Japan's private equity fund going well

JAPAN

By Dr Etsuaki Yoshida

On the 24th January 2019, Grooves, a web-based job matching company in Japan, announced its funding from INSPiRE-PNB Partners through an Islamic private equity fund called PNB-INSPiRE Ethical Fund 1 Investment Business Limited Liability Partnership.

In April 2014, INSPiRE, a Japanese private equity investment company, established the aforementioned Islamic fund with PNB Asset Management, a Japanese investment subsidiary of Malaysia's state-owned investment company, Permodalan Nasional (PNB).

The Islamic private equity fund, PNB-INSPiRE Ethical Fund, was well received by Japanese investors during the process of its formation.

Participating financial institutions in this fund include regional banks such as Oita Bank, Shonai Bank, Hiroshima Bank, Hokuto Bank, Ogaki Kyoritsu Bank, Juhachi Bank, Tohoku Bank, Michinoku Bank, Shiga Bank, Chikuhou Bank and a government-related agency named Organization for Small & Medium Enterprises and Regional Innovation.

Their main intention in participating in this fund is to assist their customers' overseas expansion, mainly to Asian countries, which may include Muslim-majority ones such as Malaysia and Indonesia.

INSPiRE established a business consulting company, named Respire, to facilitate borrower companies' investment and expansion in those countries. This 'consulting and investment' model was effective, especially for those SMEs based in rural areas in Japan that are the main customers of the aforementioned regional banks.

Backed by this, the fund has a track record of investment into a cloud-based data management company, Keepdata, and deep-learning service development firm ABEJA.

Grooves, which had welcomed investment from the fund, this time had

established a Malaysian subsidiary, and it will explore Asian businesses using capital raised from the Islamic fund via the Japanese headquarters.

Islamic finance is supposed to be (and should be) equity-oriented, according to the authentic economic thoughts of Islam.

In this regard, this deal is ideal because it is an equity investment from the fund to the recipient company, which will contribute to the development of the industry with the risk shared between the two parties. We look forward to further deals of this kind.

Dr Etsuaki Yoshida is the project associate professor at Kyoto University. He can be contacted at yetsuaki@gmail.com.

Kazakhstan expands central bank's supervisory powers — good or bad move?

KAZAKHSTAN

By Shaimerden Chikanayev

On the 1st January 2019, Kazakhstan promulgated certain changes in legislation that gave its central bank, the National Bank of Kazakhstan (NBK), enhanced capacity and introduced risk-based supervision of the financial sector.

More than 10 years have passed since the 2007 financial crisis, but Kazakhstan's financial sector still has not overcome its structural weaknesses, particularly in the banking system. Firstly, some Kazakh banks apparently still widely employ the practice of giving loans to de facto affiliated persons of either the shareholders or the bank's management. Secondly, the unwillingness of the banks' shareholders to inject additional capital into banks leaves the whole banking system of Kazakhstan open to the risk of undercapitalization. Thirdly, there was substandard regulation and supervision of the financial sector, because the NBK has historically been criticized for being reactive and generally being ineffective when it comes to supervising financial institutions.

As a result, in 2018 alone, three banks were deprived of their licenses by the NBK which asserts that these three banks carried out high-risk policies and had a significant share of dangerous loans.

To address the aforementioned issues, a law has been adopted beginning from the 1st January 2019 which introduced risk-oriented supervision over, inter alia, banks and insurance companies. The central element of the new supervision model is the so-called 'reasoned judgment' of the financial regulator on the quality of assets, cohesion of the financial institution's entities, the business reputation of executive staff and shareholders and the quality of the risk management system as a whole. The NBK is now guided, in particular, by forward-looking supervisory principles, ie the financial regulator aims to preempt or address the poor conduct of Kazakh financial institutions, so that risks and any associated harm do not materialize, or if they do, they do not cause significant harm to consumers or the financial market.

Interestingly, the financial regulator's toughened stance has already sparked displeasure among some supervised entities and there are strong concerns that some officials of the NBK may misuse new legal tools they now have to get rid of financial institutions that have fallen out of favor with them.

Shaimerden Chikanayev is a partner at Grata Law Firm. He can be contacted at schikanayev@gratanet.com.