew little notice internationally but could have big implications for future relations between Christians and Muslims.

"I was for the possibility of bridging the gap between the east and the west, but recently I have changed my mind on this issue, especially since the west wants to impose its values and traditions on us," Mr Qaradawi told his congregation at Doha's Omar bin Al Khat-tab Mosque in a televised sermon in October.

"West is west and east is east. They do not recognise or follow our traditions and customs, so we should not follow theirs," Mr Qaradawi said, echoing Rudyard Kipling, the British author.

Mr Qaradawi, 84, emigrated to Qatar in 1961 to avoid persecution in his native Egypt. His many fatwas, or religious decisions, are passed on to millions of Muslims worldwide via his long-running Al Jazeera talk show and Islam Online, a website. In 2008 Foreign Policy magazine ranked him the world's third most influential intellectual.

In his first book, published in 1960, Mr Qaradawi instructed Muslims on how to maintain their religion while living in the US. But he has subsequently denounced secularism, capitalism and Zionism, and

these statements mark a further hardening of attitude, observers say.

"He has never been one to build bridges with the west but this marks a great change," says Bettina Gräf, author of *Global Mufti*, a 2009 book on Mr Qaradawi. "He considers himself a moderate in the many different meanings of the word, but being moderate would – in my opinion – include not to call for such divisions these days."

As Qatar looks to burnish its Islamic credentials, the views of Mr Qaradawi are also increasingly at odds

'This sort of thing could eat away at the brand the country has been forging in recent years'

with the emirate's growing reputation for progressiveness and engagement.

Aside from diplomatic initiatives in Lebanon and Darfur, Qatar is home to the US al-Udaid airbase and has hosted an Israeli trade mission.

"This sort of thing could begin to eat away at the carefully constructed brand that Qatar has been forging in recent years," says David Roberts, who is writing a dissertation on Qatari foreign policy. "Qatar certainly wouldn't want any kind of 'Islamist' stigma."

To enhance its status as

an international centre, the Qatar Foundation, which is run by the emir's wife Sheikha Mozah bint Nasser al Mised, manages a campus on the outskirts of Doha that hosts branches of six US universities.

Last year, the foundation opened the Qaradawi Center for Islamic Moderation and Renewal at an Islamic graduate school on the same campus. And this autumn the foundation brought in Tariq Ramadan, a prominent Muslim intellectual based in Europe, to teach a course on civil society and democracy in Islam.

Prof Ramadan, 48, is perhaps more in keeping with the image that Qatar is trying to build. He was raised in Switzerland and came to prominence thanks to his writing on Islam and the west and an Oxford professorship.

"This will enhance Qatar's role as a leading centre of Muslim discussion and knowledge," says Mr Roberts. Qatar may also be trying to gain on its neighbour Saudi Arabia, home to the two holiest mosques in Islam, he says. "Reaching for Islamic legitimacy is a tactic that has a long history in the Middle East."

But even Prof Ramadan has not escaped controversy. From 2004 to 2010, he was not allowed to travel to the US on "ideological grounds", according to the US State Department.

Today, his books focus on how to be Muslim in western society. "We need to shift the mindset of what we can do," Prof

Ramadan said in a talk in Doha to promote his latest book, *Radical Reform*. "We should be critical while remaining faithful."

Such sentiments are unlikely to appeal to Mr Qaradawi. This year, Islam Online, the website with which he is associated, took a more conservative turn. Its Qatar-based management dismissed most of its Egyptian employees, who had gone on strike. Observers say that latterly Mr Qaradawi had little hand in day-to-day operations.

Where Mr Qaradawi has particularly riled his critics is in ruling that suicide

bombing is acceptable for Palestinians because, he says, all Israelis are soldiers. A few weeks ago, he boycotted a Doha interfaith conference because he opposes discourse with Jews. As a result of his views on suicide bombing, Mr Qaradawi is barred from travelling to the US and the UK.

Ms Gräf says Mr Qaradawi's new perspective could have a significant impact on young Muslims in Europe. "The majority would be more reflective," she says. "But of course there is a minority that may become more radical."

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Intelligent solution to the food crisis

News analysis

Quandary in which Arab states find themselves is not unusual, a leading academic tells James Drummond

When it comes to water and food management, Abu Dhabi and its Gulf neighbours should think twice about investing in agricultural land overseas and instead rely on international markets to meet their needs, according to a leading academic.

If they are going to invest they should do so in places where natural resources and the politics are favourable, such as eastern Europe and Ukraine.

Many regional states have embarked on a policy of investing in land in less developed parts of the world in an attempt to build secure food supplies. Under its ambitious "King Abdullah initiative", Saudi Arabia hopes to safeguard sources of wheat, rice, soybeans, corn and alfalfa.

Saudi Arabia and the UAE together now hold 2.8m hectares of agricultural land primarily in Sudan, Pakistan, Turkey and Indonesia, according to

a study by NCB Capital in March.

But Tony Allan of King's College, London says what the Gulf states are really doing is buying access to water rather than land.

Of the 210 countries in the world, at least 180 are net virtual water importers, including all the countries in the Middle East and North Africa, he points out. Virtual water is the water required to produce a commodity, food being very water intensive indeed. So the quandary in which Arab states find themselves is not unusual.

Singapore, with a population similar to many Gulf states, is "in a predicament even worse than Abu Dhabi" but is not rushing off to invest in overseas projects, Prof Allan says.

"Provided you have a moderately developed economy, you can easily afford to provide access to virtual water in the global system via the commodity trade. It depends on intelligent citizens having jobs with which they can buy food."

And in relative economic terms, Gulf states' exposure to volatility in the commodity market and the consequent need to invest in land overseas is not that great. "The proportion of household income... spent on food and water is negligible in the Gulf," Prof Allan

says. "If the Gulf states want to invest and go through all the risky and very demanding transactions of growing food, storing it, transporting it and trading it, then good luck. [But their] high priority should be investing in human resources."

During previous commodity spikes in the 1970s, which triggered similar fears over food security,

'Abu Dhabi should face challenge of getting everyone to consume sensibly'

Sudan was the favoured destination for agricultural investment by Arab states. The returns achieved in Sudan were negligible and the investment projects failed largely for political reasons that persist.

"In the past, farmland investment deals have had severe political ramifications when the local population is opposed to foreign acquisition of land assets," the NCB report notes drily. And if the priority is to reduce high levels of water use, patterns of consumption need to change. Consuming less means doing

things such as eating less meat. The NCB study says that between 1993 and 2003, per capita consumption of meat in Saudi Arabia, the UAE and Kuwait, the three largest regional economies, grew at an annual 2.2 per cent, compared with 1.3 per cent for cereals.

Beef, an important constituent of popular fast foods such as hamburgers, is a particularly heavy consumer of water. A ton of beef requires over 15,000 cubic metres of water to raise, more than three times the input necessary to produce a similar amount of poultry, according to academic research.

Foodstuffs such as beans, potatoes and wheat – even rice – consume far less water per calorie.

For Prof Allan, the priority is to concentrate on so-called small water – the water consumed at home and in workplaces – which typically accounts for only 10-15 per cent of total consumption. Building capacity to meet small water needs "is technically, economically possible everywhere", he says.

"Abu Dhabi is right to be thinking about food and food prices, but it is always going to be able to afford its food... It really should face the much more difficult challenges of getting everyone to consume sensibly."



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