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The World's Leading Islamic Finance News Provider

2024

ANNUAL GUIDE

Calm amid chaos

Even before we end a war, we start another one. It seems that 2023 was a tinderbox of troubles waiting to flare up at the slightest of flickers. The tinderbox that is the Israeli-Palestinian conflict flamed up as the Russian invasion of Ukraine rages on. All these while the planet is quite literally heating up as policymakers gather in Dubai at the 2023 United Nations Climate Change Conference or Conference of the Parties, more commonly known as COP28, in an attempt to hash out deals and policies to slow down global warning. The jury is still out on the efficacy of this year's summit hosted by the Islamic finance giant.

It seems trivial, crass even, to be highlighting the milestones and progress the global Islamic finance industry has achieved over the last year when so much suffering is still taking place. Geopolitical outbursts sent the financial markets roiling, just as world economies were hinting at a post-pandemic recovery. We are feeling the effects: the IMF projects a slowdown in global growth to 3% in 2023 and 2.9% in 2024, from 3.5% in 2022. And yes, inflation is still biting.

But, global inflation is also expected to slow down – from 8.7% in 2022, to 6.9% this year and 5.8% next year, according to the IMF. And, despite the shocks we have seen this past year (including the stunning collapse of Silicon Valley Bank, which triggered a string of other bank failures thereby threatening the stability of the global banking system), it has actually been not a bad year for both stocks and bonds. Some may even argue that it has been a good year.

Perhaps instead of chasing after high growth, we should shift our mindsets toward pursuing sustainability. Sukuk volumes, for example, declined this year. But, we did welcome some very promising deals including debut offerings from Egypt and the Philippines. There has been some good work on the product engineering front from both the sustainability and technology dimensions. Also, some legislative breakthroughs that may bode well for the industry.

You will read about the good and the bad, the peaks and the throughs of major sectors and jurisdictions from market experts and practitioners in this 2024 IFN Annual Guide. We are proud to be continuing the tradition of publishing the industry's longest-running annual publication on the global Islamic finance sector.

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Managing Editor & Director
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2024 is the year of consolidation for the Islamic finance industry

The global Islamic finance industry showed remarkable resilience in 2023 despite changing global macroeconomic dynamics underpinned by a slower than anticipated recovery from the impacts of the COVID-19 pandemic, the supply chain disruptions due to the Ukraine conflict and the global economic shocks of high inflation and growing sovereign debt.

This trajectory for the Islamic finance industry, according to most stakeholders, continues to be positive in 2024, although growth dynamics will remain concentrated in the key traditional markets of Saudi Arabia, Malaysia, the UAE, Kuwait, Indonesia, Turkiye and Pakistan, with more modest developments in emerging and new markets such as Egypt, Morocco, Oman, Nigeria, Senegal, Central Asia and Bangladesh.

The pace of development of the sector will be beholden to various factors — some completely beyond its control, namely geopolitical tensions, conflict, catastrophic events such as climate change, pandemics and natural disasters, and its associated food and fuel insecurity due to supply chain disruptions and price hikes.

The other major determinant is the volatility of global commodity prices especially crude oil, natural gas, crude palm oil, etc, on which many of the countries where Islamic finance is of systemic importance depend.

The growth dynamics of the global economy points to continued market volatility over the next year. The Autumn 2023 World Economic Outlook of the IMF/World Bank Group Global forecasts GDP growth to slow from 3.5% in 2022 to 3% in 2023 and 2.9% in 2024.

For developed economies, the expected slowdown is from 2.6% in 2022 to 1.5% in 2023 and 1.4% in 2024 due to stronger-than-expected US momentum but weaker-than-expected growth in the euro area. The good news is that emerging market and developing economies are holding their own, with growth projected to decline modestly from 4.1% in 2022 to 4% in both 2023 and 2024, primarily reflecting the property sector crisis in China.

The Islamic finance industry does not operate in a vacuum insulated from the vagaries of the global economy. On the contrary, it has become an important and growing niche market of the mainstream global financial system. It is against such a background that we look forward to a '***Year of Consolidation***' for the Islamic finance industry in 2024.

Increasing polycrises and manifold uncertainties means greater country, market, credit, investment, business and a host of other risks. This demands greater credit enhancement and risk mitigation solutions. ***The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC)***, as the only Shariah compliant multilateral insurer in the world, actively targets real impact and change in all its financing, the insurance policies it underwrites and projects it supports, and acts as a catalyst for private sector capital mobilization toward achieving the SDGs and net-zero targets.

We see the defining issues facing humanity and our member states clear and present. Here, the role of Islamic finance cannot be overstated. There is an urgent need for upscaling its interventions — in terms of reach, volume, size and funding, to enhance the impact on and the resilience of countries and communities to the challenges.

The importance of collaboration between governments, international agencies, multilaterals, banks, insurance companies, and with private capital through public–private partnerships similarly cannot be overstated, given that most governments do not have the resources

Oussama Kaissi is CEO of the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC).

from national budgets and tax bases to finance their development agendas. They rely heavily on public debt and concessional financing.

The '***Year of Consolidation***' means prioritizing much greater and meaningful involvement in several areas:

i) Dramatically upscaling Islamic climate finance through green Sukuk and green finance, especially in just and clean energy transition.
ii) Dramatically upscaling Islamic finance in food security, agribusiness and water resource projects, especially for rural farmers.
iii) Dramatically upscaling Islamic finance, especially Sukuk in infrastructure finance in transport, logistics, affordable housing, healthcare, education and other sectors.
iv) Dramatically upscaling Islamic finance involvement in fintech and digitalization in trade, agriculture, financial services, industry, commerce and wealth creation — at the same time to protect constituents against the multiple threats of cyber fraud, scams, hacking, etc.
v) Dramatically upscaling the role of Islamic finance in capacity-building, public administration and credit information to ensure better outcomes.

We look forward for the global Islamic finance industry, which remains dominated by fragmentation, to take on a much greater role in the aforementioned metrics. After all, one thing the industry does not suffer from is adequate capital, as well as liquidity, private wealth and other resources.

However, the availability of reliable information, up-to-date data, expert analyses and incisive comments on the latest and near-future development in the constituent segments of the global Islamic finance industry assumes an even greater importance.

The **IFN Annual Guide 2024** is one such information source which continues to build on its reputation of covering the estimated US$3.5–5 trillion Islamic finance industry projected to continue to grow by the major credit rating agencies at 10% per annum in 2024 as it did in the last two years.

The ICIEC looks forward to continuing to cooperate with IFN in 2024 — the 'Year of Consolidation' for the global industry!

AAOIFI's achievements in 2023: Advancing Islamic finance standards and global adoption

Syed Siddiq Ahmed *is the senior manager of standards implementation and regulatory authorities relations at the Accounting & Auditing Organization of the Islamic Financial Institutions (AAOIFI). He can be contacted at ssiddiq@aaoifi.com.*

Introduction

In 2023, AAOIFI made significant progress in advancing Islamic finance standards and promoting its global adoption. AAOIFI, based in the Kingdom of Bahrain, is a leading standard-setting body that plays a pivotal role in shaping the Islamic finance industry. Throughout the year, AAOIFI achieved several milestones, including the issuance of new standards, capacity-building initiatives, advocacy and awareness programs, strategic collaborations and the publication of their Footprint Report, among others. Some of the key accomplishments of AAOIFI in 2023 are discussed below.

Standards development

AAOIFI Shariah Board

AAOIFI Shariah Board in its 87th meeting held from the 28th to 30th September 2023 released the exposure draft standard on Sukuk, marking a significant milestone in Islamic financial regulation.

The draft standard was drafted by 20 eminent scholars from 14 countries representing all Islamic jurisprudential schools. The draft standard is the product of a rigorous and meticulous process that began in 2019, encompassing over 200 hours of work across more than 20 face-to-face and virtual sessions.

This development of the standard included efforts of the Sukuk Subcommittee and Advisory Committee and former Shariah Board members. Public hearings will be organized in jurisdictions, including Bahrain, Saudi Arabia, the UAE and Malaysia, to gather comments and feedback.

Written comments on the draft standard can be sent by the 31st December 2023, via email to Sharia@aaoifi.com. The draft can be accessed from this **link**.

AAOIFI Accounting Board

The AAOIFI Accounting Board (AAB) approved the exposure draft of the Financial Accounting Standard (FAS) titled 'Financial Reporting for Institutions Operating in Hyperinflationary Economies'. This draft aims to address the unique challenges faced by financial institutions operating in economies experiencing hyperinflation. By providing clear guidelines for financial reporting in such conditions, AAOIFI seeks to enhance transparency and comparability in financial statements.

AAOIFI also issued the exposure draft of its FAS on 'Participatory Ventures'. The objective of the exposure draft is to establish the principles of accounting and financial reporting for participatory ventures. The revised FAS will supersede the existing FAS 3 'Mudaraba Financing' and FAS 4 'Musharaka Financing'.

The AAB Translation Committee finalised and approved for issuance the Arabic version of FAS 31 'Investment Agency (Al-Wakala Bi Al-Istithmar)'. The English version of this standard was issued in December 2017. The committee also issued FAS 36 'First Time Adoption of AAOIFI Financial Accounting Standards' in Arabic. The English version of this standard was issued in November 2020.

The AAB approved the exposure draft of its FAS on 'Promotional Gifts and Prizes' and revised FAS 14 'Financial Reporting for Islamic Investment Institutions' in principle. The objective of the exposure draft of the FAS on 'Promotional Gifts and Prizes' is to prescribe the accounting and financial reporting requirements applicable to gifts and prizes that are awarded by Islamic financial institutions to their customers, including quasi-equity and other investment accountholders.

AAOIFI also approved the exposure draft of its FAS on 'Participatory Ventures' which will, once issued, supersede AAOIFI FAS 3 'Mudaraba Financing' and AAOIFI FAS 4 'Musharaka Financing'.

In order to establish the principles of financial reporting for institutions applying AAOIFI FASs operating in hyperinflationary economies, the AAB duly considered the relevant Shariah principles and rules and their unique business models. AAB issued the exposure draft of its FAS 'Financial Reporting for Institutions Operating in Hyperinflationary Economies'. Public consultation of the draft has begun and stakeholders are requested to share their valuable comments.

Public Interest Monitoring Consultative Committee (PIMCC) meetings were also held during 2023. The objective of the PIMCC is to advise and provide its observations regarding AAOIFI's responsiveness to public interests as incorporated in its standard-setting process (specifically accounting, auditing, governance and ethics standards) and their outcome.

Roundtable on Revised FAS 29

AAOIFI organized a roundtable event to hold focus group discussions on the [Revised ED of] FAS 29 'Sukuk in the Books of the Originator' via video conferencing on Wednesday, the 30th August 2023. The roundtable event hosted more than 80 subject-matter experts and industry practitioners from a number of jurisdictions worldwide for an in-depth discussion on multiple issues, including Shariah, and the related aspects of accounting for Sukuk issuances.

AAOIFI Governance and Ethics Board

The AAOIFI Governance and Ethics Board (AGEB) approved in its 33rd meeting the issuance of the governance standard (GS) 17 'Shari'ah Compliance and Fiduciary Ratings of Sukuk and Other Islamic Finance Instruments'. This standard is a continuation of and complements AAOIFI GS 10 'Shari'ah Compliance and Fiduciary Ratings for Islamic Financial Institutions'. It sets out principle-based guidance on Shariah compliance and fiduciary ratings of Sukuk and other Islamic finance instruments.

The work of the IFSB–AAOIFI joint working group on Shariah governance has concluded. Accordingly, based on extensive feedback received from stakeholders and considering the mandates of each organization, IFSB and AAOIFI have agreed on the way forward to separately review and where necessary issue relevant guidance on Shariah governance within their respective areas of focus.

AAOIFI and IFSB extend profound appreciation for the work undertaken by the joint working group and the joint Shariah committee as well as the feedback provided by a wide range of stakeholders. The two standard-setting organizations will continue to collaborate and cooperate with each other in areas of mutual interest.

The AGEB approved, in principle, the issuance of GS 16 'Institutional Framework for the Implementation of Ethics'. This standard specifies a framework for institutionalizing ethical conduct. It aims

to signify the responsibility of various organs of governance and management toward ethical conduct, guide institutions on how to best institutionalize ethical conduct and mandate the adoption of the 'AAOIFI Code of Ethics for Islamic Finance Professionals' along with other applicable codes of ethics, among others.

AAOIFI invites nominations for its technical boards

AAOIFI is seeking nominations for candidates to serve on its three technical boards, the AAOIFI Shariah Board, the AAB and the AGEB, for a four-year term from February 2024 to February 2028, or until succeeding boards are appointed.

Nominations are invited from AAOIFI institutional members as well as other institutional stakeholders of the international Islamic finance industry — including central banks, regulatory and supervisory authorities, stock exchanges, Islamic financial institutions, conventional financial institutions that have interest in Islamic finance, accounting and auditing firms, legal firms, advisory firms, universities, higher learning institutions and other institutions or organizations.

The nominations received from the international Islamic finance industry will be submitted to the AAOIFI Nominations Committee, which will then submit its recommendations to the AAOIFI Board of Trustees for approval. The nomination period will continue until end of December 2023.

The eligibility criteria for candidates of each of the AAOIFI technical boards have been formulated in accordance with international best practices. The eligibility criteria and online application form can be accessed via this "**link**" and the downloadable form can be accessed via this **link**. Institutions can submit their nominations online, or send to nominations@aaoifi.com.

Capacity-building programs

AAOIFI is dedicated to enhancing the capabilities and knowledge of Islamic finance professionals through its comprehensive capacity-building programs. In 2023, the organization conducted various workshops catering to different durations and languages. These workshops were delivered both online and in-person, and they covered a wide range of topics. Notable workshops included those conducted for institutions such as the IsDB and the Central Bank of Iraq.

In conjunction with the 18th AAOIFI–IsDB conference, AAOIFI organized its inaugural Capacity Building Week (CBW) in collaboration with the Bahrain Institute of Banking and Finance (BIBF). The CBW consisted of 21 workshops with 300-plus trainees from more than 30 counties. Regulatory and supervisory authorities (RSAs) were provided three complementary seats in any of their chosen workshops.

Advocacy and awareness initiatives

AAOIFI organized its annual flagship AAOIFI Shariah Board conference, and AAOIFI–IsDB Islamic Banking and Finance Conference. The conference facilitated insightful discussions on contemporary issues and trends in Islamic finance, contributing to the advancement of industry knowledge and best practices. Representatives from 23 RSAs participated in the latter conference physically which is the largest number of participation from RSAs, including a total number of delegates of 1,400 (630 physical and 770 online).

AAOIFI also signed numerous agreements, including memoranda of understanding, training agreements and AAOIFI certification registration agreements, among others, during the year 2023.

AAOIFI conference outside of Bahrain

In collaboration with the Securities and Exchange Commission of Pakistan (SECP), AAOIFI also hosted its first Islamic Capital Markets Conference. This conference aimed to foster greater understanding and awareness of Islamic capital markets, bringing together key stakeholders to explore opportunities and challenges in this rapidly evolving sector. AAOIFI plans to hold similar conferences outside of Bahrain in collaboration with the respective RSAs.

AAOIFI Footprint Report 2022

AAOIFI published the second issue of its Footprint Report in 2022, providing an updated reflection of the adoption levels of AAOIFI standards worldwide. This report serves as a valuable resource for regulatory jurisdictions and countries, presenting a comprehensive overview of the implementation of AAOIFI standards. It highlights the extent to which AAOIFI standards have been adopted, categorized into different levels such as full adoption, partial adoption and the existence of local standards based on AAOIFI standards. The report can be downloaded from this **link**.

Journal of Islamic Finance Accountancy

In 2023, AAOIFI released the eighth edition of the Journal of Islamic Finance Accountancy. This publication showcases peer-reviewed research papers and technical articles contributed by experts in the field of Islamic finance. The articles cover a wide range of topics, including weightages and income-sharing ratios for profit distribution in Islamic banks, Shariah compliant benchmark rates and the transformation of Takaful operations under FAS 43.

Strategic collaborations

AAOIFI entered into several strategic collaborations in 2023, further reinforcing its commitment to promoting the growth and development of Islamic finance. Notable partnerships include agreements with the Central Bank of Libya; Central Bank of Oman; Central Bank of Yemen; Banque Du Liban (BDL); Da Afghanistan Bank; Central Bank of Iraq; Central Bank of Turkish Republic of Northern Cyprus; Indonesian Institute of Certified Public Accountants; Refinitiv; iSecurities Hub; International Islamic University College Selangor; BIBF; Russian Association of Experts in Islamic Finance; Luiss Business School (Italy); MISFA Afghanistan; Central Shariah Board for Islamic Banks of Bangladesh; Center for Islamic Finance, Compliance, and Advice of Tanzania; Guidance College of United States of America; ZamZam Bank and Awash Bank – Ikhlas of Ethiopia; Bank Nizwa and Al Ahli Islamic of Oman; and Academy of BEPS/Tax Insights of the Netherlands, among others.

In addition to the partnerships , AAOIFI renewed its MoU with TKBB (Participation Banks Association of Turkiye) for another three years. AAOIFI also held meetings with various stakeholders including of Bank of Russia, Maldives Monetary Authority, Capital Market Development Authority of the Maldives, Ministry of Finance and National Bank of Tajikistan, Azzad Management Assets, Iraqi Islamic Bank, Bank Asia and many other numerous financial and other institutions around the globe.

AAOIFI's MoUs with SECP and BDL included establishment of JRDCs – Joint Research and Development Centres within their respective premises. JRDCs aim is to carry out research related to standards development, standards implementation, capacity building initiatives, produce impact assessment and standards implementation reports, among many other objectives.

AAOIFI's membership base has also seen a steep rise in 2023 with 180-plus active institutional members.

Conclusion

In 2023, AAOIFI made significant strides in achieving its primary objective of development of standards, and its ancillary objectives. As we look ahead into 2024, AAOIFI will continue to play a pivotal role in shaping the future of Islamic finance, ensuring the industry's continued growth, and promoting global adoption of its standards, capacity-building, and advocacy and collaborations around the globe.

Any public opinion or media appearance is the author's independent personal opinion and should not be construed to represent any institution with whom the author is affiliated.

IIFM activities in 2023–24

Ijlal Ahmed Alvi *is the chief executive of the International Islamic Financial Market (IIFM).*

During 2023, the International Islamic Financial Market (IIFM) completed its market assessment exercise on various new industry initiatives to be undertaken in line with market developments and requirements.

In 2024, IIFM will be expanding its scope of documentation standardization to new segments which will add value to these segments and benefit all stakeholders.

The following is a brief overview of IIFM activities during 2023.

Enhancement of existing Islamic hedging product confirmations

The joint IIFM and International Swaps and Derivatives Association initiative on operational improvements to existing hedging product confirmations, namely the Islamic Profit Rate Swap (IPRS) and the Islamic Cross Currency Swap (ICRCS), was undertaken during 2023. The purpose is to simplify the transaction process by segregating the annexes from the master terms and conditions as is the case with the later published Islamic Foreign Exchange Forward confirmations. The industry consultation exercise has been completed and the new versions of the IPRS and ICRCS will be available soon.

Syndicated financing documentation standardization

In coordination with its Syndication Core Working Group consisting of market-leading institutions, IIFM prepared a consultation paper which was the basis of deliberations that took place at the wider industry consultative meeting held virtually during 2023. Representatives from stakeholders provided additional feedback and suggestions in order to prioritize the documents to be standardized as well as form a consensus on the approach.

In early 2024, IIFM will commence the actual development phase of the documentation standards which will include 'Syndicated Ijarah Financing' and 'Syndicated Murabahah Financing' based on the feedback from IIFM's market assessment exercise. IIFM may also consider standardizing 'Syndicated Project' financing documentation in the future as Phase 2 of the project.

Repo documentation standardization

In 2023, IIFM completed the market assessment exercise on developing global Shariah compliant repo documentation based on the 'Two Wa'ad Sell-Buy' product structure.

In 2024, IIFM will commence the development of a globally standardized repo master agreement in consultation with the industry in order to enhance liquidity management products for Islamic banks.

Training on IIFM standards

The IIFM and Dar Al Sharia training workshops are now well recognized given their capacity-building value in terms of implementing IIFM's published standards.

Workshops in Dubai and in Bahrain were held in 2023 covering IIFM's liquidity management, hedging and Sukuk standards where participants included practitioners from international and Islamic banks, regulatory bodies, multilateral development institutions and others.

Considering the demand for such training, IIFM plans to expand the workshops to be organized in different jurisdictions in 2024.

International cooperation

An MoU was signed between Tanzania-based Centre for Islamic Finance, Compliance and Advice and IIFM to collaborate on the promotion and development of Islamic finance in Tanzania and the East African region by organizing awareness and capacity-building events.

Annual Sukuk Report

The 12th edition of the annual IIFM Sukuk Report was launched in September 2023 via a special webinar where leading international speakers discussed the findings of the report and the latest Sukuk market trends. More than 350 market participants representing around 175 institutions based in over 35 countries registered to attend the report launch webinar.

The flagship report is globally recognized as one of the main sources of information on the Sukuk market and provides a detailed analysis of international and domestic Sukuk issuances, Sukuk structure developments and types of Sukuk issuers. The report also contains country-focused reports as well as case studies on landmark Sukuk issuances and articles on Sukuk market developments.

Industry consultation and awareness events

In October 2023, IIFM with Bank Indonesia and the International Islamic Liquidity Management Corporation jointly organized a seminar titled 'Escalating Product Innovation in Islamic Financial Market: Standards and Practices' as part of the 10th anniversary edition of the annual Indonesia Sharia Economic Festival in Jakarta.

In addition to awareness seminars, the Sukuk Report launch webinar and in-person training workshops, IIFM also held virtual meetings of its hedging working group and syndicated financing working group.

Conclusion

In 2024, IIFM will commence two new documentation standardization initiatives, namely syndicated Ijarah and Murabahah financing and the global Shariah compliant repo master agreement, in consultation with the industry to support the expansion of Islamic finance in an orderly manner.

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Interview: Sanjay Singh, CEO of Azentio Software

You were appointed CEO of Azentio in August — congratulations! Can you tell us what your top priorities are as CEO and the strategy you will be implementing for the firm?

Since I took over, my primary focus revolves around customer satisfaction. Developing a proactive customer success strategy has forced me to undergo some key changes internally. This has driven a major organizational realignment, matching the right talent to the right roles, followed by an overhaul from a product-led organization to one now focused on customer success, and from an on-premises software vendor to one embracing a cloud-first strategy. We are evolving the organization framework for 'time to realize value' for go-live projects, which now are being completed successfully in a couple of months.

Are there any particular growth areas that you have identified in the verticals you cover? What markets are of interest and why?

A recent survey on financial crime showed that fraud is one of the top three predicate offenses of concern for firms globally. As concern about fraud accelerates, firms are placing a greater emphasis on the relationship between fraud and money laundering. This shift required organizations to restructure away from siloed fraud and anti-money laundering departments toward an integrated approach. Hence, we are investing heavily in our FRAML solution. Powered by AI [artificial intelligence], our FRAML solution will combine and analyze vast amounts of data from transactions and external sources to create accurate, holistic risk profiles. Not only does this automation enable financial institutions to create a more transparent and informed picture of who their customers are and the potential risks they pose, but the high-quality, orchestrated insights our solution generates can also help them shift from merely detecting criminal activity to predicting and preventing it. Our main focus is on leveraging LLM (large language models) and ML (machine learning) for providing next-generation AML [anti-money laundering] solutions.

From a technology perspective, we are building modern tech stack on [a] microservices framework with APIs [application programming interfaces] for our core product offerings in banking and insurance to enable agility and scalability, and minimize dependencies; an example of this is our recently launched next-generation cloud-based ERP [enterprise resource planning] platform.

From a geo focus, the APAC [Asia Pacific] region remains a key driver of global growth in 2023 and we continue to expand there in countries like Malaysia, Indonesia, Vietnam and Thailand, while MENA remains another target geography with KSA [Saudi Arabia] as a priority destination for our expansion.

What changes would you like to bring into the BFSI [banking , financial services and insurance] industry?

At Azentio, we are committed to enabling our clients to digitally transform by harnessing new technologies like open banking/open finance powered by APIs, enabling third-party providers to have open data access from both banks and NBFCs [nonbank financial companies]. This will provide an improved customer experience, new revenue streams and assist us in breaking into new markets. Our aim is to empower our clients by enabling them to reimagine human-centered products that drive growth.

How do you think the BFSI industry will evolve in the coming years?

I can see big changes coming to the BFSI industry. The rise of technology is likely to bring about changes to procedures and

regulations across the entire BFSI sector. There will be significant diversification of offerings, and more focus on security solutions. The biggest change that will happen in my opinion is a move toward simplicity. Fintechs are helping create a healthy competitive environment, pushing institutions to transform. They will need to simplify their documentation, implement automation, [and] speed up onboarding to provide better customer experiences.

What was the most interesting project that Azentio worked on in the last year?

Winning the Islamic Bank Australia (IBA) deal. Azentio's appointment by the first Islamic bank in Australia underscores our reputation as an established and trusted global Islamic software partner who consistently delivers pioneering, digital Shariah compliant software products that transform the customer experience. We are very pleased in joining hands with IBA to deliver the first Islamic core banking system in the country. This deal represents Azentio's newest expansion in Oceania and our growing customer network to cover six continents.

What is the USP [unique selling point] of your company that separates you from your competitors?

Deep domain expertise in banking, Islamic banking, insurance and ERP software, paired together with profound knowledge of the regional nuances in the markets we serve. The additional differentiator is our strong relationship with our customer base.

SECTOR REPORTS

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قَالَ رَسُولُ اللَّهِ صَلَّى اللَّهُ عَلَيْهِ وَسَلَّمَ: إِنَّ الصَّدَقَةَ لَتُطْفِئُ عَنْ أَهْلِهَا حَرَّ الْقُبُورِ , وَإِنَّمَا يَسْتَظِلُّ الْمُؤْمِنُ يَوْمَ الْقِيَامَةِ فِي ظِلِّ صَدَقَتِهِ - رواه الطبراني

Prophet Muhammad SAW said: "Verily, charity will protect people from the heat in their graves. Verily, only the believer will be shaded on the Day of Resurrection in the shade of his charity" - Narrated by al-Tabrani

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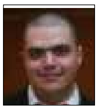
Market outlook of Islamic accounting



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During the year 2023, AAOIFI continued its comprehensive project for the revision and review of the Financial Accounting Standards (FASs); the project was initiated in 2016. This included a set of previously issued standards, namely: FAS 3 'Mudaraba Financing' and FAS 4 'Musharaka Financing', as well as FAS 14 'Investment Funds' and FAS 21 'Disclosure on Transfer of Assets'. Furthermore, and as an output of the review project for FAS 27 'Investment Accounts', a new standard (on prizes and gifts associated with such accounts) was considered essential as it complements the different scopes that have already been separately addressed under these standards (all in exposure draft form, for the time being) on control, off-balance-sheet assets under management and quasi-equity. These main areas are perceived to be the core distinguishing elements for accounting under the AAOIFI conceptual framework (AAOIFI Conceptual Framework for Financial Reporting). Another key subject that has been identified and considered for development during 2023 is financial reporting for hyperinflationary economies.

Review of 2023

In 2022, AAOIFI issued a number of final standards on key areas, particularly accounting for Takaful. The two FASs on Takaful (one for disclosure requirements and the other for accounting treatment) were developed and issued in line with the new conceptual framework, which standardizes the fundamental accounting concepts applicable to various institutions and instruments. The disclosure standard of Takaful aligns with the Shariah principles and rules relating to Takaful, whereby the Takaful institution (operator) is distinct from the participants' funds (including participants' Takaful fund (PTF) and participants' investment fund (PIF)), and the PTF and PIF, which are treated as off-balance-sheet assets under management, are therefore separate from the Takaful institution. The new Takaful standards will be effective on the financial statements of Takaful institutions in January 2025. However, early adoption is permitted provided that the two standards are applied together.

Preview of 2024

Multiple areas have been addressed by AAOIFI FASs in the year 2023, particularly financial reporting for hyperinflation, participatory ventures and certain processes that required improved or specific financial reporting such as transfer of assets, investment and promotional gifts and prizes. The need for a financial accounting standard on hyperinflation was particularly identified in the aftermath of the extraordinary increases in inflation rates in several Muslim countries, which render financial reporting under AAOIFI FASs less meaningful and less comparable over reporting periods.

Furthermore, certain financial reporting requirements under the generally accepted accounting principles may not fit Islamic financial institutions and other entities operating under the AAOIFI conceptual framework. A hyperinflationary economy can be determined taking into consideration a number of factors such as the cumulative inflation rate over a period of three years that exceeds 100% or is approaching the same with an increasing trend, where an economy has benchmark/ discount rates, prices and wages linked to an index.

An entity preparing its financials under hyperinflation is required to redetermine its functional currency, or otherwise follow the fair value based financial reporting requirements for restatement of the elements of its statement of financial position at fair value with the exception of monetary assets and liabilities, assets acquired for future delivery (based on a contract or promise), held-to-maturity investments, indexed assets and liabilities (under an agreement) and quasi-equity.

The draft standard on hyperinflation provides the different accounting methods of such items, differentiating between items reported at fair value, carried at cost or amortized cost, carried at lower of cost and net realizable value, carried at the revaluation model and all other items at deemed fair value.

The draft standard on transfer of assets (a revised standard) between investment pools addresses the reporting requirements for investment pools that consist of distinct assets held under the ownership, and on behalf of multiple stakeholders, including internal transfer of assets between such pools. These transfers necessitate a distinct set of financial reporting requirements in line with Shariah principles and rules, including certain disclosures.

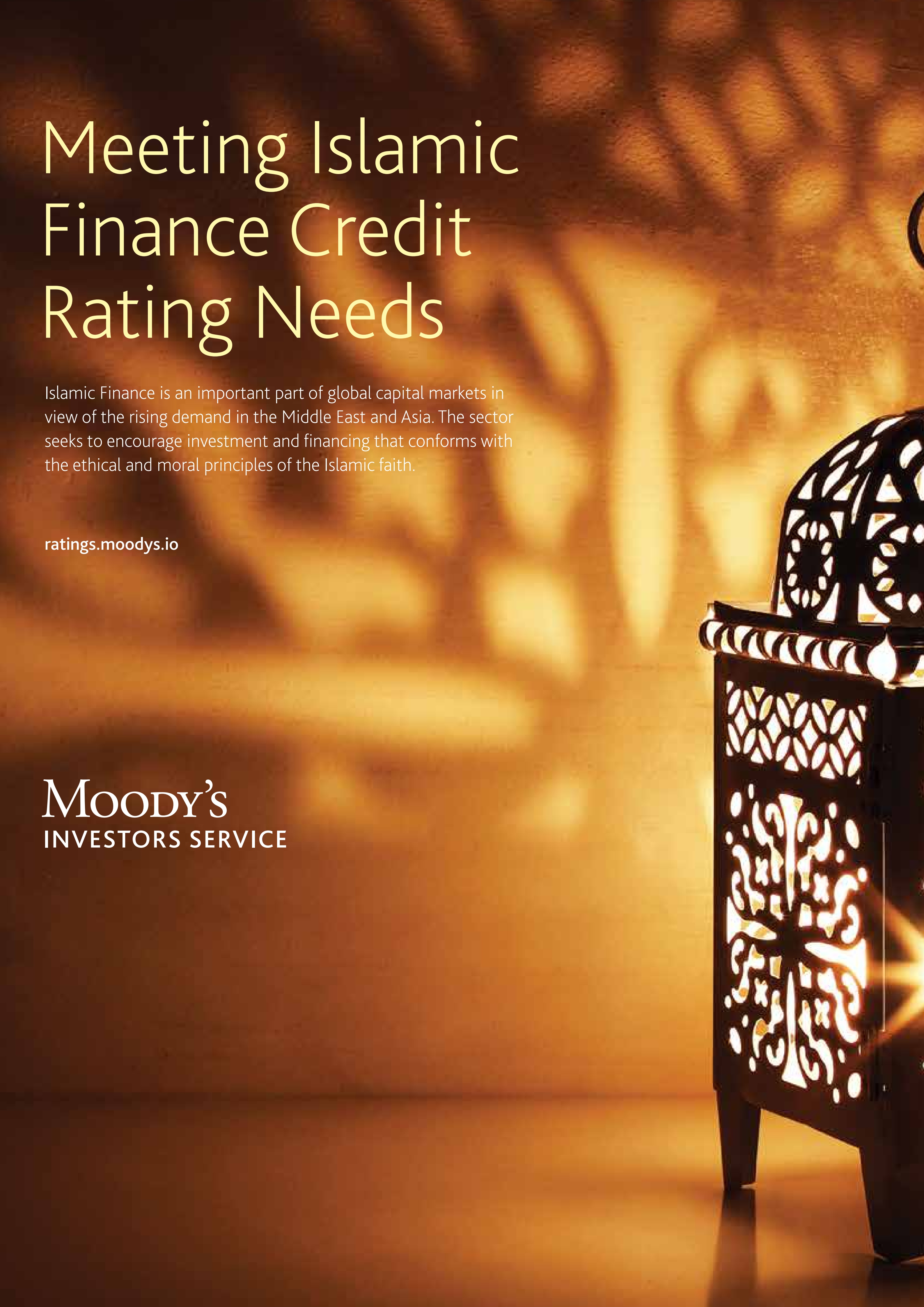
The draft FAS 'Participatory Ventures' prescribes the principles of accounting and financial reporting for Shariah compliant participatory ventures that constitute business ventures established on the basis of a Shariah compliant participatory structure, as a virtual entity but not a legal entity. This includes Musharakah and Mudarabah or any similar structure creating a Shariah compliant partnership, irrespective of the name. The standard provides certain scope exclusions in relation to accounting and financial reporting by the investors (providers of funds or equity contributions), working partners and participatory ventures per se. For example, investment accounts, investment agencies (Wakalah Bi Istithmar) and investment structures in the form of a legal entity were also scoped out.

This standard, which will supersede the earlier issued FAS 3 and FAS 4, introduces significant changes as compared with these standards including addressing the cases of participatory ventures in the books of account of the working partner and the participatory venture as a whole. It also addresses the specific cases involving the gradual transfer of ownership or transfer of units such as variable equity ventures and diminishing Musharakah and restricted Mudarabah (all such cases were not covered under the previous standards).

The new standard sets out the accounting approaches applicable to the investor and the working partner in terms of the accounting treatment in their respective books based on the assessment of the extent of control over the participatory venture. For example, if an investor (or more) controls the venture, the applicable approaches in the books of the investor are (1) the pass-through accounting approach and (2) the net investment in participatory venture accounting approach (in case the former is deemed impracticable). On the other side, the working partner applies an accounting treatment based on the off-balance sheet accounting approach.

Conclusion

Islamic accounting, under the new conceptual framework, has evolved to address the requirements of wider constituents (institutions and structures, etc) to better serve the information needs of users of financial statements and financial information driven by Shariah compliance. The new areas reflect the unwavering efforts being exerted by AAOIFI as a standard-setter for the Islamic finance industry in the area of accounting (among others), in reaction to stakeholders' requirements, and especially the need to harmonize accounting treatment, classification, measurement, presentation and disclosure for a wide array of products, transactions and structures for which special accounting treatment is always needed and will continue to evolve in the future with the ever-changing dynamism of the industry and all counterparties involved.


Meeting Islamic Finance Credit Rating Needs
Islamic Finance is an important part of global capital markets in view of the rising demand in the Middle East and Asia. The sector seeks to encourage investment and financing that conforms with the ethical and moral principles of the Islamic faith.
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Islamic agricultural financing: The next global frontier for Islamic finance

Md Mahmudur Rahman *is the co-founder at WeGro. He can be contacted at mahmud@wegro.global.*

The global Islamic finance industry is at a crossroads, with the potential to have a big effect on the constantly evolving landscape of agricultural financing. It is critical to recognize two fundamental factors shaping this intersection.

Firstly, the worldwide Muslim population is anticipated to reach 2.8 billion by 2050 (Wormald, 2023). The exponential growth in the number of Muslims creates an imperative need for agricultural production to meet the nutritional requirements of this burgeoning population.

Secondly, the global food system is confronted with several difficulties, including climate change and population expansion. Consequently, the horizons of Islamic finance in the agricultural industry have extreme potential for expansion. With existing farmers, agricultural demand is expected to increase by 70%, or almost US$8 billion in investment is required to supply the world's food needs by 2050 (Ningrat & Nurzaman, 2019). However, agricultural production is declining all over the world. Agricultural production in Java Land, for example, fell to 13.75% in 2015 from 16.55% in 2008 (Thaker et al., 2020).

Through its emphasis on partnership-style financing, Islamic finance plays a critical role in increasing financial inclusion. It serves the requirements of individuals and small enterprises who could be shut out of conventional banking by expanding the range and accessibility of financial products. This includes people who avoid traditional banking for religious reasons, a sizeable section of the global Muslim population.

With only 14% of the world's 1.6 billion Muslims using banks, Islamic financing bridges the access gap and helps to finance the agricultural industry, enabling it to flourish. This is because Islamic finance adheres to ethical and sustainable financial standards which in turn improve agricultural finance and increase food security (World Bank Group, 2017).

Review of 2023

In 2023, the member countries of the IsDB continued to play a pivotal role in global agriculture. Collectively representing a significant portion of the world's population and land area, these countries accounted for a substantial 28.8% of the world's total agricultural area.

Over the years, the IsDB has demonstrated its commitment to the agricultural sector, approving a total of US$12.3 billion for investment projects in agriculture and rural development across its 57 member countries. As of 2023, the active portfolio for agricultural investments stood at more than US$6 billion.

Furthermore, the IsDB Group, which includes entities like the International Islamic Trade Finance Corporation and the Islamic Corporation for the Development of the Private Sector, plays a crucial role in providing additional financing support for agriculture.

This collective effort underscores the determination to enhance agricultural productivity and sustainability within member countries, contributing to global food security and economic development (Agriculture | Islamic Development Bank, n.d.).

Preview of 2024

In light of meetings held by the Association of National Development Finance Institutions in Member Countries of the Islamic Development Bank (ADFIMI), revolving around the central theme of food security, 2024 promises to be a pivotal year for the intersection of Islamic finance and agriculture. A notable development to watch for: Agrobank's launch of an innovative agricultural-based Takaful program. This initiative aims to provide vital protection to communities, particularly in the face of losses from natural disasters.

Additionally, the bank's emphasis on capacity-building in agriculture, including farmer education and the promotion of cost-effective modern technologies and best practices, reflects a comprehensive approach to addressing immediate food needs while safeguarding the long-term sustainability of natural resources.

The ADFIMI meetings further highlighted the collective resolve of the 57 member countries to leverage Islamic finance principles and sustainable agricultural practices in the pursuit of enhanced food security (Singularity, 2023).

Moreover, in line with the MDB Paris Alignment Framework, the IsDB's Climate Action Plan for 2024 aims to achieve its climate finance target of 35% (Asian Development Bank, 2022). Financial inclusion, particularly through products like cash-Waqf and donations, is recognized as crucial for helping vulnerable agricultural communities build resilience and recover from climate disasters; this has become even more apparent in the wake of recent climate events and the COVID-19 pandemic.

Further, the issuance of green Sukuk in the agricultural sector is anticipated to contribute significantly to climate mitigation efforts. Islamic finance institutions are well prepared to structure relevant financing modes, such as Istisna, Ijarah or restricted Mudarabah, to support long-term agricultural infrastructure projects, aligning with the broader trend of green Sukuk in various sectors supporting sustainability and climate goals (Asian Development Bank, 2022).

Conclusion

In conclusion, the potential of Islamic finance, with its nearly US$3 trillion global industry, cannot be underestimated in driving post-COVID-19 recovery (Market Data Forecast, 2022). While the industry's growth has been remarkable, it remains highly concentrated in a handful of countries, primarily Bangladesh, Brunei Darussalam, Malaysia and Pakistan, with more than 15% of domestic banking sector assets attributed to Islamic finance (Asian Development Bank, 2022).

Nevertheless, in 2024, the issuance of green Sukuk and the structured financing of long-term agricultural infrastructure projects through Islamic finance mechanisms hold promise for enhancing sustainability and resilience in the agricultural sector across IsDB member countries.

Islamic finance disputes: Arbitration and litigation

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Industry specialists predicted that 2022 and 2023 would carry a sharp increase in Islamic finance court litigation, in comparison to a quiet 2021. Those projections were incorrect. However, the limited number of cases reported by the state courts does not necessarily indicate that the volume of Islamic finance disputes has declined. Rather, over the past few years, parties to Islamic finance instruments have gradually moved way from court litigation towards the use of alternative dispute resolution (ADR) processes, including arbitration. As such, disputes that were resolved through arbitration (for example) would not generally be reported to the public, unless the parties consent to the publication of the award. AMJAD HUSSAIN and GUILLAUME HESS write.

The primary driver for selecting arbitration over litigation is the concern that certain globally leading jurisdictions in Islamic finance disputes (including New York and London), are ill-equipped to ensure that the Islamic finance instruments will remain Shariah compliant throughout the dispute resolution process. The risk is that a court decision could render an instrument non-compliant with Shariah which, in turn, would entitle parties to challenge the validity of the instrument.

Further, English courts (for example) have refused to give full effect to governing law clauses that provide for the application of English law subject to the principles of Islamic Shariah because the latter is a non-national system of law. However, state courts will generally accept that Islamic Shariah is comprised of a set of rules that can be arbitrated. As such, arbitral awards based on Shariah principles are enforceable.

Finally, arbitration gives parties the flexibility to select i) a tribunal that is experienced in Islamic finance and ii) a specialist institution with a set of rules that is better tailored to the Islamic finance disputes, including the International Islamic Center for Reconciliation and Arbitration (IICRA), Asian International Arbitration Centre (AIAC), and Islamic Mediation and Arbitration Centre (IMAC).

Therefore, with arbitration offering the possibility of relying on for that can specifically cater for the resolution of disputes in Islamic finance, it is likely that fewer such disputes will be submitted to the state courts (even in Muslim jurisdictions). In 2023, other factors have contributed to the limited number of court cases.

Review of 2023

Despite the continued increase in financial pressures across several industries, there has been little appetite from Islamic finance borrowers or lenders to engage in adversarial dispute resolution processes. Rather, the preference seems to have been to settle matters amicably in order to maintain liquidity and capital flows.

Further, the global Islamic finance services industry demonstrated that its investment products are relatively crisis-proof, with defaults on Sukuk reported to be as low as 0.21%. As a result, although financial stability risks continue to increase, largely due to COVID-19

resurgence in China, the Russia-Ukraine crisis, inflation, rising debt levels, and limited fiscal support, the demand for Islamic finance instruments grew, with assets estimated to reach US$4.9 trillion by 2025 according to Standard Charted Bank. For the year 2023, Moody's considers that the demand for Shariah compliant financing is set to outweigh conventional funding in the Middle East and Southeast Asia.

Preview of 2024

Islamic finance disputes are likely to remain relatively scarce in 2024. However, there are a number of uncertainties on the direction in which the global economy is heading. The majority of chief economists predict that the global economy will continue to weaken in 2024. Growing geopolitical tensions coupled with tighter financial conditions may impact borrowers' abilities to satisfy their obligations under the Islamic finance instruments.

Further, as the demand for Islamic finance instruments will continue to grow, so does the risk of disputes. To take one example, COP 28 is expected to boost green financing. However, there is no universal definition of "green Sukuk". In general terms, green Sukuk can only be used to fund environmentally sustainable projects.

However, there is uncertainty on the level "greenness" of a Sukuk, including i) what constitutes a "green" project, ii) the level of proceeds that should be used to fund green projects and iii) the post-issuance compliance with the "greenness". In the absence of sector specific guidelines, green Sukuk currently carry a heightened risk of disputes.

Finally, two endemic issues are likely to continue to be central to Islamic finance disputes. The first is the lack of standardised legal framework and the diverse interpretations of Shariah, which can result in uncertainties in the interpretation of the law and, therefore, render the outcome of disputes relatively unpredictable. The second is the near-absence of homogeneity of Islamic finance contracts. The prime example of the need for a standardization of contracts is the infamous Dana Gas case.

Conclusion

Islamic finance instruments proved to be crisis proof and default rates remain very low. However, parties to Islamic finance instruments should approach the recently introduced investment vehicles (including the green Sukuk) with some caution as these remain relatively untested and carry certain risks amplified by endemic issues introduced in this article.

Islamic financing for aviation: Ready for take-off

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There are reasons to be cheerful about the global aviation industry: demand for travel remains strong and approaching pre-pandemic levels; oil prices are down from 2022 highs; there continues to be liquidity in the aviation finance sector; and we are seeing a surge in activity in sustainable aviation fuels (SAF) and sustainable aviation financing. It is exciting to see Shariah compliant funding at different levels of the capital stack forming part of this positive activity.

Review of 2023

The number of new aircraft deliveries in 2023 improved as compared with 2022 levels but still remains below pre-pandemic levels. With some delays in some newer aircraft types, a number of airlines, including Emirates, have been extending their existing operating leases to retain their lift capacity. There have been particular delays in relation to new deliveries over engines, and we have seen an increase in demand for used engines.

Although, in general, there has been a retreat from (typically US) capital market financing of aircraft, we have seen Air Lease Corporation launch a five-year US$600 million senior unsecured Sukuk facility using a Wakalah structure. However, the greater surge in activity has been the growing demand in the bank market, which remains buoyant, and in particular we have seen different Shariah compliant bank transactions for aircraft lessors in the unsecured market (such as AviLease and Dubai Aerospace Enterprise) as well as in the secured market, including for lessors who have not used Islamic finance before.

While there have been some airlines seeking bankruptcy protection or going into liquidation, this was a relatively short list, although the rehabilitation process for Go First in India has led to a number of court cases in India. In fact, the resilience of the aviation market despite the COVID-19 pandemic has seen increased interest in this market from Islamic finance institutions.

As countries and regional blocks (notably the EU) have started to require the use of SAF and/or started to provide meaningful incentives and tax breaks for the use and development of SAF, we have seen a number of industry players entering into joint ventures and offtake agreements relating to SAF and other technologically-driven solutions, notably Willis Lease Finance Corp and also Novus Aviation's SAF One Energy.

Preview of 2024

With COP27 [2022 United Nations Climate Change Conference] in Egypt and COP28 [2023 United Nations Climate Change Conference] in the UAE, the Islamic world is at the very heart of the climate change debate, and we would expect that Shariah compliant transactions will start to make a greater use of green and sustainability-linked principles in their structuring. We would also expect that the reporting requirements and initiatives that the International Sustainability Standards Board (part of the IFRS Foundation), the EU and the US Securities and Exchange Commission are starting regarding reporting on the climate risks will start to feed into compliance requirements for various players in the market.

The indirect impact of the adoption of the EU's Taxonomy, which will seek to regulate options that can be marketed as green or energy transition financing transactions for aviation, may start to have an impact during 2024 and beyond; while this is an EU regulation, given the location of a number of major banks, lessors and airline groups in the EU, it is likely to have a wider impact. It may also bring greater opportunities for institutions operating outside of this regulatory regime.

2024 and beyond will start to see a greater number of new deliveries to airlines based in the Islamic world and as part of this, we would see more opportunities for Shariah compliant transactions. As part of this, if opportunities to utilize the US capital markets fully continue to be limited, the need for Islamic banks and the Sukuk markets seems greater than ever in aviation.

Conclusion

As we look toward the future, we expect to see increased opportunities for Shariah compliant banks and funds as the aviation industry looks to continue to grow. While there remains some uncertainty in some areas of the global economy, aviation remains an area for growth in the Middle East and beyond, and there is reason to believe that 2024 will continue the pattern for growth and the development of energy transition in the aviation sector.

Commodities and the Islamic finance industry: Navigating current economic waters

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The global Islamic finance industry continues to grow at pace — today, it is estimated to be worth US$3 trillion and expected to grow around 10% in 2023–24, according to S&P. Within this, commodities are becoming increasingly significant, serving as important foundational assets in various Islamic financial instruments such as Murabahah (cost-plus financing) and Sukuk. The unique role of commodities in Islamic finance becomes even more pivotal against the backdrop of the current global economic landscape, which is grappling with geopolitical tensions and widespread inflationary pressures.

Review of 2023

In 2023, commodities took center stage in Islamic finance. Global inflation, fueled by lingering supply chain disruptions, expansive monetary policies and geopolitical tensions, has bolstered the appeal of commodities as a hedge against currency devaluation. This trend is in harmony with the principles of Islamic finance, which traditionally favor investments in real assets over speculative or debt-based ones.

Over the course of the year, there has been a marked increase in demand for commodities such as gold and oil, all of which play pivotal roles in Islamic financial transactions. Gold, in particular, has seen a resurgence in demand as a safe-haven asset and a hedge against inflation, consistent with its historical significance and intrinsic value in Islamic finance.

According to the World Gold Council, the yellow metal has seen a surge in demand during 2023, recording a 14% growth in the first nine months of 2023 compared with the previous period last year. In line with the growing demand for physical commodities, the Dubai Gold & Commodities Exchange launched the GCC's first Shariah Compliant Silver Spot contract (DSSC), offering investors hedging products and additional means to diversify their portfolios. Investors have shown strong interest since its launch on the 27th October 2023, reflecting the growing importance of Shariah compliant commodities within the Islamic finance industry.

Similarly, energy commodities, especially oil, remain paramount to many Islamic economies, which have experienced price volatility, driven by the global energy transition, shifts in production strategies and geopolitical crises. Oil prices in 2023 until October averaged US$82/bbl, a significant decrease from US$100/bbl in 2022. Price fluctuations have impacted the funding needs of core markets with the Islamic finance industry, which in turn have resulted in increased demand in Sukuk issuance. This is expected to outpace 2022, with global outstanding Sukuk expanding by 9.8% year-on-year (y-o-y) to US$823.4 billion at the end of Q3 2023, according to Fitch Ratings.

Preview of 2024

Looking ahead to 2024, the commodities market within Islamic finance is approaching a period of cautious optimism. Analysts predict a gradual stabilization in global economic conditions, potentially leading to more stable and predictable commodity markets. However, this outlook is not without its uncertainties, particularly in the realms of the current geopolitical tensions and environmental challenges, both of which could exert considerable influence on commodity prices and supply chain dynamics.

The Islamic finance industry is expected to continue its trajectory toward sustainable and ethical investments, aligning with the increasing global focus on ESG issues. It is estimated that ESG Sukuk went up 66% y-o-y to US$33 billion globally as at the end of Q3 2023, according to Fitch. This evolution could lead to increased investments in renewable energy commodities and more support for ethical agricultural practices, which all resonate with the principles of Islamic finance.

Additionally, advancements in fintech and increased adoption of blockchain technologies are poised to bring transformative changes to commodity trading within Islamic finance — Moody's expects more than 1% of global fintech assets to be Islamic by 2025, up from 0.8% today. These technologies offer prospects for enhanced transparency, efficiency and compliance with Shariah principles, paving the way for more dynamic and accessible market participation.

Conclusion

Commodities have a key and growing role to play as the Islamic finance industry navigates the increasingly complex global economy. 2023 has highlighted the importance of commodities not only as a hedge against inflation but also as an essential component of Shariah compliant financial products. As we head into 2024, the sector will likely see cautious trading strategies, a stronger focus on ethical investment considerations and an embracing of technological innovations.

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Islamic crowdfunding: A gateway to financial inclusion, SME growth and start-up empowerment

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Islamic crowdfunding is often referred to as Sadaqah-based crowdfunding or crowdfunding for charity and prosperity. Shariah guidelines ensure that crowdfunding campaigns adhere to the values and rules of Islamic finance. Islamic crowdfunding has evolved into revolutionizing the way individuals and businesses raise capital. The global crowdfunding market has experienced significant growth, with projections set to climb further. From US$13.4 billion in 2022, the market is expected to reach US$15.54 billion in 2023, reflecting a compound annual growth rate (CAGR) of 16%. Although the Russia–Ukraine war temporarily impacted global economic recovery from the COVID-19 pandemic, crowdfunding remains resilient. Economic sanctions, inflation and supply chain disruptions have driven inflation across various sectors. However, the crowdfunding market is projected to surge to US$27.81 billion by 2027 at a CAGR of 15.7%.

The increasing use of social media platforms is a key driver for crowdfunding growth. Social media's wide reach allows crowdfunding campaigns to promote and publicize initiatives efficiently, attracting a large number of potential backers. Globally, around 4.2 billion people regularly use social media, representing 53.6% of the world's population. As social media continues to evolve, the demand for crowdfunding is expected to grow, with online platforms serving as powerful tools to drive support and funding for various projects.

Review of 2023

The journey of Islamic crowdfunding is marked by several key milestones that have shaped the industry:

Early foundations: The concept of Islamic crowdfunding emerged with platforms like LaunchGood and Ethis Ventures, focusing on charitable projects and equity crowdfunding respectively. These platforms laid the groundwork for the industry's development.

Regulatory frameworks: Regulatory bodies in countries with a significant Muslim population, such as Malaysia and the UAE, began recognizing and accommodating Islamic crowdfunding platforms, providing legitimacy and fostering growth.

Diversification of platforms: The industry diversified to include various crowdfunding models, from donation-based and reward-based crowdfunding to equity-based and P2P lending platforms, as well as the consideration of involving trade contracts, eg Murabahah and Musharakah, into the crowdfunding platforms. This diversification allowed the industry to cater to a wider range of financial needs.

Global expansion*:* Islamic crowdfunding went beyond traditional Islamic regions and reached a global audience. Platforms started to serve the worldwide Muslim community, regardless of geographical boundaries.

Tech integration*:* The integration of blockchain and smart contracts enhanced transparency, security and efficiency. These technologies transformed the industry by ensuring trust and automating transaction processes.

Social impact and ethical investments: Crowdfunding platforms, including LaunchGood, pivoted to focus on impact investing, supporting projects aimed at social change and ethical entrepreneurship.

Preview of 2024

The future of Islamic crowdfunding holds great promise as the industry continues to evolve and expand:

1. **Global outreach**: Islamic crowdfunding is no longer limited by geographic borders, allowing it to serve the global Muslim population. It has the potential to bridge the financial gap between Muslims worldwide.
2. **Technological advancements**: Blockchain, smart contracts and digitalization will continue to play a significant role in enhancing security and transparency in crowdfunding campaigns.
3. **Tailored financial solutions**: Crowdfunding platforms will further customize their offerings to cater to diverse financing needs, from personal finance to healthcare, education and ethical investments.
4. **Collaboration with conventional finance**: As the industry matures, partnerships with traditional financial institutions will become more common, creating hybrid financial products that appeal to a broader range of investors.
5. **Innovative financial products**: Crowdfunding is expanding to encompass various asset classes, such as real estate crowdfunding, impact investing and asset tokenization, providing diverse investment opportunities for ethical investors.
6. **Regulatory clarity**: Regulatory frameworks are expected to develop and provide a solid foundation for the industry's growth, fostering investor protection, market integrity and overall confidence.

Empowering SMEs: Islamic crowdfunding as a catalyst

Islamic crowdfunding is particularly beneficial for SMEs, serving as a vital source of support for these businesses:

1. **Capital access**: SMEs often struggle to secure loans from traditional banks. Islamic crowdfunding platforms allow them to access a wider pool of potential investors, including those who prioritize ethical investments.
2. **Customized financing**: Crowdfunding platforms tailor their financial solutions to meet the specific needs of SMEs, providing flexibility and ease of access to funds.
3. **Market expansion**: Access to crowdfunding enables SMEs to grow and expand their market reach, fostering economic development and creating jobs.
4. **Entrepreneurship**: Crowdfunding encourages entrepreneurship and innovation by providing a financial avenue for small business ideas and start-ups.

Start-ups: Nurturing entrepreneurial ecosystems

Start-ups, critical for job creation and economic growth, can greatly benefit from Islamic crowdfunding:

1. **Alternative funding source**: Start-ups often face difficulties securing initial capital. Crowdfunding provides an alternative avenue for raising funds and allows them to present their ideas to a wider audience.
2. **Market validation**: Crowdfunding serves as a proof-of-concept. A successful crowdfunding campaign not only provides capital but also validates the concept or product to a broader audience.
3. **Network building**: Crowdfunding allows start-ups to build a community of supporters who may become loyal customers and advocates.
4. **Ethical investment**: Some investors seek start-ups that adhere to ethical principles, making Islamic crowdfunding a natural fit for businesses that prioritize ethical and responsible practices.

Conclusion

Islamic crowdfunding has emerged as a force for financial inclusion, SME growth and start-up empowerment, with promising prospects for the global Muslim community. Its diverse range of financial products, technological integration and regulatory support position it as a transformative tool for economic development.

In conclusion, Islamic crowdfunding has emerged as a dynamic and inclusive approach to finance that reflects the principles and values of Islamic finance. Its global perspective has allowed it to transcend geographical boundaries and connect a diverse array of individuals, organizations and causes, contributing to the growth and development of communities worldwide.

As we look to the future, the integration of artificial intelligence (AI) into Islamic crowdfunding holds tremendous promise. AI can enhance efficiency, security and transparency, thereby making it easier for people to participate and contribute to projects in line with their values. The fusion of AI and Islamic crowdfunding not only promises greater accessibility but also aligns with the broader trend of technological innovation in finance. As this synergy continues to evolve, it is likely to play a pivotal role in expanding the reach and impact of Islamic crowdfunding on a global scale, forging a path toward a more inclusive and sustainable financial ecosystem.

Cybersecurity in Islamic banking: Navigating challenges and opportunities

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Cybersecurity is a fundamental pillar of trust and stability in the finance sector, where the protection of sensitive financial and personal information is paramount. Cybersecurity is a critical concern for Islamic banks, in particular because in addition to their holding of large customer deposits and sensitive data, they face unique challenges due to their susceptibility to cyberattacks based on their religious affiliation.

As the Islamic banking sector continues to grow, it becomes an increasingly attractive target for cybercriminals. In recent years, several high-profile cyberattacks on Islamic banks, including data theft, fraudulent transactions and denial-of-service attacks, have underscored the urgency of effective cybersecurity measures.

Review of 2023

In 2023, the Islamic finance sector encountered numerous cybersecurity events, highlighting the urgent need for robust defenses against emerging threats. Despite the hesitancy of financial institutions to disclose such incidents, several were reported, ranging from a group of hackers stealing over US$100 million from an Islamic bank in the Middle East to denial-of-service attacks affecting various Islamic institutions worldwide.

Additionally, reported data breaches occurred in Islamic banks across Africa, Malaysia, Pakistan, the UAE, Turkiye and the UK, exposing the personal data of millions of customers. Moreover, ransomware attacks were launched against Islamic banks in Bahrain and Europe.

The following provides a summary of these challenges and notable developments:

- **Escalation of ransomware attacks:** Ransomware attacks targeting Islamic financial institutions surged, disrupting operations, demanding substantial ransoms and exposing vulnerabilities in cybersecurity postures.
- **Regulatory compliance**: Global regulatory bodies imposed stricter cybersecurity compliance standards on Islamic banks, prompting quick adaptations to meet these requirements. Some institutions faced penalties for non-compliance, highlighting the necessity of proactive security measures.
- **Advanced persistent threats (APTs)**: APTs remained a persistent menace, especially for banks housing large volumes of sensitive data. The financial sector saw a rise in nation-state-sponsored cyber espionage, necessitating constant vigilance.
- **Cybersecurity workforce shortages**: A recurring challenge in 2023 was the shortage of skilled cybersecurity professionals. The demand for expertise in this field outpaced the available talent pool, leading to fierce competition among institutions for qualified personnel.
- **Enhanced collaboration**: Islamic finance organizations recognized the growing threats and engaged more closely with industry peers. They shared threat intelligence and best practices, resulting in quicker threat detection and more effective response strategies.

Preview of 2024

The year 2024 holds several opportunities and challenges for cybersecurity in the banking sector:

1. **Human-centric design**: Banks will adopt a human-centric design in cybersecurity programs to reduce operational friction while enhancing control adoption. This approach prioritizes individual user experiences and behavior, potentially leading to innovations like 'passwordless' authentication, biometric verification and behavioral analytics.
2. **Zero-trust security model**: Zero-trust programs will mature, requiring continuous verification of identity, device, data and context before granting access or privileges. Micro-segmentation, multifactor authentication and encryption will enforce zero-trust policies.
3. **Cyber risk quantification challenges**: The effectiveness of cyber risk quantification, which translates cyber risks into financial terms using data-driven models and metrics, may be challenged due to issues like data quality, model validity, stakeholder alignment and complexity.
4. **Cyber resilience priority**: Cyber resilience, the ability to withstand, adapt to and recover from cyberattacks while maintaining core functions and objectives, will be a strategic priority. Incident response plans, backup procedures, crisis management teams and cyber insurance will enhance cyber resilience.
5. **Artificial intelligence (AI) and machine learning (ML) advancements**: AI and ML will continue to play a crucial role in cybersecurity, automating tasks, enhancing threat detection and responding to cyberattacks more effectively.

Conclusion

In conclusion, cybersecurity is a dynamic field that demands constant vigilance and innovation. Islamic banks must proactively adopt comprehensive cybersecurity strategies and practices to protect against current and emerging cyber risks.

As we enter 2024, senior key practitioners in the Islamic finance industry must remain vigilant, adapt to regulatory changes and invest in innovative technologies and talent to safeguard the integrity and stability of their institutions.

Collaboration, resilience and proactive risk management will be paramount in navigating the complex cybersecurity landscape ahead.

Senior key practitioners in the Islamic finance industry should adopt a risk-based approach to cybersecurity. This entails identifying and prioritizing cybersecurity risks and allocating resources accordingly. Implementing a zero-trust security model is vital. This model assumes that no user or device can be trusted by default, and all access to systems and data must be verified. Utilizing AI and ML for cybersecurity is essential. AI and ML can automate many cybersecurity tasks and detect and respond to cyberattacks more quickly and effectively.

Islamic banks should invest in cybersecurity training for employees, implement robust cybersecurity controls and foster a culture of cybersecurity awareness. By addressing the unique challenges and opportunities in the Islamic banking sector, these institutions can significantly improve their cybersecurity posture and protect their customers from cyber threats.

Risk management through Islamic derivatives — current landscape and outlook

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The Islamic finance industry, deeply rooted in the principles of Shariah law, has experienced a transformative journey over the past few decades. This unique system, which strictly prohibits the collection and payment of interest, has consistently demonstrated its adaptability and resilience, especially in the face of global financial challenges. From its modest beginnings, the industry has witnessed meteoric growth, with total assets now estimated to be worth more than US$3 trillion globally and expected to grow at around 10% in 2023–24, according to S&P.

This expansion is not limited to Muslim-majority nations; in fact, it has resonated profoundly in non-Muslim countries, emphasizing its universal appeal and relevance. Alongside this growth, the industry has been marked by the introduction of innovative financial products, regulatory frameworks and, most recently, the emergence of Islamic derivatives and hedging instruments.

Review of 2023

The domain of Islamic derivatives and hedging lies at the intersection of modern financial tools and traditional Islamic principles. The instruments traded on platforms around the world have been developed to cater to the risk management needs of businesses while ensuring compliance with Shariah law. In the conventional finance world, derivatives are used to hedge against price fluctuations, interest rate changes and other market volatilities. However, the challenge in the Islamic context is to design such tools without violating the prohibitions against speculation (Gharar) and gambling (Maysir). As a solution, the industry has introduced instruments like Salam and Istisna contracts, which are based on tangible assets or services, eliminating the element of uncertainty. When used judiciously, these contracts allow businesses to safeguard against unforeseen market changes, ensuring stability and sustainability in their operations.

Although the Islamic derivative industry is set to grow, gaps still need to be addressed. One issue is that the conventional derivatives market is not well developed in most of the OIC countries, with the countries only accounting for less than 1% of global over-the-counter interest-rate derivatives turnover, according to Fitch Ratings. This gap in the OIC derivatives market has pushed the Dubai Gold & Commodities Exchange (DGCX) to explore offering Shariah compliant derivatives as hedging tools for investors in the GCC.

Another issue is that regulatory hurdles, such as the lack of allowance for Tawarruq contracts, a Shariah compliant finance method with which you can raise loan finance through buying installments in a local commodity owned by a bank, in some countries like Oman and Morocco, hinder the development of Islamic derivatives. Moreover, some key Islamic finance jurisdictions like Saudi Arabia and Kuwait have not yet adopted close-out netting legislation.

Addressing the issues facing the Islamic derivatives industry will support its expansion and attract more international investors, as well as enhance its liquidity, which will help the industry become more vibrant and dynamic, allowing for easier trading and investment.

Preview of 2024

Several pivotal steps need to be undertaken for the Islamic finance industry to further develop and expand. Firstly, there is an urgent need for global standardization. Given that Islamic finance principles can be interpreted differently across regions, a unified regulatory framework is critical. Such standardization would not only enhance the industry's credibility but also make it more attractive to international investors.

Secondly, there is a need to amplify awareness and understanding of Islamic finance principles among both the general public and financial professionals. This can be achieved through collaborative efforts between educational institutions and industry players, offering specialized courses, workshops and training programs.

Lastly, the industry must embrace the digital revolution. Leveraging technology and fintech innovations can help reach a broader audience, ensure financial inclusion and introduce more efficient, user-friendly and transparent Shariah compliant financial products.

Conclusion

Looking ahead, the trajectory for Islamic finance is undeniably promising. Its impressive growth, coupled with its foray into derivatives and hedging, signals its readiness to cater to the sophisticated needs of modern businesses. As global markets become more interconnected and businesses seek cross-border expansion, the demand for effective risk management tools will inevitably surge.

Islamic finance is poised to meet this demand by refining and expanding its derivative products. An anticipated increase in collaboration between Islamic financial institutions and their conventional counterparts will likely lead to the creation of hybrid products catering to a broader, more diverse audience.

As the industry continues to innovate while unwaveringly upholding its ethical principles, it is set to play an even more significant role in the global financial ecosystem, offering solutions that are not just compliant but also competitive, relevant and in tune with the times.

Energy and Islamic finance: Continued growth


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Focus on the energy sector within the Islamic finance industry continued to develop throughout 2023, with projects focusing more particularly on the utilities and infrastructure sectors. The growing global issue of the climate emergency and the resulting need for renewable energy sources are likely to mean further increased activity in this space, and in Shariah compliant investment and ESG financing more generally across Africa and the MENA region, particularly in the Kingdom of Saudi Arabia, throughout 2024.

Review of 2023

Islamic finance and sustainable finance are complementary, both covering values such as fairness, equality and morality, both impacting social good and both focusing on ethics. As a result, there has been significant growth in Shariah compliant project financing, particularly in the MENA region, over recent years, with the Islamic finance industry increasingly shifting its focus to sustainable investing, and an emphasis on areas such as renewable energy and ESG financing.

One of the key developments globally in 2023 in the Islamic finance sector was the increased focus on ESG lending in the energy sector (notably solar and wind projects, clean fuels and sustainability), most likely as a result of the commitments to secure net-zero emissions and following the most recent United Nations Climate Change Conference (COP27). In addition, an increase in emphasis on the climate emergency and infrastructure efficiency has led to the introduction of renewable energy strategies, which have set clear targets for GCC states.

As an indirect result of this, we have seen an increase in Islamic finance being used to fund renewable energy and infrastructure projects, one example of this being the DEWA solar projects, expected to power 270,000 homes and offset carbon emissions amounting to 1.18 million tons per year in Dubai. About US$103.5 million was funded by Abu Dhabi Islamic Bank for the projects.

Among other notable Islamic sustainable transactions that took place during 2023 was state-owned ADNOC, an energy and petrochemicals group, and Abu Dhabi National Energy Company, a utilities and energy company, completing financial close of a sustainable water supply project. The investment, valued at US$2.2 billion, entails developing and operating facilities to sustainably treat and supply seawater for ADNOC's operations in Abu Dhabi.

In Islamic capital markets, Sukuk structures continued to embrace more socially-aware investments, and there was a measured proliferation of ESG funds, Waqf-featured funds and leveraging of Islamic philanthropic instruments such as Zakat, Sadaqah and Waqf to develop the Islamic social finance sector. Historically, perception has been that ESG and Shariah-based equity products underperform compared with conventional products due to their exclusionary nature; however, we are now seeing these products outperform conventional asset classes in the energy sector.

Separately, we have seen banks launching new Islamic ESG products and issuing ESG frameworks, with the focus on allowing the issuance of green and sustainability-linked Islamic bonds and loans to fund projects in renewable energy, clean transport, green buildings and wastewater management.

Preview of 2024

Given the ambitious energy targets of the UAE Energy Strategy 2050 and the launch of the UAE Sustainable Finance Framework 2021–2031, and with Abu Dhabi planning to reduce its oil dependency and achieve a 65% contribution to GDP from non-oil sectors, Dubai aiming for clean energy to become 75% of its total generation mix by 2050 and Saudi Arabia aiming to power half the country with renewable sources by 2030 under a green initiative, we expect 2024 to bring more of the same things that hallmarked 2022 and 2023.

The energy sector remains a key opportunity for investment, with great prospects for the Islamic financing industry to step up as an alternative financing model for capital-intensive projects across Africa and the MENA region. We expect that there will be a lot of new projects in sustainable energy generation in 2024, all of which will require significant investment and capital. In addition, green and sustainable Sukuk, which will appeal to both the core Islamic investors in the region and the wider pool of international ESG investors, will likely offer a unique source of diversified capital.

According to S&P Global Ratings, the global Islamic finance industry is expected to see a 10% expansion again in 2023–24. As part of this growth, we expect to see the increased focus on the energy sector witnessed globally in 2023 continue in 2024. We expect there to be several new projects in sustainable energy generation and to see similar projects that were originally conventionally financed being refinanced in a sustainable way, and predict a higher volume of green and sustainable, and more socially aware, Sukuk.

Conclusion

Several factors have contributed to the growth of Islamic project finance globally. These factors include the capital-intensive nature of mega projects in the Middle East and Asia, a growth in dedicated Islamic finance institutions offering a full range of Shariah compliant products capable of utilizing a project's underlying tangible and intangible assets, the political and cultural desire to promote Islamic finance, an increase in the liquidity of Islamic finance institutions allowing them to participate in projects with longer tenors and the broader consumer demand for Shariah compliant financial services and products.

Although it will require significant effort to manage the climate- and nature-related issues, now is the time for Islamic finance to shine within sustainable and responsible finance and the energy sector. Shariah–ESG finance is now an obligation and no longer just a requirement, and conventional financiers cannot continue to allow the complexity and expense of Shariah finance to be an excuse.

Global equity capital markets – adopting new market dynamics

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This has been a good year for global equity markets amid higher interest rates, tight liquidity conditions, geopolitical uncertainties, and widespread pessimism about the global economy. The equity markets have performed well this year, with Russia, the US, and Japan leading, and China is the only major disappointment. Resilient corporate profits have been the key for such positive momentum in the global markets, together with enthusiasm over the potential use artificial intelligence (AI) to boost corporate profits even further.

The primary market gathered some pace with improved sentiments but activity is still mostly below last year's levels. However, this year marked a shift in investor appetite toward companies with strong fundamentals and a visible path to profitability amid tighter liquidity and a higher cost of capital. The third quarter has shown notable improvement in post-listing share price performance compared with previous quarters.

Review of 2023

The global equity markets delivered remarkable performance during this year considering the expectation of investors for a global economic recession at the beginning of the year due to rising interest rates and tighter monetary policies. The central banks carried on from where they left off in FY 2022, raising interest rates to tame inflation, leaving the global economy buckle under the weight of the 525 basis of rate hikes since this phenomenon started in March 2022.

"FY 2023 witnessed the highest inflation and sharpest monetary policy tightening in four decades"

However, the widely predicted recession has so far failed to arrive, muted corporate profits as against expected contraction, and most importantly, the high expectations around AI provided a much-needed boost to investor confidence triggering a positive rally. The investor sentiments received further support from valuation metrics, as most of the markets have taken severe beating in the preceding year. Despite unfavorable conditions, the significance of performance remains paramount for equity, as an asset class. This is due to the prevailing higher interest rates, surpassing the average dividend yield, rendering the once enticing risky asset less appealing to investors.

The rise of equity markets was driven mainly by the concentrated rally of mega-cap technology stocks that attracted trillions of dollars to the stock market. The so-called "magnificent seven" – Amazon, Apple, Google (Alphabet), Meta, Microsoft, Nvidia, and Tesla have collectively delivered 90%+ returns during this year. The recent slight correction in these stocks after a strong surge diverted the attention of investors towards other stocks with attractive valuations to hold the market in positive territory.

The resilience of global economies has been another reason for the equity market to deliver positive performance despite several unexpected negative shocks consequently volatility became the new normal during this year. Firstly, the interest rates rose significantly higher than market expectations due to better-than-expected macroeconomic data comforting central banks to take the hawkish stand. Secondly, there were brief but serious fears of banking sector instability in the US and Europe, and lastly, the geopolitical uncertainties caused by the Russia-Ukraine crisis and the Palestine-Israel war. The policy actions of central banks not only tamed inflation, and supported the labor market but also protected economies from the potential damage.

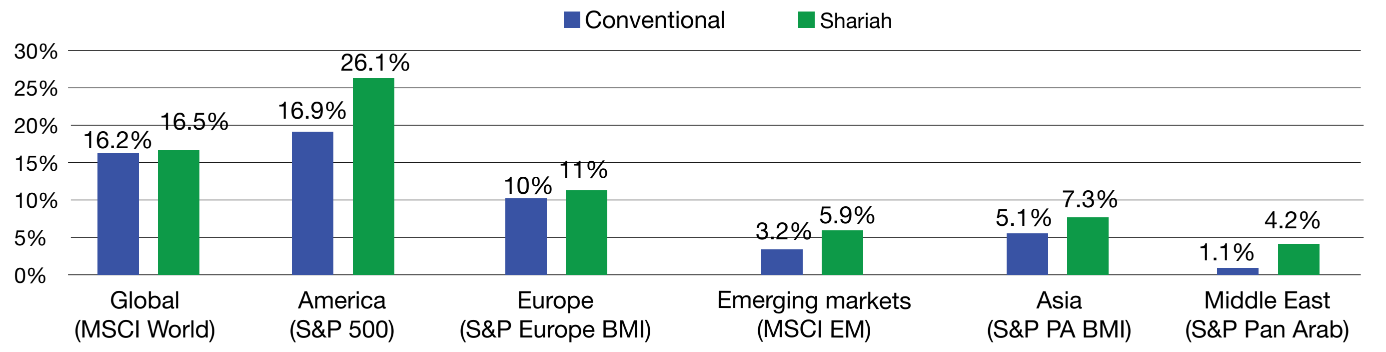
"Weak Chinese growth on the back of a real estate and consumer confidence crisis was the major economic disappointment of FY 2023"

Most importantly, even these observations still understate the amount of good news that 2023 has delivered. The economic growth surprised on the upside as consumers depleted much of their excess savings accumulated during the pandemic across the world. Not only have growth and employment surprised to the upside in the face of several negative shocks, but all this has occurred alongside much lower inflation across all economies that saw a large and unwanted post-pandemic price surge in the last couple of years.

"Geopolitical turmoil and humanitarian disasters in Ukraine and the Middle East have contributed to the volatility of equity markets during this year"

The Islamic equity markets continued to outperform their conventional counterparts across all major regions (See Exhibit 1) despite the most challenging market conditions. The positive performance can be attributed to the exceptional performance of the technology sector that has a relatively heavyweight in the Islamic indices and

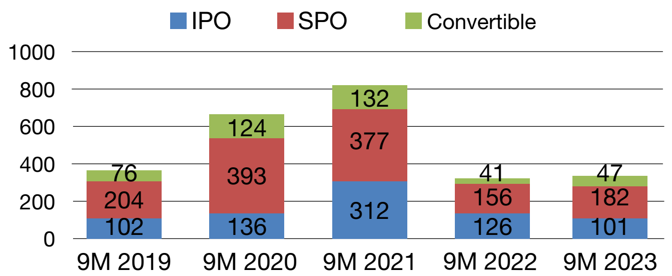
Exhibit 1: Equity markets perfomance - YTD 2023



Source: MSCI/S&P, YTD 2023 - as of the 30th November 2023 rallied strongly on the back of positive sentiments surrounding the use of AI and its expected long-term benefits on productivity and corporate profitability. Region wise, the outperformance is higher in Americas (7.1%) due the presence of most of the technology companies based in the US market.

The positive performance in listed equities seem to have lifted sentiments of the primary market despite continuous hikes in interest rate, persistent inflation, and slow global economic growth. The capital-raising activity ticked up in the first nine months of FY 2023. The global capital raised from IPOs in the initial nine months of 2023 amounted to US$101 billion across 975 offerings, a 20% decline in value from the same period last year. Follow-on issuances increased 17% YoY with US$182 billion in proceeds raised across 2,795 deals, while proceeds from convertibles amounted to US$47 billion across 117 offerings, up 15% in value over the same period. There seems to be some momentum in the IPO market activity in the last few months backed by improvement in post-IPO share price performance augmented by high-profile IPOs in the US and emerging markets.

Exhibit 2: Global equity capital raised (US dollars)



Source: Bloomberg, as of the 30th November 2023

In the first nine months of 2023, equity capital issuances in the Americas amounted to US$113 billion and grew 42% YoY. The total proceeds for EMEA and APAC issuance declined during the same period, with US$64 billion (-10% YoY) and US$126 billion (-25% YoY) in capital raised, respectively. The technology sector continues to dominate global IPO activity in 2023. However, if ARM, a blockbuster IPO taken away, the sector would have seen a muted activity. The industrials and healthcare sectors followed in total proceeds raised in the first three quarters of 2023, with US$49 billion and US$47 billion, respectively. Consumer staples posted the highest YoY growth (16%), while the materials and energy sectors continued to underperform with respective declines of 26% and 21% in total proceeds.

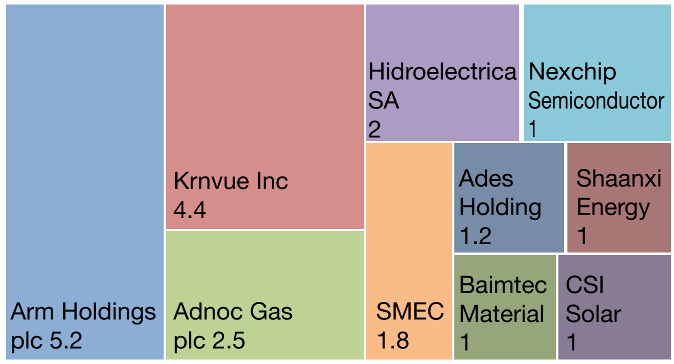
"Equity issuance market saw shift in investor appetite from 'growth' to 'value' amid tighter liquidity in 2023"

Some of the more buzzworthy public offerings in 2023 includes Instacart, a grocery mainstay that raised US$660 million in its IPO. Its shares jumped by over 40% on its first day of trading but gave back almost all its IPO gains on subsequent trading sessions. NEXTracker, a company providing technology that helps solar panels track the sun and adjust their angle for maximum ray capture, raised US$638 million in its initial public offering and presently trades well over its IPO price, good news for sustainable-like minded investors.

Preview of 2024

Global markets have exceeded expectations in 2023, thanks largely to the mega-cap technology stocks known as the Magnificent Seven. Investor sentiment has shifted from "a recession is coming" to "a soft landing is around the corner", a reflection of high investor optimism, even though market gains have been concentrated. The outlook for 2024 is more cautious due to restrictive monetary policy, slowing growth, and geopolitical tensions. The central banks "higher for longer" approach will likely strain finances in the year ahead, impacting borrowers and refinancers. Therefore, the central banks are expected to fine-tune the economic slowdown to stabilize economic growth and also tame inflation.

Exhibit 3: Top 10 IPO (US dollars)



Source: Bloomberg, as of the 30th November 2023

The cash that drove economic activity in 2023 will start running low. In the US, excess savings will soon be spent, and business investment will start to decline. Europe is more vulnerable to recession risk and will face stagflation, while China struggles to resolve its property crisis. Meanwhile, the tighter financial conditions will weigh on global economic growth and corporate profits.

The global equity markets are likely to be conservatively positive for FY 2024, with average expectations rather than strong returns in prospect. Uncertainty over corporate earnings is the major reason at the back of potential slowdown in the major economic locomotives i.e. US and China. The other source of concern is tight monetary policy, as inflation is proving to be more stubborn than expected.

The market is expecting central banks to leave current interest rates above the long-run sustainable levels and this will continue to pressure some highly levered corporates, small banks, or subdued mortgage, housing, and commercial real estate activity. However, it will not threaten the overall economic outlook.

On the brighter side for equities, the market is forecasting that the central banks will be delivering as many as six 25bps rate cuts totaling 150bps in the coming year which is not only good for corporates but also ease liquidity conditions.

The 'valuations' look reasonable in most regions with an obvious exception, the premium attached to technology stocks after the recent rally, but it is not at all extreme by historical standards. This seems like a good time to rebalance, diversify and look for fresh opportunities outside the narrow list of mega cap technology winners that investors have gravitated to this year.

"The new year likely to witness rate hikes shifting to cuts, as inflation falls to 2%"

The investors should favor quality stocks but remain cautious about paying too much for the expensive names. They should rather invest in the companies with visible growth, generate higher margins, have strong balance sheets and proven management teams. The investors will find such names in technology and industrial sectors, while the classic defensive consumer staple and utility stocks still look highly priced and less interesting. The bouts of volatility will also spring up some tactical investment opportunities from market mispricing. Finally, the investors have to be cautious because too much optimism can make the markets more vulnerable to overcorrections.

The direction of travel of interest rates and inflation will continue to drive primary equity markets in the coming year. The uncertainties over the macroeconomic environment and geopolitics across regions continue to impact equity market sentiments, some stability in equity markets and signs of interest rates peaking are paving the way for the reopening of IPO markets in the US, followed by Europe.

The investors with interest to invest in equity issuances are also faced with tighter liquidity and a higher cost of capital and will turn to companies with a solid equity story, attractive business model, promoter track record, growth trajectory, a path to profitability. In response, the IPO prospects need to demonstrate their financial health and potential for value creation. Pricing of recent IPOs points to the fact that private equity valuations may require adjustment to align with pricing in the public equity market. As valuation gap getting narrower, the investors are reviewing the post-listing performance of the recently listed companies, which, if positive, could renew market confidence. Therefore, the investors will continue to look for a balance between growth and profitability at a reasonable price.

Upcoming and interesting IPOs to look out for

- **Shein**: Fast-fashion retailer Shein has filed confidentially with US regulators for an IPO that could take place next year. The online retailer, which was founded in China but is now headquartered in Singapore, is working with Goldman Sachs Group Inc, JPMorgan Chase & Co and Morgan Stanley on the listing. The company is valued at US$66 billion, is growing with US$23 billion in rev last year. Profitable half the year in 2023 with company setting up manufacturing facilities in India and Brazil. Most recently, the company is solidifying their US footprint (with US being their largest market) with partnership with entities like Forever 21 driving their distribution network.

- **Reddit**: With Reddit reportedly considering a valuation of close to US$15 billion, their success could well hinge on the success of Shein. Reddit did file IPO in December 2021 and was expected to go public in March with a valuation of up to US$15 billion — but then the market chop began. Fidelity cut the estimated value of its shares in the company by one-third in May and the great wait was extended. Reddit is trying to become more attractive to investors. In June, Reddit announced it would begin enforcing data rate limits on the free access tier of its application programming interface (API), a tool that powered popular third-party services that gave users an alternate way to browse Reddit's forums.

- **Rubrik**: Rubrik, a cybersecurity software startup backed by Microsoft Corp (MSFT.O) and valued at US$4 billion in a fundraising round two years ago, will go for an IPO, with the company said to have been working with investment banks, Goldman Sachs, Barclays and Citigroup for its planned stock market flotation. Currently there seems to be slow down in their revenue, with the entity having revenue grew about 8% year over year during the six months that ended in July, to nearly US$290 million, a 18% YoY decrease when compared to last year.

- **Waystar**: The much-awaited IPO of 2023, healthcare payments company Waystar has postponed its initial public offering as the company plans to ride out market volatility. Waystar got good feedback from investors as it tested the waters but still decided to postpone because of volatility in the broader market. The valuation could be set at US$8 billion with debt. Waystar was valued at US$2.7 billion when investment firm EQT and Canadian pension fund giant CPPIB acquired a majority stake in the company in 2019 from Bain Capital, with Bain staying on as a minority investor.
- **Stripe**: Digital payment processing company Stripe's potential IPO is one of the more anticipated offerings around right now. Stripe has filed paperwork showing its intent to make a public offering, but no IPO date has been set yet. A potential IPO for the company has been talked about for years, and there is hype for a Stripe IPO. With competitor PayPal (PYPL 2.78%) already struggling. It'll be interesting to see what Stripe can do.

Investors are also likely to sway towards companies with an ESG concept and those that can demonstrate the adoption of AI applications into the business models and operations. In this space, the equity issuance pipeline is from a clutch of startups who are offering innovative business, and these companies have attracted funding via traditional venture capital and strategic investments from other technology providers.

However, they have to prove that their foundation models are adaptable to new ways of doing business by embracing technology and AI applications and agile enough to overcome supply chain constraints and macroeconomic challenges, besides having strong working capital.

Conclusion

The past five years have upended economies globally, as the pandemic resulted in unprecedented monetary and fiscal stimulus policies, followed by decades high inflation, and the sharpest monetary policy tightening in the last four decades. The riskiest geopolitical circumstances in decades compounded this sense of upheaval. The outlook is not rosy, but it's also not bleak.

Disinflation is underway and the central banks have likely finished their rate hike cycles. Despite these general market expectations, there is still uncertainty whether another interest rate hike will be required to control inflation amid labor market shortages and disruptions in the global supply chain.

Going into the new year, the valuations appears for most stocks still appears to be reasonable, except in the most popular areas of the global equity market. The potential equity investors are suggested consider the companies that provides visible growth, poised to generate higher margins, have strong balance sheets and proven management teams. In a nutshell, the investors should focus even more than usual on stock selection as the driver of returns, considering elevated macro and geopolitical uncertainty.

The equity issuance market will also be heavily dependent on the stability of the macroeconomic environment as well as a positive track record of recent post-listing performance. The market is 'cautiously optimistic' and expects that the momentum in equity issuance activity will continue at the back of improved sentiments and strong pipeline of companies who have already announced their intention to proceed with initial public offering.

Again, the investors will continue to care more about the fundamentals such as a strong balance sheet, healthy cash flows and resilience amid weak economic conditions rather than how fast the company can grow and how high the valuation could reach. Investors are also likely to be more interested in companies with an ESG concept and those that can demonstrate the adoption of AI application into the business models and operations.

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AI-themed ETFs to overtake mutual funds

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Buying the Market – the masterpiece of Harry Markowitz and William Sharpe headed Burton Malkiel in 1973 to popularize the market-oriented investments and thereafter the first exchange traded fund (ETF) was created in Canada in 1990 (TSE 35 participation units), and the first US ETF (the SPDR S&P 500 ETF, SPY) came to market in 1993 and by 2000, US ETF offerings included funds tracking the S&P 500 and Dow Jones sectors, international MSCI indices, and major US capitalization and style benchmarks. MASOUD GHOLAMPOUR elaborates.

Over the following decade, ETF markets saw major growth, such that during 2001 to 2011, the number of ETFs listed globally increased from 250 to 3,700, registering an annualized growth rate of 30% and since then, the pace of increase of the number of ETFs listed slowed to 10% on average as the market matured.

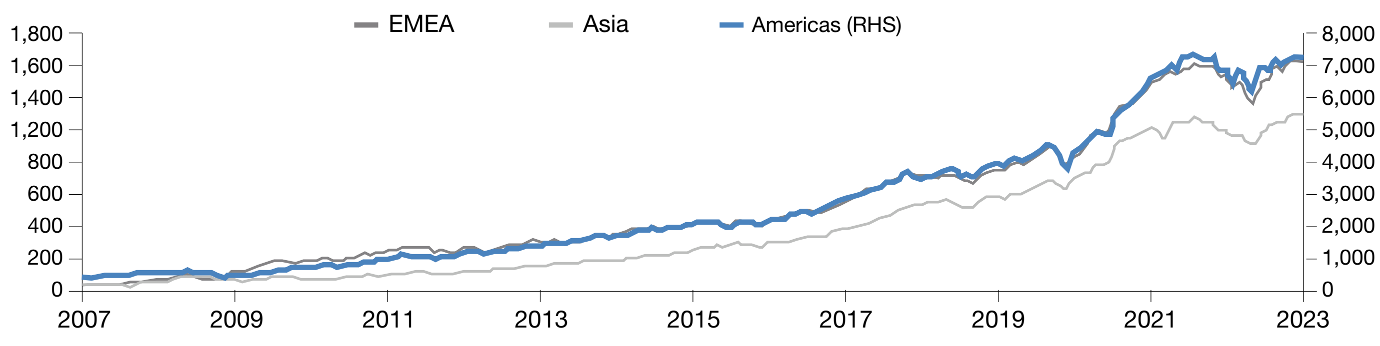
This investment medium which currently counts to 11,000 globally, has captured significant market interest and strong inflows during the last 10—15 years and as the end of August 2023, the global ETF assets under management (AUM) reached US$10.5 trillion, up from US$9.6 trillion a year ago.

The majority of these assets were held in equity ETFs (US$8,111.2 billion), followed by fixed income (US$1,974.3 billion), commodities (US$196.3 billion) and other ETFs (US$265.61 billion).

It was not surprising to see that the global ETF industry enjoyed overall inflows over the course of the first half of 2023. Nevertheless, these inflows occurred in an unstable market in which the market sentiment was driven by hopes that central banks (especially the US Federal Reserve) may have reached the last phase of their fight against high inflation rates and may therefore, start to keep interest rates at least stable quite soon though these expectations might be too positive given the hawkish statements from the Fed and other central banks such as the European Central Bank (ECB).

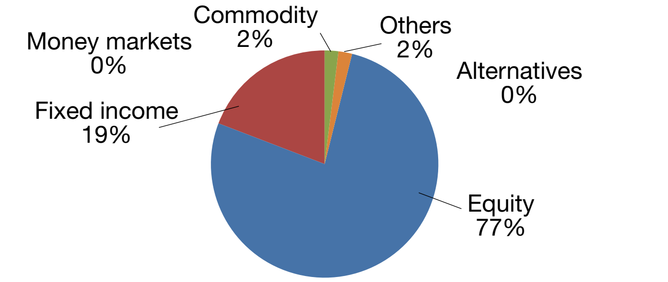
In addition, there are still concerns about the war in Ukraine and Israel-Palestine tensions which investors are also concerned about

Figure 1: Global ETF AUM historical trends by region (US$ billion)



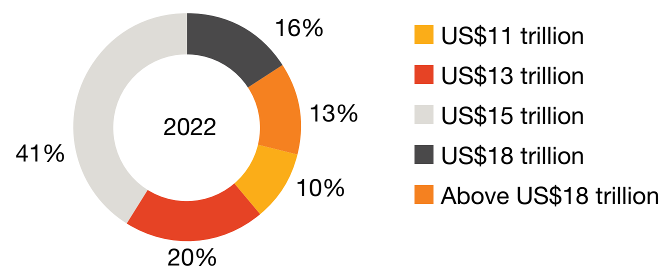
Source: J P Morgan Global ETF Handbook, June 2023

Figure 2: Global AUM by ETF type



Source: LSEG Lipper

Figure 4: Views on prospective growth of ETF by 2027



Source: PwC 2022 Global ETF Survey

the normalization of the disrupted delivery chains and market participants are still concerned about a possible recession in the US and other major economies around the globe which is signaled by the long-term inverted yield curves as an early indicator for an upcoming recession. With such a blurry environment, the promoters of ETFs enjoyed overall inflows (+US$334.4 billion) around the globe for the first half of 2023, LSEG Lipper reports.

Preview of 2024

In spite of the steady march downward of the global ETF fees to almost 17bps, it is expected that ETFs increasingly take market share of the actively managed universe from mutual funds, given ETFs' advantages: typically lower expenses, greater tax efficiency and custom in-kind baskets for rebalancing, intraday liquidity and continuous pricing, and the ability to short and trade options.

As such, a strong growth potential is predicted for actively managed ETFs in the years ahead. However, the broader rotation from active to passive funds appears unlikely to reverse near-term, suggesting the growth in active ETFs will likely come largely at the expense of active mutual funds rather than passive ETFs.

According to a JP Morgan report in June 2023, the recent public launch of generative artificial intelligence (AI) models also has stoked investor interest in potential beneficiaries of this technology and drove significant inflows to AI-related themes such that total AUM in AI-themed funds coming to US$8 billion. These funds posted a median 34% return YTD, strongly outperforming the S&P 500. Interestingly, this trend also has been seen in ETFs that invest in the AI theme, but not those that use AI methods/algorithms to select investments.

Also, as per PWC survey (2022) from 70 ETF executives on evaluating the ETFs outlook in 2027, the majority of respondents believe the global ETF AUM will climb to US$15 trillion or more by 2027 and the ETF market still offers a huge amount of untapped potential.

Further expansion is coming from major financial services groups looking to tap into the continued growth in ETFs and use their specialist expertise to develop a presence in segments such as active, thematic and ESG ETFs. Alongside fund launches, their inroads into the ETF market are coming from the conversion of existing funds and separately managed accounts. As PWC reports on Bloomberg Intelligence, nearly US$62 billion of mutual fund assets were converted to ETFs in 2021/2022.

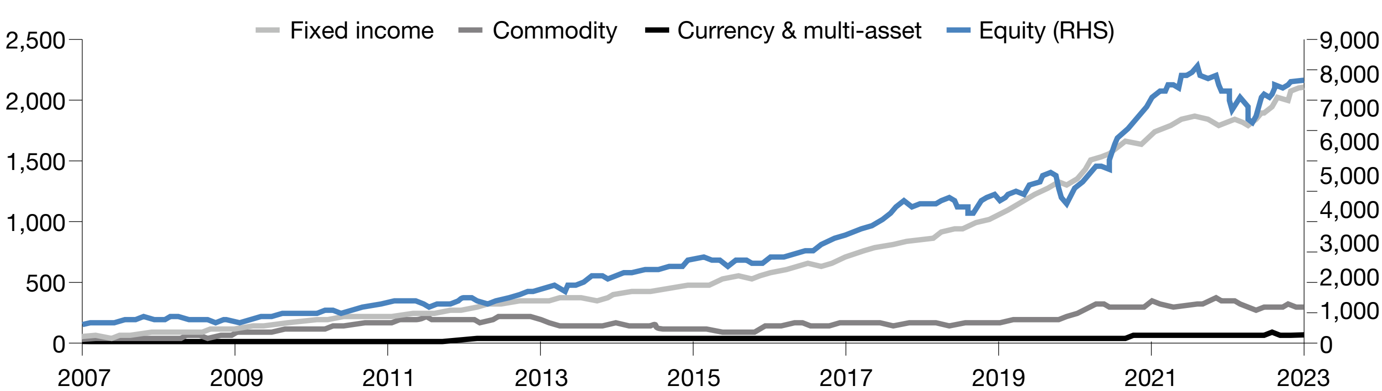
As PWC survey (2022) also demonstrates, ETF professional believe that faced with increased competition in Asia, Europe and North America, a growing number of ETF managers are targeting the underpenetrated markets of Africa, Latin America and the Middle East and survey respondents see digital asset ETFs and funds that offer exposure to alternative assets as offering the biggest untapped potential for innovation and growth.

Conclusion

With the current blurry status of the global economy challenging with interest rates and inflation beside the regional systematic and geopolitical issues, ETF solutions have been increasingly welcomed by investors in the recent years and this market-oriented investment vehicle has played a crisis-haven role.

Hence; as sector scholars also suggest, a strong demand on ETFs is predicted in coming years and it is predicted that the global ETF AUM reaches US$15 trillion with a shift to more active, schematic and ESG ETFs and AI solutions have the potential to prevail traditional mutual funds.

Figure 3: Global AUM historical trends by ETF type (US$ billion)



Source: JP Morgan Global ETF Handbook, June 2023

2024 a promising year for ESG and sustainability in the Islamic financial industry

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ESG has gained traction in the Islamic financial industry in the last three years with innovations across the various segments of the industry. 2024 is expected to be another year of increased activity in this space. However, greenwashing issues, product innovation in line with Islamic finance ethical principles and standardization of definitions and frameworks should be addressed to scale up the sustainability impact of the industry.

Review of 2023

2023 witnessed several developments in ESG integration across the key sectors of the Islamic financial industry. These include product innovation by Islamic financial institutions, expansion in ESG financing and investment, increased appetite for sustainable Sukuk issuance, enhanced ESG disclosure and the development of ESG and sustainable finance frameworks, in addition to the integration of ESG guidelines in the regulatory frameworks of several countries.

On the product development side, the integration of ESG considerations in the strategies of Islamic financial institutions resulted in the launch of several new products addressing social and environmental impact. For example, Abu Dhabi Islamic Bank (ADIB)'s three-year ESG strategy was followed by the launch of the ADIB Sustainable Finance Framework which should support the bank's green and sustainable product innovation.

Similarly, Masraf Al Rayan (MAR)'s Sustainable Financing Framework was followed by the launch of MAR's green deposit. Other initiatives include Qatar Development Bank's Clean Energy and Eco-Friendly Financing targeting SMEs; Dukhan Bank's eco-friendly vehicle finance; Dubai Islamic Bank (DIB)'s One Tree for Everyone initiative, whereby the bank will plant one tree for ever new customer who opens a DIB account; and XTCC's Shariah compliant voluntary carbon credit investment product.

Similarly, 2023 witnessed an increase in ESG financing and investment. According to Refinitiv, around US$14 billion in green and ESG bonds and Sukuk were sold in the first seven months of 2023, compared with US$8.9 billion in 2022. Among the notable transactions was Bapco Energies's US$2.2 billion dual tranche (conventional and Islamic) sustainability-linked loan.

In addition, many of the Islamic funds show relatively stable ESG scores over time, with only minor fluctuations. This stability suggests a consistent approach to ESG considerations and an ongoing commitment to sustainable and responsible investing. Top Islamic ESG funds include Interpac Dana Abadi, HSBC Islamic Global Equity Index AD, Emirates World Opportunities Fund C USD Cap, Comgest Growth Europe S Fund EUR Acc and Amana Income Fund.

In the Sukuk market, outstanding ESG Sukuk expanded by 66% year-on-year to reach US$33.3 billion globally as of the end of Q3 2023 (all currencies) according to Fitch Ratings. In Q3 2023, US$2.3 billion of ESG Sukuk (4.3% of total Sukuk) were issued in the core markets of the GCC, Malaysia and Turkiye. In terms of sustainable asset allocation, clean transport, energy efficiency, climate change adaptation and renewable energy projects dominated the use of proceeds allocation.

When it comes to transparency and standardization, 2023 saw the launch of several ESG disclosure and governing frameworks such as ADIB's Sustainable Finance Framework.

On the regulatory side, a steady increase in ESG-related laws and regulations was observed in various markets. In the UAE, for example, the UAE's Securities and Commodities Authority (SCA) requires public joint-stock companies listed on the Abu Dhabi Securities Exchange or Dubai Financial Market to publish an annual sustainability report.

Also, the SCA announced that corporates listing their green or sustainability-linked bonds or Sukuk on the local capital markets are exempt from paying any registration fees during 2023. In addition, Abu Dhabi Global Market has implemented a sustainable finance regulatory framework which provides an ESG finance classification.

Preview of 2024

According to S&P, the Islamic financial industry is expected to grow by 10% in 2024. We expect to see an increased focus on ESG financing, Sukuk issuance and sustainable financing frameworks. Similarly, and following the launch of sustainable financing frameworks in several countries, we predict a sharp increase in sustainable financing in 2024.

Expansion of mandatory disclosures

The uptake of mandatory ESG disclosures including stock exchanges' ESG and climate disclosure standards as well as the new reporting and disclosure requirements such as the Corporate Sustainability Reporting Directive and the climate and sustainability disclosures published by the IFRS Sustainability Disclosure Standards will scale up sustainability and ESG reporting in 2024.

Tackling greenwashing and social washing

As sustainability is gaining momentum in the financial industry, issues of greenwashing and social washing are becoming popular, including in the Islamic financial industry. In fact, according to ESG data firm RepRis, the number of instances of greenwashing by banks and financial services companies around the world rose 70% in September 2023 compared with the previous year, a majority of them by European financial institutions.

Therefore, dealing with misleading ESG disclosure is critical to advance real social and environmental impact. In this regard, we expect to see more guidance on carbon-credit-related claims and carbon offsets and mandatory climate-related financial disclosures.

Digitalization as an enabler for ESG product innovation

Innovation in digital sustainable finance consists of aligning sustainable finance innovation and digital transformation in product development to promote traceability and efficiency, ESG disclosure, impact assessment and financial inclusion. Among the initiatives to be launched in 2024 are the blockchain-based cash Waqf platform DigiWaqf and Entrex Carbon Market Shariah compliant revenue shares, in addition to digital innovations that support traceability and ESG assessment.

Compliance, governance and certification

With the uptick in sustainability and ESG-related activities, we expect an increasing demand for third-party certification and advisory services. Additionally, there will be more focus on sustainability governance, reporting and auditing to comply with national and international industry standards and policies.

Takaful: An underserved segment

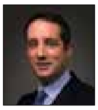
While Islamic banking and capital markets are leading sustainability integration, a similar trend is expected in 2024 in the Takaful segment. As ESG risk analysis is developing in the insurance segment, we foresee the same trend in the Takaful industry. Leading initiatives in this area include PruBSN's Takafulink Dana ESG Global Fund, the first Shariah compliant ESG fund in Malaysia launched by a Takaful operator. In the same vein, the fully-fledged Islamic bank Agrobank has announced plans to launch an agriculture-based Takaful program that will provide basic protection for the agricultural community against losses, particularly due to natural disasters.

Conclusion

As the global economies are transitioning infrastructure to meet net zero and the SDGs, scaling up sustainability integration in the financial industry is becoming more and more critical.

The Islamic financial industry has the potential to leverage on its ethical foundations to scale up its sustainability impact. Expanding ESG innovations to the Takaful and Islamic social finance sectors beyond the banking and capital market segments can scale up its impact. To achieve their full potential, Islamic financial institutions should focus on sustainability integration as a core strategic area that informs their financing and investment decisions.

Integration of gold within the Islamic finance sector offers promising prospects



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Gold continues to be a pillar of stability in the global economic and financial landscape. In 2023, amid fluctuating economic and geopolitical conditions, the demand for gold has been sustained, underscoring its traditional role as a hedge against inflation and economic instability. This is particularly significant in the context of Islamic finance, which values stability, ethical investment, and asset-backed financial practices. Gold's distinct characteristics, such as its liquidity, diversification and returns and role as a wealth preservation tool, align closely with the principles of risk sharing and avoidance of speculation that define Islamic finance. This year had presented numerous indications that gold is a well-established asset and the outlook for the year ahead in 2024 will show that gold has a role to play in Islamic finance. ANDREW NAYLOR analyzes.

Review of 2023

The year 2023 marked a dynamic phase for gold, reflecting its resilience and adaptability in a challenging global economic environment. According to the World Gold Council, gold demand as of Q3, excluding over-the-counter (OTC) transactions, was 1,147 tonnes, 8% ahead of its five-year average.

Central banks played a pivotal role in this landscape, with net buying of 337 tonnes in Q3 2023, marking the third strongest quarter in the data series. The overall year-to-date buying, at a record 800 tonnes, was 14% ahead of the same period in 2022. This robust buying pattern signifies the growing focus on gold as a strategic reserve asset among adverse group of central banks globally.

The investment aspect of gold in 2023 presented a mixed picture. Bar and coin investment, aligning well with Islamic finance's preference for tangible asset investment, remained resilient, especially in regions like the Middle East, Turkey, and China. Underscoring the dual nature of gold, physically-backed ETFs (exchange-traded funds that are backed by physical gold, some of which are Shariah compliant) saw outflows. Often appealing to the institutional market, gold ETFs saw outflows due to persistent concerns about rising interest rates, which was a key theme of the year.

The supply side of gold also reached new heights in 2023. Q3 mine production hit a record 971 tonnes, contributing to a new year-to-date high of 2,744 tonnes. The recycled gold supply increased by 9% to 924 tonnes, supported by elevated gold prices but tempered by economic resilience in the US and a strong investment motive in the Middle East.

Preview of 2024

As we look toward 2024, several trends, challenges, and opportunities are poised to shape the gold market. The ongoing geopolitical tensions and macroeconomic uncertainties are likely to sustain gold's appeal as a safe-haven asset. For the Islamic finance sector, this presents a valuable opportunity to further integrate gold into its investment portfolio.

Innovation in gold-based financial products that are Shariah compliant could be a key driver for growth. The development of gold-based Sukuk, digital gold investments, and gold-backed investment funds offer avenues for diversification and ethical investment. As a diversification instrument in Islamic finance, gold can greatly develop the industry due to its minimal correlation with other asset classes, a significant advantage given the limited range of Shariah compliant investments. These products could attract a broader range of investors seeking stability and ethical investment opportunities within the Islamic finance framework.

Conclusion

The gold market's performance in 2023 highlighted its enduring value and relevance in a rapidly evolving global economic landscape. As we advance into 2024, the integration of gold within the Islamic finance sector offers promising prospects, a hallmark opportunity for Shariah finance in the modern age. The evolving landscape of gold investments, characterized by new Shariah compliant products and a focus on sustainability, will likely play a crucial role in shaping the future of both the gold market and Islamic finance.

The Halal industry encounters challenges in human resource quality and global competitiveness

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The global Muslim population of 1.9 billion makes it fertile ground for the Halal industry. Expansion could boost exports, foreign exchange reserves and overall economic growth. While food and cosmetics drive the industry presently, untapped opportunities exist across other sectors. The Halal industrial sector often goes unnoticed but wields significant impact. In this dynamic Halal industry, stringent Islamic law requirements guide all aspects. Raw materials and production processes must conform to Shariah principles, ensuring freedom from Haram ingredients. Processing, separation and sanitation must adhere to Halal standards. Halal products must earn certification and labels from authorized bodies to meet Halal standards, necessitating rigorous supervision and audits.

The Halal industry meticulously abides by Islamic law, where raw materials and production processes align with Shariah principles. This encompasses the exclusion of Haram elements and the implementation of proper processing, separation and sanitation practices. Certified compliance is ensured by authorized institutions. Beyond edibles, the Halal industry spans tourism, cosmetics, finance, fashion, media, arts and culture.

Review of 2023

Based on the State of the Global Islamic Economy Report 2022 published by Dinar Standard, many of the 81 countries covered in this year's updated Global Islamic Economy Indicator continue to develop more robust Islamic economy ecosystems. The top four positions remain unchanged from last year, with Malaysia retaining the top spot for the ninth consecutive year.

Malaysia is followed by Saudi Arabia, the UAE and Indonesia. New entrants to the top 15 include the UK and Kazakhstan. Turkiye and Singapore moved up seven and eight places to reach the 5th and 7th positions respectively. Based on the aforementioned State of the Global Islamic Economy Report 2022, the Halal food and beverage sector, the Muslim fashion sector, as well as the media and recreation sector have the greatest potential globally.

In the report, the consumption by the Muslim community globally of Halal food and drinks experienced an increase of 6.9% year-on-year (y-o-y) in 2021 from US$1.19 trillion to US$1.27 trillion, and is expected to grow by 7% in 2022 and projected to reach US$1.67 trillion in 2025 with a compound annual growth rate (CAGR) of 7.1%.

In the fashion sector, shopping by the Muslim community experienced an increase of 5.7% y-o-y from US$279 billion in 2021 to US$295 billion in 2022 and is projected to reach US$375 trillion in 2025 with a CAGR of 6.1%. The third-largest value of the Halal industry was recorded by the media and recreation sector with an increase of 7.2% in 2021 from US$216 billion to US$231 billion, and is expected to grow by a further 7.5% in 2022 to US$249 billion and reach US$308 billion in 2025 with a CAGR of 7.5%.

Preview of 2024

Recently, consumers either Muslim or non-Muslim are increasingly seeking products and services that align with their values and ethical,

religious and health considerations. The COVID-19 pandemic played a significant role in this shift of preference. Halal and Tayyib food and beverages, modest fashion, pharmaceuticals and cosmetics, globalization and cross-cultural influence of Halal cuisine, social media and influencer marketing and the educational movement in increasing literacy and awareness are playing a significant role in shaping consumer perceptions, preferences and behaviors.

Meanwhile, since the last decades, the Islamic economy has been growing very rapidly. Even non-Muslim countries such as Japan, China, South Korea, Thailand and Australia are involved as major players of the global Islamic economy. The industrial sector is a driving force for economies; the Halal industrial sector often goes unnoticed but wields significant impact.

Halal industry food consumption is estimated and expected to reach US$1.38 trillion by 2024. The COVID-19 pandemic has proven to be a challenge for global food production and distribution, and the Halal industry sector is no exception.

Conclusion

The Halal industry encounters some challenges, including human resource quality and global competitiveness. The lack of certified players also hampers progress, hindering business growth.

Tackling these hurdles is essential to unlock the Halal industry's potential, so support from Islamic financial institutions that offer various Shariah compliant financial services is crucial, with certification through regulatory collaboration with Halal authorities.

This financial support provides a strong foundation for the growth of the Halal industry and its broader economic contribution.

The role of Islamic finance in empowering the Halal industry is guided by Islamic teachings, which encourage the Halal industry via the following:

1. Financing — offering Shariah compliant options (Murabahah, Mudarabah, Musharakah) to expand Halal businesses.
2. Investment — attracting ethically minded investors toward Shariah compliant Halal opportunities.
3. Risk-sharing — providing Shariah insurance for resilience and maintaining the Halal business.
4. Ethical screening — directing funds to the Halal sector and adhering to ethical guidelines.
5. Compliance and certification — partnering with Halal certification bodies, verifying Halal business compliance and providing the necessary support.

Trends in the Islamic institutional asset management sector

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The global landscape of Shariah and Islamic funds is evolving at an unprecedented rate with new developments coming thick and fast. This sector continues to exhibit robust growth. According to data from the General Council for Islamic Banks and Financial Institutions based in Bahrain, this sector has expanded by an impressive 300% over the last decade, culminating in approximately US$200 billion in assets under management by 2022.

Despite encountering a temporary slowdown due to the COVID-19 pandemic, this sector continues to exhibit robust growth. Notably, this growth extends beyond traditional Muslim-majority nations, encompassing regions such as the UK, Europe, the US and India. These geographies have a keen interest in ethical investments or have substantial Muslim populations, and even jurisdictions which have not traditionally explored this sector are now demonstrating substantial interest in Shariah funds.

Review of 2023

In 2023, the Israeli Security Authority (ISA) announced that it will now support Halal or Shariah funds and released a rulebook to support this strategy. The ISA's regulations have been widely welcomed and praised by the industry, seeing this as a significant stride toward enhancing the availability of Shariah compliant investment opportunities. With a global financial climate displaying a growing affinity for ethical and Shariah compliant investments, Israel's foray into this arena opens doors not only for its citizens, but for a diverse array of international investors seeking both financial returns and ethical alignment.

This further support by new jurisdictions for Shariah funds is building on a long history of substantial growth of Shariah funds. These funds are investment funds whose rationale and operations are governed by the requirements of Shariah and fundamental principles of Islam. The way people view Shariah funds is evolving; they are starting to be looked at seriously as SRI due to the requirements of Islamic social justice principles but recently there has been much discussion on how Shariah funds have a strong overlap and similarity to ESG funds.

This latest development taps into a huge well of potential for Shariah compliant investments globally, and a reflects the significant uptick in investor interest for these types of investments. While nearly 25% of the world is Muslim, less than 1% of global financial assets are currently **Shariah compliant**.

While the demand exists, Shariah funds have traditionally been seen as more challenging than normal funds for several reasons. Due to the nature of the investment thesis, much of the investment happens in private placement and valuations are challenging. These funds also are not much traded in secondary private markets so secondary market valuations are therefore less than satisfactory. Besides this, the need to have a Shariah board which will evaluate the investors regarding investments means that the governance and investment costs go up.

To make it more complicated, Shariah interpretations across different Islamic schools, countries and times make it difficult to compare/contrast funds and make the overall market fragmented. The need for Shariah compliant audits, reporting, due diligence and use of proceeds all drive up costs. Interest, whether receiving interest or carrying interest, becomes problematic.

Contrary to popular opinion, banned sectors such as alcohol, war industries, banned drugs, etc, are not an issue as ethical investment frameworks are quite well known. This is driving standardization and outsourcing to reduce costs and to keep making this sector cost-competitive.

2023 saw a steady growth in the market, helped no less by the increase in the interest rate environment in most developed countries and increase in inflation. Comparison of the risk-adjusted performance of 476 Islamic and 591 conventional equity funds during the COVID-19 pandemic showed that Islamic equity funds outperformed non-Islamic counterparts, confirming the safe-haven properties of **Islamic equity funds**.

There is also an increase in retail customers wanting to see Shariah funds in their investment or pension portfolios. This is further increasing the demand for the sector. The year also saw some interesting developments in the individual fund space: existing private equity funds converting into Shariah compliant funds; a substantial increase in the launch of Shariah compliant funds in the real estate space; and Shariah funds starting to invest in new markets, especially emerging markets such as India in the infrastructure sector.

2023 also saw the development or increased use of specialized structures where there are optional Shariah compliant parallel partnerships which only invest in Shariah compliant opportunities but excuse themselves from other investments by the fund; a substantial increase in the setting-up of Shariah compliant feeder funds which enter into a Murabahah agreement with the conventional master fund so that Shariah investors get an equivalent return without being exposed to any Haram elements.

Preview of 2024

We expect these trends to not just continue but also accelerate in 2024 and beyond. COP27 [2022 United Nations Climate Change Conference] was hosted in Egypt and COP28 [2023 United Nations Climate Change Conference] is going to be hosted in the UAE. Servicing this new demand and the latent existing demand, there are nearly 1,000 Shariah funds being launched on a yearly basis and there is no sign of this growth reducing. Looking at the performance, Shariah funds have recently outperformed traditional funds; the iShares MSCI World Islamic Index outperformed the FTSE All World Index by almost 6% in 2022. This growth came especially in the GCC and also in other markets such as the UK and India albeit from a lower base.

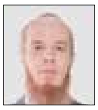
We will also see an increase in other financial institutions entering into this market to take advantage of the growth opportunities although some element of mergers to improve opportunities and returns cannot be ruled out. However, the area of Shariah investment remains highly fragmented with lack of standardization, uneven rules and unclear and inconsistent regulations across jurisdictions. Regulatory harmonization and consistence will be essential to scale up these investments and achieve a more sophisticated global framework.

Conclusion

In order for funds and investors to fully avail of these latest developments, the right support service providers will play an important role. These funds are not only seeking access to the latest fund administration technology, but also advisory services in terms of Shariah-trained staff with the knowledge and ability to handle complex Shariah and fund regulations while providing transparency in Islamic fund reporting and valuations.

Apex Group sees an increased focus on trying to improve the efficiencies of this sector, by reducing the time to establish these specialized funds, reducing the costs of running these funds and finally making it easier for funds to realize their investments.

Islamic fintech: Between significant strides and ethical questioning



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Islamic fintech, a generic term to summarize the applications of digital technologies in Islamic finance, has experienced rapid growth in recent years, particularly since COVID-19 which has significantly disrupted the way in which people, businesses, nonprofit organizations, local authorities and states carry out their financial transactions. The advent of financial technologies in the field of finance has not always had good press. Initially, banks saw fintech companies as competitors.

Over time, big banks began to invest and partner with fintech companies, as soon as they realized the opportunities. They were followed by other financial institutions, notably insurance companies. Guided by mimetic desire, Islamic financial institutions have taken the same path.

Review of 2023

The transformative potential of digital technologies in the field of finance appears to Islamic finance stakeholders as promising for the construction of a resilient, inclusive and sustainable Islamic financial sector.

The conferences, workshops and publications strive to explore the interactions of applications of digital technologies in Islamic finance with the Maqasid Shariah, SDGs, financial inclusion, disruptive innovation, development of digital platform communities that allow access to P2P financing and partnership to build a collaborative and innovative Islamic fintech ecosystem.

The recurring themes are: rapid growth in Islamic fintech; expansion of Islamic digital banking, blockchain and cryptocurrency in Islamic finance; global collaboration; regulatory frameworks; sustainability and ESG; increasing accessibility to financial services in Islamic communities and extending access to investment opportunities to a larger number of participants or beneficiaries.

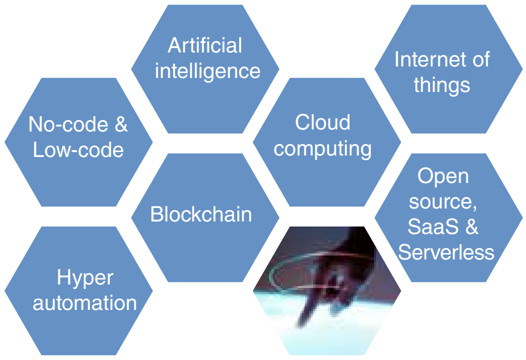
We find almost the same themes in global finance apart from that of Maqasid which appears under the notion of ethics through titles like 'FinTech Ethics', 'Ethics in Fintech' and 'Ethical Implications of Fintech'. One of the major advantages of digital technologies is that they considerably reduce costs. By automating processes that would otherwise require human intervention, they improve operational efficiency.

Another advantage is that they can improve decision-making by using artificial intelligence to learn from big data. Above all, digital technologies are helping to change the way we approach innovation, based on the idea that there can be no creativity without disruption. Disruptive innovation differs from incremental innovation which does not cause a significant break in the market.

When it comes to data, what is most interesting is not the data itself, which varies from one source to another, but the underlying epistemological model, which is more focused on the assumption of market efficiency, ie maximizing volume and profit and minimizing time and cost, with resilience taking a back seat.

Like all the techniques that have succeeded one another throughout history, digital technologies constitute a speculative bubble whose asset prices are rising excessively, beyond their respective intrinsic values. This illustrates the importance of exploration and making data talk.

Figure 1: Technologies shaping the future of fintech



Source: Fong, D., Han, F., Liu, L., Qu, J. & Shek, A. 'Seven technologies shaping the future of fintech', McKinsey & Company, 9th November 2021

Preview of 2024

In this regard, the exploration and data talk-making allows understanding without doing calculation. This allows us to understand that despite all their advantages, digital technologies raise important issues for Islamic finance that cannot be grasped through the fashionable theme of Maqasid Shariah, whether in their general, auxiliary or specific dimensions.

Lack of knowledge of digital technologies can be a thorny problem in terms of risks that are not limited to cybersecurity. That is why it is important to ask ethical questions, to keep a human fiber.

Islamic fintech players will have to deal with the human element to guarantee not only accessibility but above all financial confidence and reputation regarding their brand image which could be tarnished by formal compliance with injunctions, maxims and purposes of Shariah, beyond advantages, disadvantages and the underlying binary logic.

A study titled 'Seven technologies shaping the future of fintech' published by McKinsey (see Figure 1) highlights that in the next 10 years, seven key technologies will drive business model reinventions while shaping the competitive landscape of the financial industry: 1. Artificial intelligence will drive massive value creation; 2. Blockchain will disrupt established financial protocols; 3. Cloud computing will liberate financial services players; 4. Internet of things will drive a new era of trust in finance; 5. Open source, SaaS [software as a service] and serverless will lower barriers to entry; 6. No-code and low-code will redefine application development; 7. Hyper automation will replace manual work.

Conclusion

While this enumeration mentions that financial institutions will need to leverage their considerable resources to stay at the forefront of disruptive innovations, it entrenches in people's minds an evolutionary approach in terms of adapting to the market. This will have considerable repercussions on Islamic financial engineering and Islamic fintech teaching and training programs, which are marked by a flagrant lack of conceptual coherence and Shariatic security beyond cybersecurity. Talking is one thing, knowing is another.

The growth of passive investments in Islamic finance: Trends and implications

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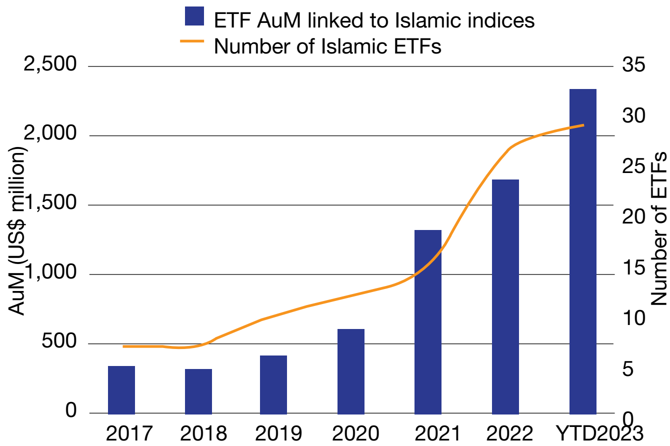
Islamic indices provide market participants with a comprehensive set of Shariah compliant benchmarks for equities and Sukuk, offering a diverse range of strategies tailored to various investment goals. These have been developed to cater to the unique needs of the Islamic financial ecosystem, reflecting the evolving dynamics of the global market. Historically, Islamic investing has been predominantly actively managed; however, a recent shift toward passive investing is evident, especially as Shariah investors see the benefits of exchange-traded funds (ETFs) — including transparency and cost-efficiency — over active funds. In the predominantly Muslim MENA region, the benefits of passive investments are especially pronounced. According to the S&P Indices Versus Active (SPIVA) MENA Mid-Year 2023 Scorecard, 85–88% of equity funds in the region underperformed their benchmarks and only 42% survived over the past decade.

Chart 1: ETF AuM and number of funds linked to Islamic indices



Source: FactSet. Data as of the 30th September 2023. Chart is provided for illustrative purposes.

Review of 2023

Global Islamic indices dropped by over 20% in 2022, paving the way for a 2023 **resurgence**. During the first nine months of 2023, the **S&P Global BMI Shariah** and **Dow Jones Islamic Market World Index** increased by approximately 12.3% and 13% respectively (data as of the 30th September 2023). Over the past 10 years, the S&P Global BMI Shariah outperformed its conventional benchmark in five-year rolling returns nearly 75% of the time. The asset landscape mirrored this upward trend. By the 30th September 2023, there were 29 Islamic ETFs with combined assets under management (AuM) of US$2.33 billion — a significant jump from 2022's 26 ETFs and US$1.67 billion AuM. Looking back five years, the growth has been even more remarkable: from seven ETFs and AuM of US$326 million in 2018. In response to the surging interest in Shariah compliant investing, especially among Australia's growing Muslim community, S&P Dow Jones Indices collaborated with the Australia Securities Exchange (ASX) to introduce its first Shariah compliant series of benchmarks to the Australian market, the S&P/ASX Shariah Indices, in March 2023.

With the launches of the **S&P/ASX 200 Shariah** and **S&P/ASX 300 Shariah**, the renowned S&P/ASX Indices now complement other globally recognized Shariah compliant equity benchmarks, including the **S&P 500 Shariah**, **S&P/TOPIX 150 Shariah** and **S&P/TSX 60 Shariah**. In parallel to equity indices, Sukuk listings increased significantly over the past decade. Conventional and Shariah compliant bonds increased notably to US$180 billion in outstanding debt, with Sukuk representing a substantial portion, at US$77 billion. Among the notable listings were the UAE Ministry of Finance Sukuk and the debut of ESG Sukuk, with total ESG Sukuk reaching approximately US$18 billion. Concurrently, in Saudi Arabia, the domestic government Sukuk market, as represented by the **iBoxx Tadawul SAR Government Sukuk Index**, flourished between 2019 and 2022, establishing Saudi Arabia as the premier global sovereign Sukuk issuer. Since the index's inception (30th June 2019), the Sukuk count rose from 29 to 50, with the total notional outstanding **advancing** from about US$40 billion to US$115 billion.

The past few years have witnessed a significant pivot from predominantly active Shariah compliant mutual funds to passive index-based investing. Notably, almost 75% of Islamic ETFs were launched post-2017, and a significant number of these funds have **expanded** their reach from traditional Islamic hubs like Malaysia and Saudi Arabia to North America and Europe. This evolution is underscored by the listing of Shariah compliant ETFs on major platforms, like the **London Stock Exchange**, New York Stock Exchange and elsewhere, signifying the increased value of these offerings.

Preview of 2024

Islamic indexing and passive investing trends align with the global momentum toward sustainable and diversified portfolios. The Islamic finance sector, currently holding assets worth approximately US$2.2 trillion, is projected to skyrocket to almost US$4.94 trillion by **2025**. Increasingly, the Islamic finance sector is embracing diverse asset classes, including asset leasing, real estate, commodities trading and Sukuk (Islamic fixed-income securities). This expansion signals a commitment to a more resilient and varied Islamic financial **ecosystem**.

The global trend toward sustainability investments is also evident in Islamic finance. The overlap of Islamic finance principles with sustainability criteria has spurred the emergence of Shariah compliant ESG ETFs. For instance, the Wahed Dow Jones Islamic World ETF, known for its sustainability focus, exemplifies the melding of Shariah principles with ESG criteria, ushering in a fresh era of ethical Islamic passive investment **offerings**. These developments depict an evolving Islamic finance industry, increasingly aligned with global passive investment trends and tailored to the intricate requirements of Muslim investors. The convergence of Islamic finance, passive investing and sustainability principles not only broadens the Islamic finance product suite but increasingly promotes a global transition toward ethical investment methods.

Conclusion

The ascent of passive investments in Islamic finance underscores the adaptability and resilience of Shariah-aligned financial strategies. Given the challenges that many active Islamic funds face in consistently outperforming their benchmarks, the increasing rise of transparent, cost-effective passive alternatives is readily apparent. The positive trend in AuM growth observed in 2023 reflects the expanding availability and wider acceptance of Islamic passive investments. As the Islamic financial market continues to mature and innovate, passive strategies are poised to assume an increasingly central role, providing investors with a well-rounded approach that seamlessly combines Shariah compliance, performance and cost efficiency.

The evolution of Islamic finance mergers and acquisitions in 2024 and beyond

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Islamic finance is witnessing significant activity in the realm of mergers and acquisitions (M&A), reflecting the industry's growing importance and strategic maneuvers by key players. The global Islamic finance industry is growing rapidly and M&A deals are playing a key role in its development. M&A deals allow Islamic financial institutions to expand their reach, diversify their product offerings and gain access to new markets.

In recent years, there has been a surge in M&A activity in the Islamic finance sector. This is due to a number of factors, including the growing demand for Islamic financial products and services, the rising affluence of Muslim consumers and the increasing sophistication of Islamic financial institutions.

Review of 2023

Islamic finance has emerged as a key driver of M&A activities in the Middle East during 2023. Notably, Al Salam Bank increased its stake in ASB Algeria, a strategic move aimed at expanding its foothold in North Africa. This acquisition reflects the industry's growing confidence in non-Gulf markets. Similarly, Bank Dhofar's bid to acquire Ahli Bank underscores the rising importance of Islamic finance-related M&A deals within the region. This potential merger positions the two Omani banking giants for robust growth and the delivery of innovative Islamic financial solutions to customers.

The year 2023 witnessed a remarkable surge in M&A activities within the GCC Takaful sector, driven by the region's ongoing economic recovery from the COVID-19 pandemic. Factors such as higher hydrocarbon prices, increased non-oil sector activity and substantial government spending on infrastructure projects have bolstered growth prospects for Islamic insurers. This surge in demand, coupled with regulatory pressures, has led to a substantial increase in M&A activities.

Notable transactions include the merger of Alinma Tokio Marine and Arabian Shield Cooperative Insurance, as well as Saudi Enaya Cooperative Insurance's union with United Cooperative Assurance. The successful delisting of SABB Takaful from the Saudi Exchange following its merger with Walaa Insurance exemplifies the consolidation trend. Further consolidations, such as SALAMA's merger talks with Dubai Islamic Insurance and Reinsurance, point to a future of robust M&A activities within the Takaful sector.

Islamic finance's global prominence in 2023 has attracted the attention of major international banks. The ethical and risk-sharing principles of Islamic finance align with the growing demand for responsible financial products. Within the GCC region, Moody's Investors Service predicts a surge in M&A activities among banks, fostering diversification and revenue synergies.

Saudi Arabia and the UAE, both at the forefront of the Middle East's M&A landscape, exemplify the shift toward Islamic finance. This trend is not limited to the GCC; worldwide, Islamic finance's growth is shaping the industry's future. Fitch Ratings supports this notion, predicting increased participation of Islamic banks in GCC banking sector consolidation deals.

With large-scale economic diversification initiatives underway, the region's banks are gearing up to support these endeavors. Bahrain's Islamic banking market is particularly poised for substantial growth, supported by favorable prudential requirements and an array of Islamic liquidity-management tools.

Preview of 2024

The momentum witnessed in Islamic finance-related M&A activities during 2023 is expected to persist and potentially intensify in 2024. Islamic finance's global recognition and adherence to ethical principles continue to attract investors and customers alike. Banks within the sector are likely to pursue consolidation as they seek to expand their market presence and cater to the growing demand for ethical financial products. The dynamism and strategic positioning of Islamic finance will be key drivers of further transactions, shaping the industry's trajectory in 2024.

As economies across the MENA region continue their diversification efforts, the role of Islamic finance is set to expand. This growth is not limited to the GCC; it extends to markets outside the Gulf region. The rising demand for Islamic banking products and services, coupled with regulatory support, has created a favorable environment for M&A transactions within the Islamic finance industry. Institutions are expected to leverage consolidation to strengthen their market position and contribute to the industry's growth. In particular, we can anticipate an increase in cross-border transactions as Islamic financial institutions explore opportunities beyond their traditional markets.

Regulatory bodies are expected to play a more pronounced role in supporting the growth of Islamic finance in 2024. Governments across the region are recognizing the importance of Islamic finance in diversifying their economies and promoting ethical finance. This support is likely to result in regulatory frameworks that facilitate M&A transactions within the industry, further encouraging consolidation and expansion. Additionally, increased regulatory alignment among Islamic finance institutions is expected, fostering greater cooperation and standardization.

Conclusion

In conclusion, the outlook for Islamic finance-related M&A activities in 2024 is optimistic. The industry's ethical principles, alignment with diversification efforts and regulatory support are poised to drive continued consolidation and expansion, solidifying its position as a vital force in the global financial landscape.

Islamic finance-related M&A deals have played a pivotal role in the financial landscape of the Middle East in 2023. These transactions reflect the industry's growth, strategic initiatives and the attractiveness of ethical financial principles. As economies in the region diversify and demand for Islamic banking products rises, M&A activities will continue to support the industry's expansion and development, reinforcing the Middle East's position as a global financial powerhouse.

Financial inclusion to be critical for climate change adaptation

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In the rapidly evolving landscape of global finance, Islamic microfinance has emerged as a powerful tool for promoting financial inclusion and poverty alleviation. With its adherence to Shariah principles and focus on serving marginalized communities, this sector has gained significant traction in recent years. In 2023, the Islamic microfinance industry stood at a critical juncture, with assets under management exceeding an estimated US$2 billion — growing but still a 'drop in the ocean' within both the larger Islamic finance and conventional microfinance landscapes.

Financial inclusion lies at the heart of the Islamic microfinance movement. In many Muslim countries, a large proportion of the population remains unbanked, leaving them vulnerable to exploitation by loan sharks and money lenders. These marginalized individuals have limited access to formal financial services due to factors such as lack of documentation, geographical barriers and religious constraints. Islamic microfinance has emerged as a viable alternative to banking, offering financial solutions that are compliant with Shariah principles.

Globally and especially in developing economies, micro and small enterprises are the backbone of economic growth. In the Muslim world, the bulk of value creation happens in small, often even unregistered, enterprises. But they do not get much of the limelight, are not necessarily — in a commercial sense — profitable, and they lack accountability and transparency, ie they are broadly speaking not being creditworthy or 'investable'. Microfinance institutions have been overcoming this financing gap through tools such as social collateral, although the Shariah compliant sector is chronically under-funded and under-supported with conventional providers making up the vast majority of the US$251 billion strong market that serves over 150 million customers the world over.

Review of 2023

The global Shariah compliant microfinance sector is growing and there are now some 3,500 Islamic microfinance providers ranging from microfinance banks to cooperatives and fintechs. However, the sector is dominated by very few big players such as Akhuwat in Pakistan, Amanah Ikhtiar Malaysia, Islami Bank Bangladesh or the BMT [Baitul Maal wat Tamwil] movement in Indonesia.

Concerningly for market development, we did not see any significant investments by the IsDB in the microfinance sector akin to the heyday of conventional microfinance in the early 2000s when international financial institutions and development banks were making a concerted effort to build what is today an industry. The Islamic development finance sector seems to have opted for a policy shift to economic empowerment — like its conventional counterpart — rather than just supporting widening access to accounts by providing subsidized or free-of-cost capital and technical assistance to build basic financial infrastructure. However, over 500 million poor people in OIC countries remain simply financially excluded.

The lack of product standardization remains a further major concern especially for Qard Hasan which the Islamic microfinance industry relies heavily on. It is also likely to be the product of choice going forward with the sector's focus being social impact rather than sustainability. The current AAOIFI product standard was drawn up with commercial banks in mind which have a suite of revenue-generating financial services. But for microfinance institutions which serve poor and vulnerable customers, perhaps solely through Qard Hasan, full cost-recovery opens up Shariah non-compliance risks under the current AAOIFI interpretation.

Preview of 2024

Climate change will require significant adaptation at the household and enterprise levels that need to be financed. Islamic pay-as-you-go solar systems for light, electricity and irrigation could be a game changer. In addition to financing, microinsurance has emerged as a critical component of Islamic microfinance. Insurance coverage acts as a safety net for borrowers, protecting them from unexpected events such as natural disasters or crop failures. The lack of microTakaful options in some countries has left borrowers vulnerable to financial shocks, hampering the sustainability of microfinance initiatives. Efforts to develop microinsurance solutions tailored to the needs of Islamic microfinance clients can further strengthen the resilience of this sector.

Conclusion

Technology is going to play a crucial role in facilitating the growth of Islamic microfinance. With the increasing ubiquity of mobile devices and digital platforms, financial services have become more accessible to previously underserved populations. The use of technology has not only enhanced the delivery of conventional microfinance services but is likely to also open doors for new innovations such as Shariah compliant fintech solutions. Through the integration of technology, Islamic microfinance has the potential to reach even more individuals and communities, fostering greater financial inclusion. But it is important to understand fintech as a means to an end, rather than an end in itself.

Islamic private equity shows compelling promise in the face of market adversity — but which undercurrents should investors bear in mind?

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New and varied challenges in the wider economy have exerted pressures on Islamic private equity (PE) in 2023. Most prominently, higher interest rates caused retail consumers to approach Islamic financing more cautiously. Simultaneously, post-pandemic commercial property occupancy saw a slower-than-anticipated recovery. However, in the face of these conditions, Islamic PE grew from strength to strength in 2023.

While the UK continues to attract significant investment interest, this year's growth trajectory has also been notably boosted by global developments. These have come in the form of greater buy-in into mission-led innovation, new programs for cross-border PE flows and the maturing of the Islamic PE scene in key markets. Overall, growth in Islamic finance has robustly maintained its meteoric pace this year.

The Islamic finance market is **currently worth over US$3 trillion** — significantly more than its **end-2022 valuation of US$2.2 trillion**. For PE and venture capital (VC) investors, this poses convincing evidence of the sector's resilience. The market's standing as a fast-moving arena with high growth potential has become increasingly cemented, establishing this resilience as beneficial for Islamic PE's long-term outlook.

Review of 2023

In 2023, Islamic PE broke new ground by leveraging both Islamic finance's existing recognition as a key sector and the ever-growing need for diverse Islamic finance products. The latter requirement needs little introduction — **latest statistics** reveal that around a quarter of the world's current population (or 1.91 billion people) are Muslims and this will rise to 30% of the global population (or 2.76 billion people) by 2050.

In 2023, trailblazing developments in the ESG investment space arose from new collaborations between players across industries and borders. In the UK, Cur8 Capital participated in the GBP8 million (US$9.73 million) funding round of gradual ownership provider Wayhome. With traditional Islamic financial institutions such as Al Rayan Bank having stepped away from the retail HPP [Home Purchase Plan] market, this deal highlighted the compelling need to ensure property ownership remains accessible to Muslims in the UK.

For years, the Islamic finance sector has nurtured a case for mission-led endeavours in its ecosystem. This year saw the efforts of that labor come to fruition in the form of heightened buy-in ventures coupled with innovative products. Swiss-headquartered Islamic Coin is a perfect example of this. Its mission is to deliver an ethics-led cryptocurrency and part of this has been its success in securing over US$200 million in PE investment. Islamic Coin has bucked the trend and others have followed suit including fintech start-ups Agel (Egypt), Mthmr (Saudi Arabia), Yoosr (UK) and WellX (UAE) further indicating that this kind of financial backing has been mirrored globally in the early-stage funding scene.

Promising groundwork for Islamic PE's long-term runway was further laid this year as:

- Firms and investors set up programs for creating greater cross-border PE flows for the medium to long term. These include US-based private real estate firm WealthStone's expansion to servicing investors in the Middle East, plus Gulf Islamic Investments's and Plug and Play Tech Center's expansions into Saudi Arabia.
- Initiatives aimed at guaranteeing longer-term investment flows were noted in Southeast Asia. In particular, Malaysian sovereign wealth fund Khazanah Nasional's partnership with major VC house Gobi Partners will create US$1.3 billion of PE investment flows into the Malaysian start-up ecosystem over the next five years.
- Preparations for investment flows into a greater diversity of sectors were made in the GCC, for instance, through Malaz Capital's establishment of a specialized fund aimed at acquiring Saudi Arabia-based healthcare assets.

2023 has been a historic year for developments in Islamic PE. However the pressing unaddressed gaps in the sector must be acknowledged.

Preview of 2024

Unless wider economic conditions permeate, the global Islamic finance industry is likely to continue **growing at a rate of approximately 10% in 2024**. However, the following aspects of needed progress will be points of natural focus for Islamic PE in 2024:

- Redressing the relatively lower levels of interaction (as of late) between Islamic PE and ventures focused on countering or mitigating climate change.
- Establishing regenerative threads of Islamic PE activity beyond the GCC, Southeast Asia and the UK.
- Encouraging the involvement of key Islamic finance players that may not be traditionally associated with PE (eg banks, governments, regulators) in future collaboration.
- Channeling investment flows toward noticeable gaps in the sector — for instance, development financing in the UK. In addition to the aforementioned, it will be essential for those that operate in the Islamic PE space to continue aligning their movements with the following development priorities of the wider Islamic finance sector:
- Increasing legal and regulatory standardization.
- Growing the number of financial instruments, ventures and initiatives with a dedicated social function.
- Increasing the visibility of Islamic finance ventures in conventional markets, and local and global business communities.

Conclusion

PE and VC investors are right to be enthusiastic about Islamic PE's resilience in challenging economic conditions as well as new developments within the sector. Both have grown evenly in regions across the globe and present businesses in the Islamic finance sector with an equal opportunity to improve and think innovatively going into 2024.

Although the persisting gaps that have been identified will need addressing for further progress to be possible, investors should be buoyed by the degree of collaboration and long-term planning that is becoming increasingly prevalent within the sector.

Real estate — the beginning of the end

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Shariah compliant real estate investment has long been an established product offering for Islamic investment managers. As global market uncertainty continues, the allure of bricks and mortar remains, with investors seeking safety, an income and the prospect of capital appreciation.

Real estate suits Shariah compliant investing well with a genuine business being undertaken, either to build from scratch or to purchase an existing property for its rental income. The mechanisms to assess the compliance of tenants are well established, with recognition that such principles fit well within the responsible investment ethos of ESG criteria.

There is a global band of professionals able to assist with selecting, structuring and closing acquisitions, and while there is a lack of Islamic banks outside of the Middle East and Southeast Asia able to provide Shariah compliant finance for larger transactions, the use of conventional finance and structures to insulate investors from the non-compliant payment of interest is well established.

Review of 2023

The buyers' market that characterized H2 2022 continued throughout 2023. With benchmark interest rates continuing their steep climb, opportunities for purchasers to secure assets at materially lower prices grew, and as the year came to a close the impact of such higher rates on existing owners was being more acutely felt, with sellers increasingly finding themselves with little option but to accept what buyers are willing to offer.

Recession risks did not materialize, but few felt that we were out of the woods on that front. Defensive sectors underpinned by demographic and thematic trends focused attention primarily on the residential and logistics sectors.

Asian investors were back in the market for international real estate, supplementing their local acquisitions with investments into the US and the UK, either directly or through funds.

For the Middle East, the focus remained largely within the GCC countries, with Saudi Arabia's Vision 2030 acting as a catalyst and the Dubai market benefiting from a continued influx of people, in turn driving occupational demand for property of all types.

When Middle Eastern investors looked beyond their shore, it was increasingly concentrated on mezzanine finance opportunities, and as rates continued to climb, even the senior finance piece started to become attractive, particularly in international markets where the provision of local finance had been adversely impacted.

The long-awaited peak in benchmark interest rates was not achieved, with declarations of 'higher for longer' continuing to weigh on investor appetite. Geopolitical disturbances became more prevalent and with oil prices back up, 2023 felt like a year best left to the history books, with hope for the year ahead.

Preview of 2024

Feels like it is going to be a slow start to 2024 with respect to new investment activity in global real estate markets. With the peak of interest rates seemingly tantalizingly close during H2 2023 but not reached, I believe that investors will want to see more tangible evidence of a transition to at least stable rates before they go in too strong.

Of course, individual opportunities to make equity investments will continue to present themselves, most likely driven by a motivated seller either feeling the pressure of higher interest rates or wanting to free up capital to allow new acquisitions of their own.

Until then, and likely continuing through 2024, there will be opportunities to invest in both mezzanine and senior positions of the capital stack, and on a scale that has not been witnessed for more than 15 years. Banks, both Islamic and non-Islamic, are overall scaling back their lending operations, substantially increasing the opportunity for new participants.

Could we see a return to greater investment in the office and retail sectors? Of course, any asset will find its level where the risk-adjusted return makes sense, and as the hybrid working of office staff and buying patterns of consumers become more predictable, the risk adjustment will be dialed back. Until then, residential and logistics will remain the preferred sectors.

The energy efficiency of buildings will remain very important, not least due to the impact this has on desirability from tenants, but the mood is perhaps of a plateauing of expectations in this regard. It is still important, but governments the world over are balancing this with geopolitical events that are encouraging more onshoring of activities and the happiness of voters, with significant national elections due in the both the US and the UK during 2024.

Conclusion

To quote from my namesake, Winston Churchill: "Now this is not the end. It is not even the beginning of the end. But it is, perhaps, the end of the beginning."

As real estate markets reset, with higher interest rates continuing to take their toll on values, it feels that 2023 has delivered the end of the beginning, and that 2024 will provide at least the beginning of the end.

Be ready. Just as positive investor sentiment switched off in summer 2022, it could switch on just as quickly when 'the end' is reached.

Regulatory challenges and future prospects in the global Islamic finance industry

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The global Islamic finance industry, grounded in ethical and Shariah compliant financial practices, has gained substantial traction as an alternative to conventional banking systems. With approximately two billion Muslims worldwide, this sector significantly impacts the global economy. In recent years, regulatory frameworks have been instrumental in shaping the industry, ensuring its stability and promoting international growth. However, similar to any financial sector, it grapples with distinctive regulatory challenges.

Despite the economic slowdown, the global Islamic finance industry is anticipated to expand by approximately 10% in 2023–24, building on a similar growth observed in 2022. This growth was primarily driven by the GCC countries, particularly Saudi Arabia and Kuwait, which accounted for 92% of the increase in Islamic banking assets in 2022, as reported by S&P Global Ratings on the 17th May 2023.

In Kuwait, this growth was influenced significantly by Kuwait Finance House's acquisition of Ahli United Bank, leading to the conversion of its conventional activities to Shariah compliance, especially in Egypt, Iraq and the UK and other branches in Bahrain, the UAE and Oman. In Saudi Arabia, the industry's expansion was supported by the implementation of its ambitious diversification strategy, Vision 2030, and the ongoing growth in mortgage lending, underpinning the country's status as the largest Arab economy.

Review of 2023

The past year witnessed significant regulatory milestones in the global Islamic finance industry. Regulatory bodies worldwide concentrated on bolstering governance frameworks, fortifying risk management practices and endorsing sustainable finance initiatives. Several key jurisdictions introduced comprehensive regulatory frameworks to ensure compliance with Shariah principles while fostering innovation and stability.

Moody's Investors Service stated in a research report in March 2023 that global Sukuk issuance is expected to stabilize within the range of US$170 billion to US$175 billion in 2023. This follows a 10% decline in 2022. Countries with substantial financing requirements, such as Egypt and Turkiye, are anticipated to turn to the Sukuk market as a strategic move to mobilize all accessible resources.

For instance, Egypt initiated a US$5 billion Sukuk program and issued its inaugural Sukuk worth US$1.5 billion in early 2023. However, one of the primary challenges faced by the Islamic finance industry was the absence of global standardization in Shariah interpretations, especially in Sukuk issuance. Different jurisdictions had varying interpretations, leading to inconsistencies in structuring financial products.

To address this, collaboration between global Islamic organizations and regulatory bodies is crucial to developing a standardized framework for Sukuk issuance, ensuring consistency and transparency across international markets.

The integration of fintech in Islamic finance introduced regulatory challenges, particularly in regulating digital Islamic banking platforms that utilized advanced technologies. These platforms aimed to provide accessible and Shariah compliant financial services to a broader audience. Regulators should collaborate closely with industry experts to establish guidelines ensuring adherence to Islamic principles while embracing innovative technologies.

Certain countries faced regulatory hurdles in promoting financial inclusion through Islamic microfinance initiatives. Microfinance institutions encountered challenges in reaching remote and economically disadvantaged communities, hindering access to basic financial services and impeding financial literacy and inclusion efforts.

Addressing climate change through Islamic finance has become a prominent regulatory focus in the realm of ESG considerations. In May, 2023, Majid Al Futtaim, a prominent leader in shopping malls in the region, announced its fourth issuance in the green capital markets.

Green Sukuk, which are similar to regular Sukuk but with a key distinction that their proceeds can only be used for environmentally-friendly projects, were first introduced by a Malaysian company in 2017 with an initial amount of RM250 million (US$52.41 million) for a project financing.

Preview of 2024

Looking ahead to 2024, the Islamic finance industry holds immense potential for growth and development. To harness this potential, several key factors need attention. Firstly, regulatory bodies must continue prioritizing harmonization efforts, working together to create a unified regulatory framework that facilitates cross-border transactions and promotes market integration. This would enhance the industry's appeal to international investors and broaden its global reach.

Secondly, embracing financial technology (fintech) remains crucial. Regulatory sandboxes, innovation hubs and supportive policies can foster the integration of fintech solutions into Islamic finance, promoting financial inclusion, efficiency and customer-centric services. However, regulators must strike a balance between encouraging innovation and ensuring compliance with Shariah principles and consumer protection.

Additionally, sustainable finance and ESG considerations are gaining prominence. Regulators should encourage Islamic financial institutions to incorporate ESG factors into their investment decisions, aligning Islamic finance with global sustainability goals and enhancing its long-term viability. There are abundant opportunities for issuing Sukuk, not only limited to green Sukuk but also extending to various other types. For instance, blue Sukuk are designed to fund projects related to marine and ocean-based initiatives. Social Sukuk focus on creating positive social impacts, while sustainable Sukuk aim to achieve positive environmental and social outcomes.

Conclusion

Regulatory challenges play a pivotal role in shaping the global Islamic finance industry. Despite substantial progress in establishing robust regulatory frameworks and promoting ethical practices, challenges persist. Harmonization efforts, fintech integration and sustainability considerations are key areas demanding attention in the coming year. Integrating fintech solutions can enhance efficiency and inclusivity in Islamic finance, but this must be balanced with adherence to Shariah principles and consumer protection.

Moreover, integrating sustainable finance and ESG considerations will help position Islamic finance as a socially responsible and sustainable industry, attracting a broader investor base and addressing global challenges. By addressing these regulatory issues, the Islamic finance industry can continue to evolve, expand its global footprint and play an increasingly significant role in the global financial landscape.

Regulatory bodies, financial institutions and stakeholders must collaborate to foster an environment that ensures compliance, encourages innovation and embraces sustainable practices, ultimately paving the way for a prosperous future for the Islamic finance industry.

Islamic retail asset management: Navigating the world of ethical finance

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The landscape of Islamic finance has experienced a remarkable evolution, transcended its traditional boundaries and permeated various segments of the financial industry. One of the pivotal facets of this transformation is Islamic retail asset management. This report seeks to provide an exploration of Islamic retail asset management, offering essential insights and knowledge for senior key practitioners operating within the global Islamic finance arena. Islamic retail asset management is a specialized field dedicated to managing investment portfolios and assets in accordance with Islamic principles. At its core, it adheres to Shariah compliant guidelines, ensuring that all financial activities are conducted ethically and in line with Islamic values.

Review of 2023

The global Islamic retail asset management industry is growing steadily, driven by favorable dynamics in some core markets and increasing demand for Shariah compliant investments. According to various sources, the industry has achieved the following performance indicators:

1. The assets under management (AuM) in Islamic mutual funds have increased substantially, reaching around US$130 billion at the end of Q2 2021, before declining slightly to around US$120 billion at the end of 2021.
2. The growth rate of Islamic funds (84% nominal/13% annualized) has exceeded that of the broader global mutual fund industry (68% nominal/11% annualized) in the five years to the end of Q3 2021.
3. Saudi Arabia and Malaysia remain the dominant Islamic fund domiciles worldwide, accounting for about 90% of the total Islamic fund AuM. Other markets, such as Jersey, Luxembourg and Pakistan, also have emerging Islamic fund sectors.
4. Money market funds are the largest Islamic fund type, followed by equity funds and Sukuk funds. The share of sustainability-linked Sukuk issuances is also increasing, albeit from a low base.
5. The Islamic finance industry is expected to grow at around 10% annually in 2023–24, mainly due to the expansion of Shariah capital markets and the resilient demand for Shariah compliant investments. However, growth beyond core markets remains elusive due to structural weaknesses and lack of standardization.

Challenges

Despite its growth and potential, Islamic retail asset management faces several challenges:

1. **Lack of standardization**: There is a need for greater standardization in Islamic finance, including asset management. Differing interpretations of Shariah principles can lead to inconsistencies in product offerings.
2. **Limited product diversity**: Islamic asset management products often lag behind their conventional counterparts in terms of diversity. Developing innovative and competitive products is essential for market growth.

3. **Regulatory environment**: Regulatory frameworks for Islamic finance vary from one country to another. Harmonizing regulations and ensuring clear guidelines can facilitate the growth of Islamic retail asset management.
4. **Education and awareness**: A lack of awareness and understanding of Islamic finance among investors can hinder its growth. Educational initiatives are needed to bridge this knowledge gap.
5. **Market liquidity:** Some Islamic markets may suffer from lower liquidity compared with conventional markets. This can pose challenges for portfolio management.

Preview of 2024

Despite these challenges, Islamic retail asset management holds immense potential. As the global Islamic finance industry continues to expand, there is a growing demand for ethical and Shariah compliant investment opportunities. To capitalize on this growth, practitioners in the field should consider the following:

1. **Innovation**: Developing new and innovative Islamic financial products can attract a broader investor base and contribute to the industry's growth.
2. **Standardization**: Collaborating with industry stakeholders to create standardized guidelines and best practices can enhance transparency and trust in the market.
3. **Education**: Promoting awareness and understanding of Islamic finance is crucial. Initiatives to educate both investors and financial professionals should be encouraged.
4. **Global expansion**: Expanding into new markets and regions with a growing Muslim population can provide opportunities for growth in Islamic retail asset management.

Conclusion

Islamic retail asset management represents a vital segment of the Islamic finance industry, offering ethical and Shariah compliant investment opportunities. As the global demand for Islamic finance continues to rise, this field holds immense potential. By addressing challenges and fostering innovation, senior key practitioners in the global Islamic finance industry can help shape a more prosperous and ethical financial future. In doing so, they contribute to the broader mission of providing responsible and ethical financial solutions to meet the needs of Muslim investors worldwide.

The journey of Islamic retail banking

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Shariah compliant retail banking, catering to retail and individual clients along with small businesses, has been a core contributor to volumes and profits for commercial banking. Driven by the nature and mass of the Islamic banking clientele, it has been a catalyst for lots of localization, customization and focus on systems, and historically has been about pace and service dedication. The ongoing Fifth Industrial Revolution and interlinkage of global economies have created an influx of new opportunities as well as multitude of challenges for retail banking and the stage is set for changes and evolution based on the recent past with a prospective future that all the collective forces will face tomorrow.

Review of 2023

Lockdowns during COVID-19 in 2020–21 led to working online with less people-to-people interaction and despite a slowdown for businesses, it created a reality to manage businesses and cater to clients with a different perspective. Historically, Islamic banking has been about client presence, hub and spoke and bricks and mortar and while the lockdowns did appear initially to have eroded activity and profitability, it was in fact shaping the path for processes, products and systems that would otherwise take years to materialize.

This was a sort of cooling-off period which witnessed a cut in policy and lending rates, with governments providing subsidies and laying the guidelines for federal/central banks to deal with clients with more relaxed rules and grace. Come 2022 and 2023, the gap meant that there were excess funds available, at lower rates with new opportunities where clients wanted to experiment and buyers wanted to exercise purchasing; in general, the trend had been fueled by excessive cash supplements with an even bigger demand on spending patterns.

This was a double opportunity for Shariah compliant banking, as in general the global economy grew. Rising oil prices and its production as well as the impact of the Russia–Ukraine conflict also impacted the perspective but did little to slow things down. On the global stage, Al Rajhi Bank (Saudi Arabia), Dubai Islamic Bank (the UAE), Qatar Islamic Bank (Qatar) and Bank Rakyat (Malaysia) are some of the leading examples which have dominated the landscape with their complete and versatile product offerings.

Preview of 2024

2024 will turn a new corner in the ever-evolving economic pattern of global economies and might stand apart from the trends of the past seven decades on account of:

a) a true level of globalization with extreme ease of access
b) an easy flow of information and business decisions
c) a desired rise in service standards in a less human interactive environment
d) a focus on digitization and online banking, and
e) dipping margins that make product offerings and Islamic retail banking generally driven on the back of services.

With the 'center-right' political approach gaining a foothold in many of the global economies, the policies will reflect governments continuing to be the major spenders of taxpayers' money. Economic activity is thus created where both banks and clients would want to seek income with minimum risk, and the focus on Shariah compliant retail banking will be further strengthened. Currently, Shariah compliant retail banking has positioned itself as an opposite solution for conventional banking but in the coming months and years, it will get the opportunity to emerge as a true alternative on a global level.

For Shariah compliant retail banking, the current global asset base is close to US$2.5 trillion, and this is expected to more than double in the next two years (US$5 trillion). This will mean more clients opting for Islamic retail banking and more businesses borrowing to capitalize on changing market dynamics.

Shariah compliant retail banking will evolve on the back of a lot of focus on services, service delivery and digital platforms with a more personalized touch in a highly digitized world. With newly available funds at low costs, Shariah compliant retail banking will find itself on the doorstep of a global launchpad to the next level. But this will all come at a cost although it will be driven by the trust of the depositors.

There will be an expectation to have custom and tailored products that can be available to clients in the light of changes. Clients will expect decisions and borrowing in real time and that is where the real challenge would come with tests between risk-averse and risk-taking. Technology-related investments are not cheap and the newer the tech, the more demand it generates with an increasing acceptability. These will all feature on the spending patterns and investment plans of Shariah compliant banking.

Conclusion

As established above, Shariah compliant retail banking has grown on the basis of being an alternative but now it has a global reach and presence and the coming years would place it in the driving seat on the basis of proven success provided by asset-backed lending modules. However, the more global you are, the quicker the product evolution has to be and it has to be backed by systems, digital platforms, accurate data mining and data analytics and the articulate use of artificial intelligence in core decisions while ensuring data sanctity and data protection.

Historically we have witnessed an assumption that retail means branch and if institutions continue to insist on opening branches and focusing on client services with clients coming in as a prelude, they might miss the bus. The objective has to be to bring to the client what the client wants, before the client asks for it and in a manner that the client envisioned it. Shariah compliant retail banking has the base and the mettle to do it and in the next two years has the potential to provide unrivaled growth to Shariah-based retail banking on a global scale.

Rapid change in risk landscape toward 2024

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2023 has been mainly instrumental in terms of tight macroeconomic policies that were in force to contain inflation. The policy rates were consistently increased as inflation impacted the banking sector to a greater extent on credit creation and banks' profitability.

While inflation has been declining, core inflation remains persistent, driven by the services sector and still relatively tight labor markets. Risks remain to be tilted to the downside. Inflation could continue to prove more continual than anticipated, with further interruptions to energy and food markets still probable.

Review of 2023

The Islamic finance industry is expected to grow by around 10% in 2023 and despite a slowing global economy, mainly led by the GCC countries. As per Moody's Investors Service, global Sukuk issuance is forecast to 'level off' in the range of US$170 billion to US$175 billion in 2023, after a 10% fall in 2022 to US$178 billion.

Early 2023 shock waves to global banking have stimulated the industry to reexamine their strategies. While bank leaders focus on proposed regulatory changes to capital, liquidity and risk management for banks, there is much to be done to develop suitable business models.

In H1 2023, several banks including Islamic banks raised their credit risk provisions for future credit losses, anticipating elevated loan defaults from a pandemic-era low.
Evolving risk landscape

All financial institutions will need to examine each of their businesses to assess where their competitive advantages lie across and within the three core banking activities of balance sheet, transactions and distribution. And they will need to do so in a world in which technology and artificial intelligence (AI) will play a more prominent

role, and against the backdrop of a shifting macroeconomic environment and heightened geopolitical risks.

Preview of 2024

The global economy was more resilient than expected during H1 2023, but the growth outlook remained weak. With monetary policy becoming increasingly visible and a weaker-than-expected recovery in China, global growth in 2024 is projected to be lower than in 2023. The world economy is expected to grow by 3% in 2023, before slowing down to 2.7% in 2024. A disproportionate share of global growth in 2023–24 is expected to continue to come from Asia, despite the weaker-than-expected recovery in China.

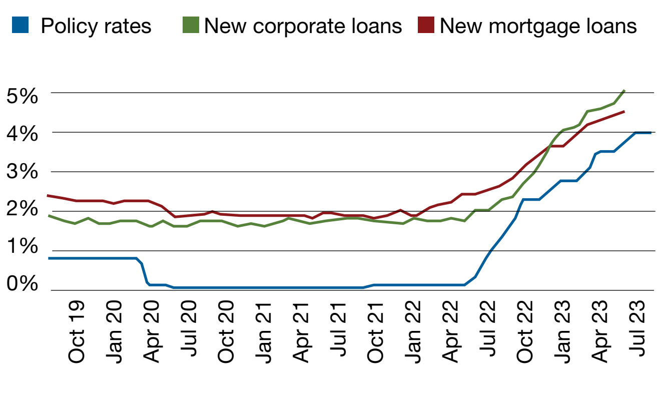
Islamic banks' profitability in many regions will be tested in 2024 due to higher funding costs and sluggish revenue growth. However, banks with more diversified revenue streams and a strong cost discipline should be able to boost their profitability, and possibly their market valuation, more than most.

Increase in geopolitical risk

Figure 2 from Economic Intelligence Unit points out the top global risk scenarios in terms of political, military, economic and environmental scenarios.

Based on the aforementioned, there will be context tightening well into next year, raising interest rates to levels likely to lead to a

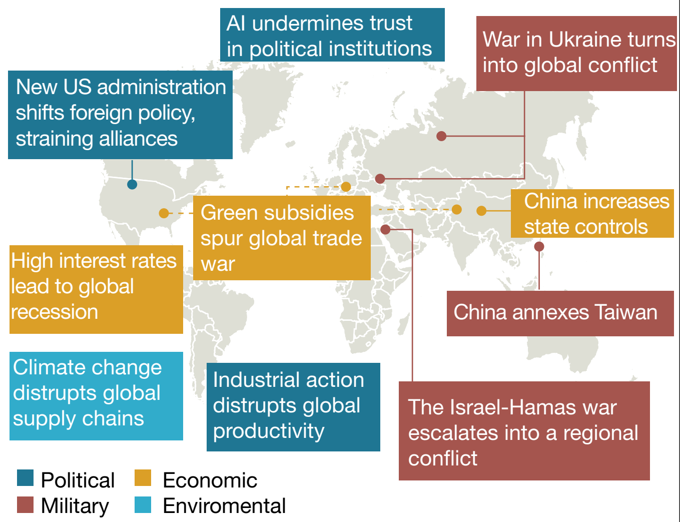
Figure 1: Movement in interest rates since October 2019–July 2023



Note: Advanced economies considered are Australia, Canada, Denmark, France, Germany, Italy, Japan, New Zealand, Norway, Spain, Sweden, Switzerland, UK and US

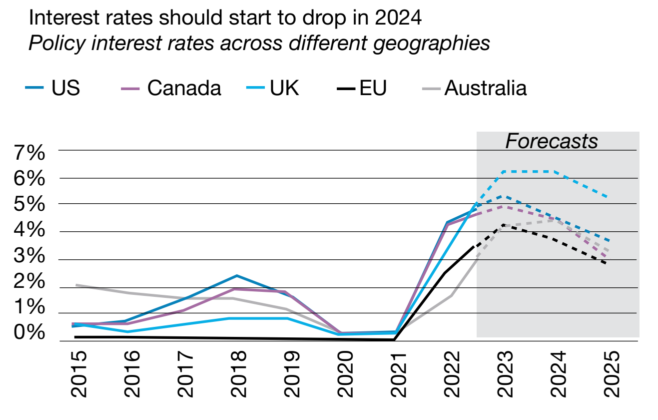
Source: OECD Economic Outlook Interim Report September 2023

Figure 2: Global risk scenarios



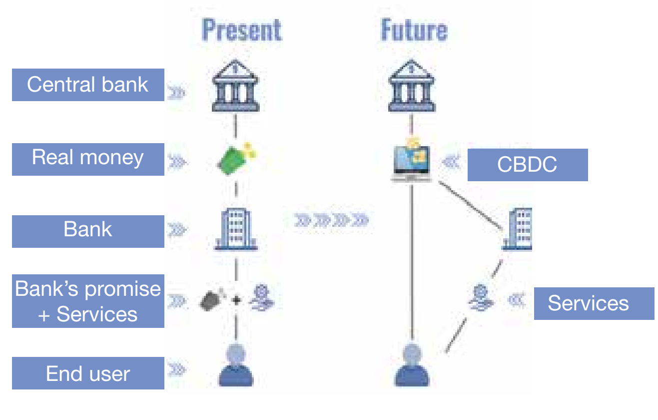
Source: Economic Intelligence Unit

Figure 3: Projected interest rates for 2023–25



Source: Deloitte Centre for Financial Service

Figure 4: The expected transition of banking with the use of CBDCs



Source: blog.digitalasset.com

much more significant slump in consumer and investment demand. Based on the recent banking outlook report from Deloitte, there is a forecast that the interest rates are expected to drop during 2024–25, which is pointed out as per Figure 3.

Increase in demand for Islamic banking service

Deloitte points out that over the next decade, more banks from India and the Middle East are expected to join the ranks of the top 100, tilting the balance toward Asia and the Middle East. We can expect major Islamic banks like Al Rajhi, Bank Islamic Malaysia and Dubai Islamic Bank reaching toward the top 100 over the next decade.

As the regional economy in the GCC expands, the asset quality of GCC Islamic banks is predicated to remain robust. Additionally, their strong capital and liquidity positions will better equip them to meet the extending regional demand for Islamic banking services. The stable asset quality is set to be sustained by the Islamic banks' focus on household financing, which is projected to remain strong. Moreover, a large percentage of the banks' activity is in the retail sector and is expected to continue with a steady performance.

Expansion in digital banking will elevate cybersecurity risk

The total number of digital banking users will exceed US$3.6 billion by 2024, up from US$2.4 billion in 2020; a 54% increase. This growth will be driven by the rise of digital-only banks and the ongoing focus on digital transformation by established bank brands.

Several central banks may commence work around and rolling out central bank digital currencies (CBDCs) during 2024. These are essentially digital banknotes; unlike cryptocurrencies like Bitcoin, CBDCs are issued and regulated by central banks and gives them legal tender status. One of the examples is Bahrain's central bank which rolled out 'Policy Goals of Introducing CBDCs'.

Simultaneously, there is massive pressure for Islamic banks to pick up the pace of digitization while managing costs. Many Islamic banks are working to determine how best to use AI/machine learning and application programming interfaces to improve risk selection and achieve operating efficiencies in the loan value chain, especially in the SMB loan portfolio.

CBDCs combine the stability of traditional financial systems with the benefits of modern digital technology. They aim to make payments smoother, reduce transaction costs and expand financial accessibility. Their digital nature allows for innovations like smart contracts, leading to more flexible financial interactions. CBDCs provide the assurance of traditional currencies while harnessing digital advantages. However, integrating CBDCs might challenge existing banking structures, potentially altering the roles of commercial banks.

Ultimately, CBDCs offer exciting prospects for the future of finance.

However, their implementation requires in-depth research, comprehensive data evaluation and practical testing to fit seamlessly into the changing global financial landscape.

However, the rapid expansion in digital banking may elevate the cybersecurity risk and Islamic banks need to be cautious when engaging in the process of digital transformation of the banking channels.

Conclusion

Regardless of the macroeconomic developments, financial institutions will have to adapt to the changing environment of the 'Great Transition', especially the trends of technology, regulation, risk and scale. The year 2024 will have elevated levels of change in the risk landscape and future regulations being in the pipeline with much focus on risk management. As pointed out by a report from McKinsey & Co, Islamic banks need to be able to adapt to changing risks including the macro context and new regulatory requirements associated with technology.

Throughout history, the financial services industry has often been at the forefront of change. Financial institutions have guided people and businesses through the ups and downs of economic and societal shifts. As we move forward, there is a good chance that we may look back at 2024 as a sea change; the year when the next chapter of progress really began.

Islamic financial institutions globally will need to stay on top of the ever-evolving risk conditions. In the macroeconomic context, this includes inflation, an unclear growth outlook and potential credit challenges in specific sectors such as commercial real estate exposure.

Other risks are associated with changing regulatory requirements, cyber and fraud risks, and the integration of advanced analytics and AI into the banking system. To manage these risks, banks could consider elevating the risk function to make it a true change agent. For example, in customer discussions, product design and communications, they could emphasize resilience based on its track record of managing systemic risk and liquidity.

Banks could also further strengthen the first line and embed risk in day-to-day activities, including investing in new risk activities driven by the growth of generative AI. Underlying changes in the real economy will likely continue in unexpected ways, requiring Islamic financial institutions to remain ever more vigilant.

SMEs and Islamic financing models are in need of each other

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There is a paradigm shift in the world order as far as the inclination of employable youth is concerned. Islamic finance has been contributing to this so-called new order in-principle from times immemorial or at least actively ever since its advent as part of modern history. While in the first decade of this century, the graduates, primarily those of engineering and management colleges were job seekers, in the next decade a new trend of being job creators has gained momentum.

While entrepreneurship was gaining ground, the set of unanswered questions before the youth was three-fold. Entrepreneurship is ok but (a) where is the technology? (which they started to build), (b) where is the entrepreneur? (which they and their cofounders were), and equally important, (c) what is the plan for the procurement of capital to get these enterprises started?

Either there was a stone-age method of securing debt, which is not factoring moral consequences of transactions, or there is another alternative, ie equity-based financing which is closely linked to the performance of a given enterprise. However, the former in its native form is obviously not satisfying the basic checkboxes which are required to qualify as an Islamic finance proposition, whereas the latter does as long as business areas envisaged are aligned with those permitted under the Shariah compliant banking system. Hence, for conducive business areas, Islamic finance presents itself as a primary source of capital.

This brings a set of another important dimension before us, ie which are or which are not the conducive business areas? And, once we identify them, why would capital infusion be required? Finally, whether the capital infusion from Islamic finance sources help the SMEs to articulate their purpose in the world better. The latter is a matter of concern in the investment world and it extends beyond the horizon of Islamic finance. Every unicorn was not a unicorn on day zero. Rather, the journey of every transnational corporation is always underpinned by a humble beginning, usually it being an SME in its infant stages. It is later that they get their fundamentals right and transform into global conglomerates.

Review of 2023

Enterprises from India, for example, have got the benefit of the country's improving economic reputation and promise as a preferred destination, due to which the start-ups, especially the tech start-ups, that are deploying new-age technologies related to artificial intelligence and serving an unmet need have managed to attract capital with ease. However, an area where they have failed is to determine where to deploy it [the capital].

Consequentially, there are governance failures leading to the extent that their CFOs and auditors resign too frequently, both being red flags for any entity, and for certain edtech companies, which were once valued as high as US$22 billion, they are now struggling with downsizing, have destroyed the 'S' and 'G' of ESG and eventually will struggle to attract a valuation of even US$5 billion in less than a year.

There is a strong case that if such companies had subscribed to the thought of Islamic finance-based funding models, then perhaps they would not have been in the same state of affairs as they are today. They were allowed to deploy funds at will, be it sponsoring big-ticket mega sporting events, which does not benefit prima facie the corresponding company in any concrete way and hence deemed as unnecessary, or optics-driven expenses which elevate individuals and not the broader entity that they represent.

Sticking to India, the fifth-largest economy of the world and second-largest in Asia after China, the SMEs there have blossomed in recent years, especially after the launch of the 'Start-up India' movement on the 16th January 2016. However, a matter of concern is that the ease of access to capital has turned entities into a cradle of greed to accumulate more from their investing entities.

As Mahatma Gandhi once said: "There is enough in this world for everyone's need but not enough for everyone's greed." Therefore, the investees need to respect the trust and fiduciary responsibility bestowed upon them by their corresponding investors and deploy funds judiciously and intelligently. Funds are like a double-edged sword. If we invest them well, then the outcome will be growth, expansion and improved bottom lines. If they are not deployed well, the entity can be bankrupt as well.

As a famous joke goes in the airline industry: "How to be a millionaire: Start with a billion, and some day you will be a millionaire." No SME would like to be remembered for the wrong reasons so the procurement of capital through channels that match the current financial strengths of the organization and its proper deployment to activities which contribute to the growth strategy of the organization are absolutely essential.

Preview of 2024

Islamic finance has lost the early-mover advantage it offered in its operative nations through the screening of toxic investment opportunities and filtering them which is now more widely used by the conventional finance system and better known as ESG criteria. In fact, a step further, Bretton Woods institutions like the World Bank Group under the leadership of Ajay Banga have made climate (environment), sustainability, elimination of poverty and making the planet liveable through financial and investment intermediation well known to an extent that globally every citizen understands the underlying merit of such a thought. About 10–15 years ago, Islamic finance had the opportunity but it has not kept pace with the times as much as it should have done.

There is an urgent need for Islamic finance institutions to reinvent themselves, by way of capturing newer asset classes and newer markets. Their geographical restriction to origin countries like those in the Middle East and Southeast Asia is not going to add to scale. If they are willing to be scalable without losing the market share in existing countries, they need to debut their market share in non-explored markets. For example, they should focus on the top 10 economies of the world and get onboarded to the 'Wall Street' giants for their international requirements.

A very simple thing could have been done, which has not even been thought about. Every five years, many countries and organizations get a new leadership. How often have we seen the global Islamic finance leadership booking time in their calendar to enhance their [the leadership of the aforementioned countries and organizations] awareness on the potential of Islamic finance? If they are aware, then they can come up with some ideas and opportunities. However, if no one talks to them in their entire tenure about it, how can we expect them to engage? The onus should be on the Islamic finance fraternity to take a lead and help them create opportunities.

As an example, Morgan Stanley recently elected its new leader; how difficult is it to seek his time and discuss a role that his firm

can play in commercial opportunities rooted in Islamic finance? A few years ago, the US had a new leader; however, it would be a wild imagination to believe that in his entire tenure, someone had discussed Islamic finance opportunities with him for his country, including during his tours to the Middle East.

So, Islamic finance is relying on 'pull' and does not want to 'push' outside enough. As a result, boundaries have become rigid and they are what they were a few years ago. When you involve thought leadership and voices that matter, the gestation period has an opportunity to be reduced.

Let's hope that in 2024 we have much wider discussions and SMEs can benefit by taking business leaders and political leaders onboard.

Conclusion

To conclude, SMEs need capital but more than that they need a perfect case of seeking capital, be it Islamic finance or other scenarios. Fundamentals around what quantum of capital, ie 'quantification', and qualitative aspects like the 'why's' and the 'when's' for the capital sought do not ordinarily change. What will change are 'from whom' and 'how' it will be structured. This will vary in Islamic finance vis-à-vis conventional finance, and organizations should prepare themselves to ensure that the risk-reward models like Mudarabah and Musharakah continue to deliver success stories. This will connect SMEs and Islamic financing models like never before, because both are in need of each other. SMEs need financing to grow and financers need destinations for the finance to exist!

The social finance journey of 2023 and beyond


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The current state of humanity reflects a dichotomy wherein some individuals are grappling with enduring challenges of the contemporary world, while others are embracing novel opportunities for advancement and innovation. This dichotomy constitutes a noteworthy criticism of capitalism, particularly within the banking and mainstream financial sectors, as it struggles to effectively address a spectrum of pressing global issues, including displacement and refugee crises, war-induced destruction, climate crises, and socioeconomic inequality. DR MOHAMED ESKANDAR SHAH and ATIEH ALIREZA HAJIAN write.

Review of 2023

The imperative for social finance interventions became apparent in 2023. According to the United Nations High Commissioner for Refugees, a staggering 110 million people globally experienced forced displacement due to factors such as persecution, conflict, and human rights violations. Notably, more than half of these individuals originated from just three countries: Syria, Afghanistan, and Ukraine, with countries like Iran and Turkey each accommodating approximately 3.4 million refugees. A substantial 75% of these displaced persons sought refuge in low- to middle-income countries, exacerbating the crisis and intensifying the call for actions extending beyond conventional aid approaches.

Additionally, the European Commission highlighted that approximately 238 million people across 48 countries were confronting severe food insecurity, signifying a 10% increase from 2022.

Furthermore, United Nations Children's Fund documented a troubling upward trend in child poverty. The economic impacts of COVID-19 negated years of progress, resulting in an additional 30 million children living in poverty compared to **projected figures** in the absence of the pandemic.

Furthermore, the enduring challenge of securing access to finance presents a persistent dilemma. The profound financial disparity between developed and developing nations persists as a critical existential issue. The former continues to capitalize on their enhanced access to resources, enabling swifter recovery and more efficient investment in sustainable development.

This stands in stark contrast to the predicament faced by developing countries, where the mobilization of essential financial resources for recovery proves to be a formidable task. This underscores the imperative for a reassessment of strategies aimed at bridging this divide, particularly in the realms of sustainable development and inclusive finance.

Concurrently, the year has also unveiled instances of economic stagnation, underscoring the pressing necessity for the more effective implementation of social finance solutions.

Notwithstanding, social finance mainly impact investing is becoming an integral element within the financial ecosystem, persistently expanding to facilitate individuals and institutions in navigating the complexities of the post-pandemic landscape. Evidently, empirical reports indicate a notable surge in the impact investing market, witnessing an escalation from US$420.91 billion in 2022 to US$495.82 billion in 2023, reflecting a compound annual growth rate of 17.8%.

Concurrently, this timeframe witnessed advancements in capacity building, particularly in the domain of educating finance professionals regarding sustainable and inclusive finance strategies. Moreover, the World Bank's report on impact monitoring underscores this advancement, highlighting the growing emphasis on comprehending and quantifying the impacts of social finance initiatives towards addressing pressing global issues like displacement, food insecurity, and the deepening divide of inequality.

Preview of 2024

Anticipating the year 2024, escalating geopolitical tensions serve as a precursor to impending financial shortfalls. The intensification of conflicts is poised to worsen the refugee crisis, necessitating substantial financial allocations for humanitarian aid, resettlement programs, and enduring integration strategies. Moreover, these conflicts disrupt agricultural production and supply chains, contributing to acute food shortages. Addressing this issue necessitates the establishment of financial mechanisms to ensure efficient food distribution, support for affected agricultural sectors, and the development of sustainable food systems. Additionally, conflicts inevitably result in infrastructural destruction, demanding extensive financing for reconstruction.

Recognizing the critical need for innovation in social finance, particular emphasis is placed on enhancing the ecosystem of Islamic social finance in 2024. Initiatives aimed at increasing the efficiency of Islamic social finance involve heightened transparency, monitoring, reporting, and harmonization. Encouraging Islamic financial sources, such as Waqf, as well as compulsory and voluntary charities, to adopt monitoring cycles akin to those employed in conventional investments is paramount.

Furthermore, the identification and prioritization of areas requiring social financing mechanisms assume significance. This entails addressing issues such as chronic poverty in Muslim countries, food and water insecurity, and refugee financing through innovative alternatives to traditional Official Development Assistance and similar approaches.

There is also a pressing need to mainstream instruments like micro-level Takaful and pre-disaster insurance coverage into conventional transactions, significantly mitigating adverse effects on vulnerable communities, including those susceptible to climate change.

Conclusion

Reflecting on 2023, the landscape of social finance exhibited contrasting outcomes. While notable progress was evident in areas such as impact investing and education, instances of stagnation and regression were also observable. These challenges underscore the imperative for sustained innovation and a more balanced approach to global development and problem-solving. As the world turns its attention to 2024, the emphasis on enhancing the ecosystem of Islamic social finance, identifying substantive domains for Islamic social finance, and mainstreaming instruments like micro-level Takaful signals a promising trajectory for the future.

The pivot point: Conviction and trust

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The year 2023 has been a year full of a number of challenges that have consistently kept the rate of inflation and monetary policies on a higher note. Economies across the globe felt the economic pressure on the domestic and cross-border trade level as well. The markets where the Islamic financial sector has gained a good share were also not spared from the global economic challenges and their activities remain affected.

However, the global Islamic finance industry and its associated structured finance segment carry another dimension unique to it due to its faith-based business model where trust and confidence by the public and the real sector are paramount and the rest are the peripheries built around it regardless how commercially attractive the underlying business might be. If the trust and confidence are not gained from the target market, the Islamic finance industry may restrict itself to a small pie of the whole of the financial sector potential. This report covers 2023 and 2024 in the context of capturing key existing issues and the way forward. The conviction to get things done according to the required spirit would remain a pivot point.

Review of 2023

International credit rating firm Fitch Ratings in its commentary of August 2023 titled 'Islamic Finance Demand Affected by Awareness, Sharia Sensitivity, Confidence & Offering' stated that global Islamic finance assets were estimated to have crossed US$3.3 trillion in H1 2023. It further stated that the demand, development and market shares of Islamic finance in any given jurisdiction are largely affected by public awareness, Shariah sensitivity, confidence and the competitiveness of the product offering. Limited awareness is an impediment in many markets.

In Indonesia, which has the largest Muslim population in the world, the Shariah financial literacy rate was a low 9.1% in 2022. In 2021, the Turkish government reported that 60% of the surveyed population in Turkiye did not understand the meaning of 'participation banking' (ie the Turkish term for Islamic banking).

In Morocco, only 18% of the surveyed population believed that Islamic banks' financing products were Halal, according to Sunergia. In Nigeria, some segments of the public strongly oppose Islamic finance. In the UK, Muslims are about 5% of the population, but almost half of them have never used Islamic finance products. In the UAE, 29% of the sampled population were not aware that Islamic banking products existed, according to the 2021 Islamic banking Index by Emirates Islamic. In 2019, Bank Negara Malaysia reported that almost 60% of SMEs in Malaysia were not aware of the availability of Islamic financing facilities.

As per **Arab News**, the global Sukuk issuances are expected to decline in 2023 to come in between US$150 billion and US$160 billion, from US$178 billion in 2022, driven by improving fiscal positions of sovereign issuers in the GCC region and Southeast Asia, according to Moody's Investors Service. A report from the firm noted the issuing of the Shariah compliant bonds in H1 2023 declined by 28% to US$66 billion, compared with US$92 billion in the same period of the previous year.

This fall is due to muted activities in key countries including Saudi Arabia, Indonesia and Turkiye, amid robust commodity prices. The Bank for International Settlements's 'Report on the 2023 banking turmoil' states that the banking turmoil that started in March 2023 is the most significant system-wide banking stress since the Global Financial Crisis of 2008 in terms of scale and scope.

There was also a general repricing of banks' additional Tier 1 (AT1) instruments, which prompted authorities in some jurisdictions to issue public statements reiterating their approach to imposing losses on shareholders and creditors in a resolution or insolvency scenario. This reflected on Islamic financial institutions' AT1 instruments as well.

Preview of 2024

The global Islamic finance and associated structured financial instruments including Sukuk are dependent on the economic conditions and the fiscal position. The economic outlook is for the key regions where the Islamic financial sector is established or growing, including the Middle East, Malaysia and Indonesia, to name a few.

As per an **IMF report** of October 2023 titled 'Regional Developments and Economic Outlook: Building Resilience and Fostering Sustainable Growth', the MENA region's economic activity is expected to improve in 2024 and 2025 as some factors weighing on growth this year gradually dissipate, including the temporary oil production cuts. But growth is expected to remain subdued over the forecast horizon amid persistent structural hurdles.

The **World Bank** says Malaysia's economy is projected to expand by 3.9% in 2023 amid subdued external demand but will edge up to 4.3% in 2024. The **Asian Development Bank** says that the Indonesian economy is projected to grow at 5%.

This scenario of outlook sets a positive tone for Sukuk and Islamic finance growth but some newer challenges may put the brakes on the growth story causing inflation to remain high and demand for Sukuk may be limited to high-quality issuers mainly sovereigns at a tight pricing range.

Islamic financial institutions' AT1 issues may be another driver of Sukuk issuance but would require clarity about instrument features including loss adjustment against AT1 investors vis-a-vis the treatment of equity holders in such situations. The bottleneck that would remain there as a counterproductive feature on the growth of the global Islamic finance industry will be an issue of perception and scale of awareness among the masses including the corporate sector and SMEs.

Unless awareness reaches its minimum threshold of awareness and confidence is gained about Islamic finance practices, the growth and expansion of Islamic finance products would remain subdued in the coming year across jurisdictions.

Conclusion

Beyond any doubt, Islamic finance will keep its momentum up and going but some fundamental issues such as winning the public's confidence on Shariah compliance and awareness about the existence and availability of financing solutions in respective jurisdictions need to be taken up on a 'first thing first basis' and this should be a resolution of the global Islamic finance industry in 2024.

Sustainable finance and green Sukuk issuance in a rapidly evolving landscape

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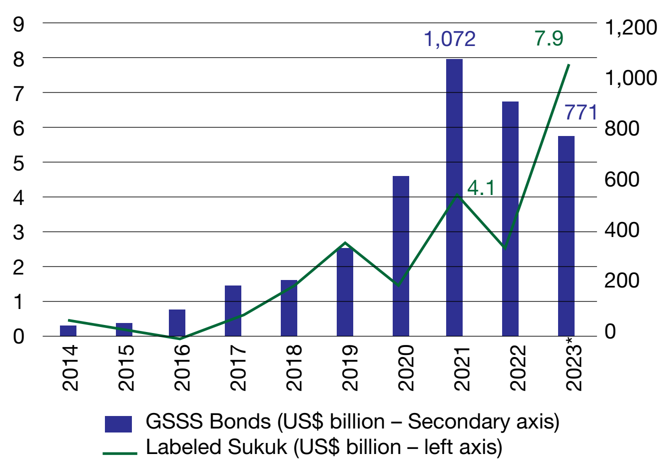
The increasing share of responsible investors underscores the need for financial instruments that can enhance access to finance and channel capital toward well-structured climate projects, especially in regions that need it the most. Sukuk instruments share common principles and have complementary investment approaches with ESG investing, ultimately providing a viable alternative to traditional financing.

This makes labeled Sukuk a feasible tool for funding sustainable development projects. Moreover, tapping into a broader investor base, featuring both conventional and Shariah compliant investors, can lead to improved pricing for issuers. These evolving dynamic underscores the pivotal role that labeled Sukuk can play in the broader realm of the sustainable finance toolkit.

Figure 1: GSSS bonds and labeled Sukuk developments



Source: Environmental Finance (Oct 2023). As a note, GSSS stands for Green, Social, Sustainable and Sustainability-linked Bonds.

Review of 2023

The global Sukuk market experienced a surge from financial institutions and corporates, propelled by first-time issuers, refinancing of near-term maturities and delayed issuances making their **entry**.

It is notable that GCC firms continued to provide support to the market, showcasing resilience. A similar encouraging trend has been witnessed in the overall labeled space, including both conventional bonds and Sukuk, with US$22 billion being raised by Middle Eastern issuers in 2023 to date (***Environmental Finance Data**, 23rd October 2023*) and more than double the prior record set in 2021 as firms and banks joined forces to accelerate the region's net-zero action plan ahead of COP28 [2023 United Nations Climate Change Conference].

In a notable move to bolster green financing, the UAE's Securities and Commodities Authority rolled out incentives for corporates, announcing that those listing their green or sustainability-linked bonds or Sukuk in the local capital markets will be exempt from paying any registration fees throughout **2023**. This initiative underscores the importance of regulatory support toward sustainable financing as also witnessed in Turkiye and other key markets recently.

The year also marked several milestone inaugural listings such as the US$1.5 billion green Sukuk by DP World and the US$500 million green Sukuk by Aldar. Saudi Arabia's Public Investment Fund reinforced its credentials and made its successful debut in the US dollar Sukuk market with a US$3.5 billion deal. Similarly, Majid Al Futtaim Group secured US$500 million through a green Sukuk facility, marking its fourth such issuance in about four years, as part of its ongoing strategy to diversify its funding base.

Air Lease Corporation marked a pivotal moment by being the first North American corporate to venture into the Sukuk market, a testament to the depth and liquidity strength of the Middle Eastern market. Similarly, the Arab Republic of Egypt priced a US$1.5 billion debut Sukuk making it the first US dollar emerging market sovereign Sukuk to be issued in 2023 as well as the first US dollar Sukuk from Africa since 2014, successfully opening the market for others to follow.

Furthermore, Emirates NBD pioneered as the first bank to issue a dirham-denominated bond in 2023, setting the stage for First Abu Dhabi Bank which followed suit by issuing the UAE's first-ever dirham-denominated green Sukuk.

These issuances not only underscore the burgeoning potential of green finance but also the growing appeal and acceptance of Islamic finance in mainstream markets. Through these notable developments, the year 2023 has undeniably showcased the evolving dynamics and the promising trajectory of green Sukuk in the broader spectrum of sustainable finance.

Preview of 2024

As we venture into 2024, the trajectory of the ESG agenda is markedly being shaped by regulatory developments such as the European Union Corporate Sustainability Reporting Directive and the International Sustainability Standards Board reporting frameworks.

As such, there is a clear need for a common global approach to help create a more harmonized market landscape.
Exploring the Islamic finance sector, three key areas need focus to create a favorable environment for green Sukuk growth:

i) Firstly, there is a need to fine-tune the regulatory landscape in several eligible jurisdictions as well as to simplify the process and structuring of Shariah compliant transactions. Streamlining the process will enhance the appeal and accessibility of Islamic financial instruments.
ii) Secondly, it is important to address the repo eligibility of Sukuk in central bank transactions to increase liquidity and improve market dynamics, and in line with trends seen with conventional instruments. Taking this step could open new possibilities for liquidity management within Islamic financial institutions, thereby fostering a stronger market environment.
iii) Lastly, encouraging well-established sovereign issuers to enter the green Sukuk market is essential. By establishing a clear regulatory framework that highlights the benefits of green Sukuk, and engaging in active dialogues with these sovereign entities, a pathway for their first green Sukuk issuances could be created. The participation of such sovereign entities would not only strengthen the green Sukuk market but also serve as a strong signal to other potential issuers, promoting a more active and inclusive green Sukuk ecosystem as we move through 2024.

Conclusion

Green Sukuk are poised for growth, supported by both policymakers and private sector stakeholders, as sustainability climbs higher on policy agendas and investment strategies, especially in the Kingdom of Saudi Arabia and the UAE, all while riding the wave of momentum from COP28.

Nevertheless, diverging regulations globally can lead to further market fragmentation that can potentially result in capital shifting from jurisdictions where it is needed the most. It is key to promote converging global standards to ensure that sustainable finance flourishes in a clear setting while also being mindful of the starting point and peculiarities of each jurisdiction.

Islamic syndications: Long-term opportunities for brighter horizons

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Three years ago, I wrote my first article about Islamic syndication pre and post the COVID-19 era. After the end of the pandemic, many economic variables in the global markets have changed. Some economic challenges are still prevailing as a result of the ongoing war in Ukraine and the current instability in the Middle East. So how was the Islamic finance and syndication performance in 2023? But most importantly, what will be the outlook for Islamic syndications?

Review of 2023

Generally speaking, and according to various reports, 2023 was not the best year for the global syndication market as evidenced by declining growth rates if compared with previous years. Many factors contributed to such an outcome. The collapse of Silicon Valley Bank and the Credit Suisse crisis caused the global debt market to halt. Also, the Fed tightening policies leading to higher interest rates could be viewed as another factor. Many investors around the globe postponed their mega projects until next year on the hope that the Fed's tightening policy will come to an end by that time.

On the other hand, Islamic finance markets depicted a contrarian trend by achieving growth rates of around 10–12% as predicted by most reports. By the end of 2023, the Islamic finance market size will surpass the US$3 trillion threshold. It is worth noting that Islamic banking syndications constitute more than 80% of such a size. So how did this boom and flourishing performance occur? Some may think that Islamic finance products have proved to be a solution to many inflationary symptoms especially Islamic Murabahah syndication.

Another reason could be the boom in GCC economies as a result of the rising brent prices, hence creating many mega projects that need debt financing. Another explanation could be the ease in the Sukuk rally globally. But maybe the main growth driver could have stemmed from the successful acquisition deal of Ahli United Bank by Kuwait House Finance. This deal raised Islamic banks' attention to the importance of merging and integration, hence the importance of creating new Islamic conglomerates.

For example, Bahrain's Islamic banks started applying such a merging strategy during 2023. Another explanation could be finding a solution to Islamic syndication legal complexities especially in the loan agreement annexation phase. During 2023, some GCC countries such as Oman created and integrated Islamic windows into their conventional banks. Meaning that now, some Omani banks are operating both conventional and Islamic financing arms, hence enhancing their opportunities to participate in Islamic syndication consortiums without being subject to the complex process of legal annexations.

Preview of 2024

Islamic finance especially syndication is expected to continue its solid growth during 2024 and beyond. Some anticipate that it could witness growth rates higher than 15%. Such anticipation stems from the fact that Islamic finance markets will witness new players outside the GCC area.

Figure 1: India–Middle East–Europe Economic Corridor

Source: Frontline Hindu Magazine article published on 5th October 2023

For example, Australia and Uganda are currently finalizing the process of issuing their first Islamic bank license. In addition, the India–Middle East–Europe Economic Corridor or what is known as the new Mideast Corridor could be viewed as an enormous opportunity for a brighter horizon for Islamic syndication.

This mega project will achieve economic integration between Europe, the Middle East and Asia by bolstering transportation and communication links through rail and shipping networks. The MoU was signed last September by India, Saudi Arabia, the UAE, the US, France, Italy, Germany and the EU. The project will pass through various locations mainly India, Saudi Arabia, the UAE, Israel and Greece, hence connecting the three continents together as appearing in the map as shown in Figure 1.

To date, there is no exact estimation of the investment cost of such an ambitious project. Nevertheless, some reports are estimating that initial funding will be around US$20 billion. That being said, Saudi Arabia and the UAE are the locations of more than 50% of the active players in the Islamic syndication market.

Hence, this mega project will boost the Islamic syndication market as many Islamic banks will surely express their appetite to finance the project's investment cost. Also, such a project will encourage Islamic banks to participate since it does not incorporate heavy indebting to participating governments like other projects such as China's Silk Road network. Increasing the possibility of Islamic finance penetration in the Indian banking industry could be viewed as another long-term opportunity.

In other words, as a result of such a project implementation, some Indian conventional banks could be enticed to open Islamic windows to participate in the global Islamic syndication consortium. Also, Greece could be enticed to apply such an Islamic funding strategy besides India.

Conclusion

If implemented, the new Mideast Corridor could be a vital catalyst in promoting peace in the Middle East. As the corridor is intended to pass through Israel, the economic integration with its Arab neighbors may entice Israel to implement peace with Palestine. Peace is the essence of Islamic Shariah that values each and every human life, regardless of religion or historical background.

Digitalization and Takaful technology in Africa

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The year 2023 is considered the year of digitalization of Takaful, leveraging the technology with Takaful operations and the strategic framework of digital Takaful transformation. Digital Takaful transformation is the process of changing how Takaful business leverages technology, people and processes to improve business performance and embrace new business models. This transformation is cultural in nature and affects all elements of the business including sales, marketing, Shariah assurance, operations and customer service and is typically accompanied by a move to modern cloud technologies.

Review of 2023

The year 2023 is the year of adoption of Takaful digital transformation and investment in sustainable finance for the Takaful insurance sector. There are gaps and challenges in sustainable finance products in Takaful undertakings which need to be addressed by Takaful regulators and the IFSB for more standardization in Takaful digitalization. This is because the rapid advancement of technology, including digital platforms, mobile banking and fintech solutions, offers immense potential to enhance the accessibility, efficiency and scalability of Takaful undertakings in Africa.

In July, the International Conference on Islamic Finance was held in Cairo, Egypt with the theme 'Financial Inclusion, Outreach Strategies and Innovation'. The purpose of this event was to explore the untapped Takaful insurance market for socioeconomics in Egypt and the African region. The conference focused on the Takaful business by leveraging financial technology. Among the issues discussed in this conference was how Takaful insurance can facilitate global Islamic finance in Africa through innovative technology.

In August, the African Takaful and Non-interest Finance Conference was hosted and organized by Noor Takaful Insurance in Lagos, Nigeria. The purpose of this international conference was to drive inclusive, sustainable Takaful and Takaful digitization that would empower Africa's economies and foster social prosperity. The conference's outcome provided for the creation of an ecosystem for continuous learning and knowledge exchange in leveraging technology for the Takaful and Islamic finance ecosystem, including the establishment of platforms for ongoing dialogues and collaborations.

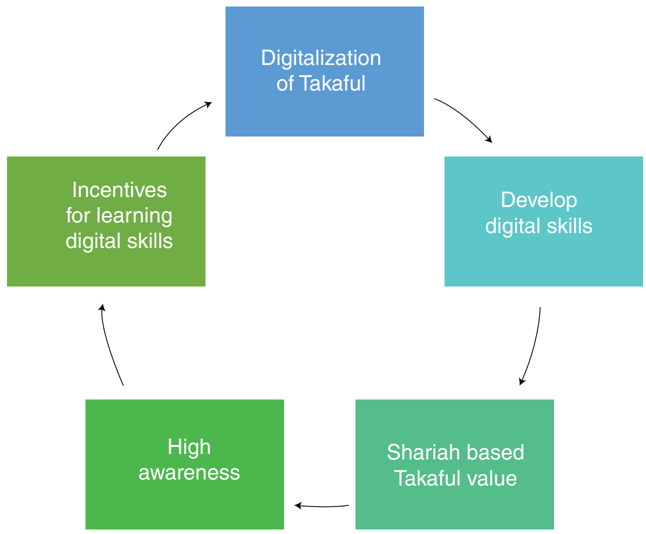
At the end of the conference, Noor Takaful, the pioneer composite Takaful insurance company in Nigeria, distributed a surplus to Takaful participants who did not make claims on their insurance contracts during the 2021/2022 financial year. Aminu Tukur, the vice-chairman of Noor Takaful, stated that the surplus distribution came about as the redemption of its pledge to Takaful participants, noting that Nigerians have become highly receptive to Takaful insurance over the last few years.

Preview of 2024

In previewing 2024, and based on the African Takaful and Non-interest Finance Conference outcomes, Takaful operators in Africa need to have a strategy in deploying innovative technology for Takaful digital transformation which can be the focus of the Takaful industry leadership in 2024, including the following:

1. **Develop digital skills**: To succeed in 'new products', Takaful operators will have to adopt the technology by developing digital skills and offering new Takaful products based on a P2P system on a platform, adapting to change rapidly. Business continuity strategies such as work-from-home arrangements, shorter product development cycles and restructured distribution channels will play a key role.
2. **Digital transformation**: Takaful operators will need to ramp up adoption of their digitalization efforts to create a seamless and efficient customer experience to cater to an increasingly digital consumer market. It will also have to enable better access to new customer segments such as young consumers and the lower income class.
3. **Shariah compliance-based Takaful value**: It is necessary to look more thoroughly at topics such as the enhancement of social resilience, community empowerment, sustainability and environmental protection in accordance with Shariah rules and Takaful principles. Having a value-driven agenda embracing these issues can further elevate the potential growth of Takaful.
4. **Higher awareness and demand**: As consumer awareness of the benefits of Takaful insurance grows in Africa, most of the conventional insurance companies are applying for a Takaful business license from the regulator, with government budgets stretched to support recovery.
5. **Incentives for learning digital skills**: It is significant for Takaful operators to provide incentives for learning digital skills in order to help in building the capacity for strategic transformation for digital Takaful insurance. The adoption of Takaful digital transformation can be summarized in Figure 1.

Figure 1: Adoption of Takaful digital transformation



Source: Qitmeer Commercial white paper

Conclusion

In conclusion, it is important for Takaful regulators and the IFSB to develop regulatory frameworks, guidelines and policies on Takaful technology to support the growth of Takaful undertakings and digitalization of Takaful operations in the African region. It is an obligation of Takaful operators' leadership to drive transformational change in ESG and to continue to build across geographies including the African region.

Ways to unlock the full potential of Takaful

Marcel Omar Papp *is the head of Swiss Re Retakaful. He can be contacted at Marcel_Papp@swissre.com.*

The Takaful industry in the region continued its growth path in 2023. At the same time, the results of challenges have remained, and the industry has still to unlock its full potential.

Review of 2023

The General Takaful industry in Malaysia grew by 20.2% in the first half of the year with a gross written contribution of RM2.68 billion (US$562.44 million), increasing its market share from 18.5% to 20.3% a year ago. The impressive growth is mostly coming from motor, marine, aviation and transit, and miscellaneous business.

Meanwhile, the industry's combined ratio increased further in the first six months of the year by 5%, rising from 103.8% in 2022 to 108.8%. The surge in the combined ratio is driven by a further deterioration in net claims ratio and a continued increase in net commission and management expenses. The performance of the General Takaful's motor business is especially worrying compared with general insurers, whose claims ratio is 7.8% lower at 67.1% compared with 74.9%.

At the same time, Family Takaful operators in Malaysia are struggling to keep the growth momentum this year, after a strong rebound in the last two years with 29.1% (2021) and 18.3% (2022) increases in new business.

In Indonesia, the Family Takaful business contracted by 4% in Q1 2023 after growing by over 10% last year. At the same time, General Takaful grew considerably in 2023 after struggling in the past few years.

Several new regulations in respect of Takaful have been or are being issued before end of the year. In Malaysia, Bank Negara Malaysia has come up with a strategy paper on the Financial Inclusion Framework and will issue new regulations in respect of operating cost controls for General Takaful and the professionalism of Takaful agents. A climate risk stress test methodology paper and licensing and regulatory framework for digital insurers and Takaful operators (DITO) are supposed to be issued before the end of 2023.

In Indonesia, the key new regulation is Law No 4/23 and the subsequent regulation by the Financial Services Authority (OJK), POJK 11/23, which requires Takaful units to set up a fully-fledged Takaful operation by the end of 2026 or to transfer their business to such a company by then.

Preview of 2024

While the Takaful industry in Asia has demonstrated significant progress in the past decade (eg it expanded nearly three times in Malaysia during this period), it has not yet reached its full potential. To bring Takaful to the next level, the Malaysian Takaful Association is implementing the Value-Based Intermediation for Takaful (VBIT) Framework and road map with the aim of fulfilling the objective of Maqasid Shariah and progress toward the SDGs under the principles of ESG.

One of the key priorities of VBIT is the development of value-based products and value-added services to better serve the protection needs of society by extending Takaful coverage to underserved

segments of society and embedding new features and services that align with a Muslim's religious needs (eg Badal Hajj, Waqf and charity). An example is the exploration of social blended Takaful using private and social funds by targeted financial and risk management programs. Thereby, the upcoming DITO framework could accelerate the use of digital technology to drive differentiation and value-based innovation.

Other focus areas of VBIT are self-governance and best conduct aligned with Shariah values such as acting in the best interest of Takaful participants and recognizing the role of Takaful operators as the manager (Wakeel) with fiduciary duties.

In addition, the General Takaful industry in Malaysia will also have to implement measures to achieve stronger financial results in the coming year.

In Indonesia, the local Shariah Insurance Association launched its Shariah Life Insurance Blueprint earlier in the year which proposes several actions to seize the growth opportunities such as customer education about the unique value proposition of Takaful, the upskilling of the distribution channels and the need for innovation to reach the significant uninsured population in Indonesia with more affordable products through direct and digital channels.

Hence, one key question for 2024 is how many of the current 48 Takaful units in Indonesia will go for a spin-off as this could significantly reshape the Takaful industry in the country.

It is good to see that Takaful continues to expand in other countries in the region as well. Besides Brunei — where Takaful already has a major market share — it is growing in the Maldives, Sri Lanka and Thailand.

And recently, the Insurance Commission of the Philippines announced that it will release regulatory guidelines on Islamic insurance in 2024. Therefore, re-Takaful can play an important role to support the expansion of the Takaful industry in other Asian markets by sharing expertise, capabilities and capacity.

Conclusion

While Takaful has continued to grow in 2023 in Asia, it must still unlock its full potential by offering value-based products and value-added services and by conducting business according to Shariah values, while at the same time achieving sustainable financial results in the interest of the participants.

GCC Takaful sector's endurance journey into a much brighter future

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The introduction of new regulatory and global best practices in accounting, digitalization and customization of products to suit a more sophisticated customer base is reshaping the insurance industry and driving further growth opportunities in the Takaful sector in the GCC.

Review of 2023

In 2023, the Takaful sector made progress in ways that will benefit customers and keep the industry on an expansion track for years to come.

Overall, the sector has managed effectively the transition brought about by the introduction of International Financial Reporting Standard (IFRS) 17 during the year. This was evident in the delivery of immediate significant financial reporting changes.

However, more time will be needed for both the regional markets to assimilate the full impacts and for companies to gain a better understanding of the new accounting protocols which will then inform their business modeling and strategies for 2024 and beyond.

The new standard brings improvements to key performance indicators including classification, making provisions at an early stage and close monitoring of contracts that may be considered loss-making from an actuarial perspective. This will affect the business approach and pricing strategies for various products along more sustainable lines.

Conversely, these provisions can be leveraged to benefit and grow further certain products that are inherently built on such approaches like Family Takaful (life). The new standards will also help improve the receivables book as expected credit losses will need to be booked as part of insurance revenue using an actuarial model.

There is no doubt that these changes are broadly beneficial for the Takaful industry. The enhanced transparency, conformity to international norms and capital adequacy brought about by IFRS 17 created a better decision-making environment for investors as they consider corporate transactions for consolidation and growth purposes.

We expect these factors to underpin further the consolidation momentum which we spearheaded when we merged Dar Al Takaful with National Takaful Company (Watania) in July 2022.

Simultaneously, the improved regional regulatory framework supported a rising trend toward expanding mandatory areas of coverage while the tightening of supervision promoted more confidence in the sector.

In the UAE, the insurance regulator, the Central Bank of the UAE, issued a circular to set the minimum corporate governance standards for Takaful operators. During the year, the Takaful sector benefited from the expansion of the mandatory motor and medical covers and the government's mandatory unemployment insurance coverage which was acquired by 5.7 million UAE residents.

In Saudi Arabia, the government approved the establishment of a new insurance authority to boost the efficiency of the sector, further protecting policyholders and increasing its contribution to GDP. A mandatory insurance scheme covering all medical errors came into effect in the Kingdom, requiring medical practitioners to obtain a third-party liability policy in order to practice.

The commercial performance of the Takaful sector showed great strength in many areas in 2023 despite the sectorial challenges and complexities of conforming to the new accounting standard. In Q1 and Q2, Takaful companies in the UAE and Saudi Arabia reported better performance, thus indicating early signs of positive impact in the two largest Takaful markets that contribute more than 50% of the gross written premiums in the region.

The revenue growth of listed UAE Takaful operators reached 20% in H1 2023 compared with the same period the previous year according to Badri Consultancy, significantly higher than the 14% achieved by the conventional sector. The Takaful sector's share of the total market reached 12%. Takaful profits, however, were down 21% while the conventional sector showed growth of 8%.

In Saudi Arabia, listed insurers achieved combined profits of SAR1.99 billion (US$530.13 million) in H1 2023, up from SAR27 million (US$7.19 million) year on year. In other developments that demonstrated the vigor of the sector in the Kingdom, a branch license was awarded to an international health insurer (Cigna) for the first time, while existing Takaful operators expanded coverage areas and developed innovative ways to reach more customers.

Preview of 2024

The prospects for 2024 look very bright for the Takaful sector, with re-Takaful providers also positioned to benefit from this momentum. I believe there will be an increasing divergence between Takaful operators that will successfully improve efficiency and profitability, while adapting seamlessly to the new requirements of IFRS 17, of those who are less agile in these areas.

The pace of digitization will be another area of differentiation with operators who are at the head of the pack in this field, particularly in data analytics, outperforming those who are less advanced. Merger activity, which has been strong in recent years, is likely to continue as the industry moves away from fragmentation and toward consolidation of resources that will create more powerful players with the capacity to grow further.

IFRS 17 standardization will be adopted by more companies across the GCC in 2024, encouraging new merger deals as it will facilitate assessment and comparison of operators across the industry.

Conclusion

The overall trend of expansion of the overall GCC insurance market is likely to continue in a variety of areas, with many Takaful operators benefiting from the growing appetite for insurance delivered according to Islamic principles. A forecast of revenue compound annual growth rate CAGR of 11.6% for the GCC Takaful market from 2023 to 2030, made by Research and Markets, indicates that there is enormous scope for development and expansion in introducing new products to a widening customer base.

All of us who are active in the sector should relish the opportunities that lie ahead.

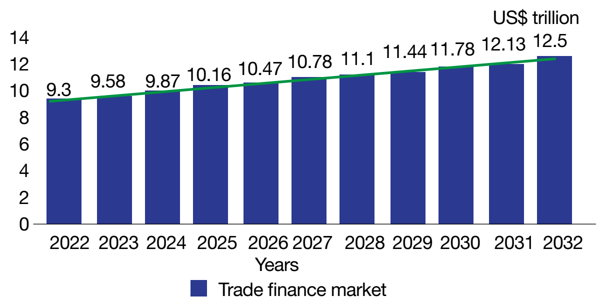
Charting the future: Navigating growth horizons of Islamic trade finance

***Abbas Raza Varyala** is the deputy general manager (EVP) at Bank Alhabib. He can be contacted at varyala@gmail.com.*

Trade finance plays a pivotal role in Islamic banking, offering a financial framework that aligns with the divine injunctions of the Quran. As Surah Al-Baqarah (2:275) underscores the permissibility of trade and condemns usury, Islamic banking actively seeks financial instruments and mechanisms that promote ethical and fair economic practices. By embracing trade finance tools like Musharakah, Mudarabah and Shariah compliant letters of credit, Islamic banking institutions contribute to fostering economic growth while upholding the principles of justice and equity outlined in the Quran. In this way, trade finance becomes a manifestation of the divine permission for trade and a rejection of exploitative financial practices in the pursuit of a just and prosperous economic system.

In 2022, the global trade value of goods exported throughout the world amounted to approximately US$24.9 trillion at current prices (**statista.com**), while the latest edition of the World Trade Organization's 'Global Trade Outlook and Statistics' report issued in October this year provides revised forecasts for global trade in 2023 and 2024. For 2023, it has downgraded its forecast for world merchandise trade volume growth to 0.8%, less than half the 1.7% growth it forecasted last April while it predicts a 3.3% trade growth in 2024, ie US$25.1 trillion approximately in the year 2023 whereas US$25.9 trillion in 2024.

Chart 1: Trade finance market (US$ trillion)



Source: gminsights.com

The trade finance market was valued at US$9.3 trillion in 2022 and is estimated to register a compound annual growth rate of over 3% between 2023 and 2032 (**gminsights.com**).

As per the World Bank's latest report available with Islamic trade finance volumes, the global size of the Islamic trade finance reached US$186 billion, less than 5% of total estimated trade finance activities by OIC member countries and a small fraction of global figures. Islamic trade finance is, however, growing both in scale and in relevance as Islamic finance plays a larger role in OIC countries.

The International Islamic Trade Finance Corporation (ITFC) has approved US$6.8 billion of financing in 2022 while disbursements reached US$7.4 billion, making a total trade finance of US$69 billion since 2008 as per the ITFC Annual Report 2022.

Review of 2023

Between 2020 and 2022, OIC member states will experience an increase in their GDP by about US$4 trillion internationally despite the negative impact of the COVID-19 pandemic. GDP increased from US$19.4 trillion in 2020 to US$23.6 trillion in 2022, ie an increase of 21.7%, and could reach US$25.4 trillion in 2023. The majority of this increase comes from the OIC oil and manufacturing countries such as Indonesia, Turkiye, Saudi Arabia, Egypt, Pakistan, Iran, Bangladesh, Nigeria, Malaysia, the UAE and Iraq with an increase of more than US$1 billion between 2020 and 2022 (**icdt-oic.org**).

Further, many Muslim countries are making conscious efforts to develop their Halal economies and capture the potential Halal market. Malaysia, the UAE and Turkiye are among the most active nations and have clear visions of becoming hubs for the global Halal trade. Even non-Muslim-majority countries like Thailand, Japan and South Korea aim to position themselves as key players in the Halal market. Notably, Australia and Brazil are among the top Halal meat and poultry suppliers to countries in the Middle East (Charoenchang, 2019).

In addition, several OIC countries are working on legal frameworks that will define Halal and regulate the Halal integrity of imported products. These efforts are useful in promoting greater general awareness of Halal and strengthening the regulations for cross-border trade. Indonesia, with a total Halal export value of US$33.8 billion in 2020, is the largest exporter of Halal food-related products among the OIC and ASEAN countries, followed by Malaysia (US$20.6 billion) and Turkiye (US$19 billion). However, the US (US$120 billion) and other non-OIC countries such as the Netherlands (US$75.3 billion), Brazil (US$70.8 billion), China (US$64.7 billion), Thailand (US$31 billion) and Vietnam (US$24.4 billion) are dominant in global Halal trade (**wbg.org**).

Malaysia is followed by Saudi Arabia, the UAE and Indonesia. New entrants to the top 15 include the UK and Kazakhstan. Turkiye and Singapore moved up seven and eight places to reach the 5th and 7th positions respectively. Nigeria and Sri Lanka have dropped out of the top 15. In addition, Malaysia obtained the highest score for the Islamic finance, Halal food, Muslim-friendly travel and media and recreation sectors. At the same time, the UAE ranked first for modest fashion while Singapore performed better than other countries in pharmaceuticals and cosmetics (DinarStandard, 2022)

Taking all these into account, the estimated Islamic trade finance for 2023 is more than US$475 billion.

Preview of 2024

Islamic trade finance has a promising picture for its growth trajectory in 2024 and beyond. As we navigate the evolving landscape of global finance, the Islamic trade finance sector stands out as a beacon of resilience, ethical conduct and adaptability.

The **global Islamic finance industry** is expected to grow by around 10% in 2023–24 despite the **economic slowdown**, after posting a similar expansion in 2022 mainly led by the GCC countries, according to S&P Global Ratings (**thenationalnews.com**).

The growth perspective for Islamic trade finance in 2024 and beyond is optimistic, and is expected to surpass US$500 billion. The sector's commitment to ethical principles, coupled with its adaptability and technological integration, not only ensures its continued relevance but also positions it as a key player in shaping the future of international trade and finance. As businesses and investors increasingly recognize the value of ethical financial practices, Islamic trade finance is poised to carve out an even more significant role in the global financial landscape, contributing to a more sustainable, inclusive and principled economic future.

Conclusion

The insights gleaned from this report highlight the sector's ability to harmonize Islamic principles with modern financial instruments, creating a robust framework that not only complies with Shariah but also responds effectively to the challenges and opportunities of the contemporary business environment.

Looking forward, the growth prospects for Islamic trade finance are notably positive. The sector is well positioned to capitalize on the increasing global demand for ethical and sustainable financial practices. As businesses and investors seek alternatives that align with their values, Islamic trade finance emerges as a compelling choice, offering not only compliance with religious principles but also a proven track record of stability and fairness.

Moreover, the sector's embrace of technology, innovation and international collaborations positions it for further expansion. The integration of fintech solutions, blockchain and digital platforms into Islamic trade finance processes enhances efficiency, reduces transaction costs and broadens the reach of these ethical financial services.

Regulatory support and standardization efforts have played a pivotal role in fostering the credibility of Islamic trade finance on the global stage. As regulatory frameworks continue to evolve and become more accommodating, the sector is likely to witness increased participation from diverse markets and industries.

Changing trends

Dr Vladimir Malenko *is the director of FairFinance. He can be contacted at malenko@youxianinvestments.com.*

Driven by favorable market dynamics in the GCC, Malaysia and Indonesia, the global Islamic finance industry is poised to finally reach the US$3 trillion mark in 2023, growing by around 10% after expanding at a similar pace in 2022 (S&P Global Ratings). Ninety-two percent of Islamic banking assets were driven by GCC countries, mainly Saudi Arabia and Kuwait. Sukuk grew by 14% and Islamic venture capital (VC) showed a 64% increase. The global Islamic fintech market is estimated at US$84 billion in transaction volume (2022) — making up 0.82% of global fintech transaction volume. It is expected to grow on average by 18% annually, to reach US$179 billion by 2026. The top six OIC fintech markets by transaction volume for Islamic fintech are Saudi Arabia, Iran, Malaysia, the UAE, Turkiye and Indonesia.

The year 2023 was not a typical year for Islamic VC. The lines between Islamic and conventional VC continue to be blurred — we now have Shariah compliant funds investing in conventional start-ups, as well as conventional funds investing in Islamic start-ups. The prime example of such symbiotic financing relationship is Indonesian fintech Hijra (formerly known as ALAMI). The company has tapped financial markets seven or eight times already, and almost every single investor was a conventional VC fund. The latest round brought in US$15 million from East Ventures, Golden Gate Ventures and other brand names in the conventional market.

Well, most conventional VC funds are Shariah compliant in nature (unless they use excessive Riba-based leverage) — they are built on the time-tested principles of Musharakah and Mudarabah.

Review of 2023

It was a remarkable year. The most notable Islamic VC events of the year included the following: Malaysia's public service retirement fund Kumpulan Persaraan launched a RM500 million (US$106.74 million) vehicle to invest in start-ups and VC funds; Malaysian sovereign wealth fund Khazanah Nasional picked a VC major — Gobi Partners — to allocate US$1.3 billion over five years as part of the 'Advancing Malaysia' strategy that will support the Malaysian start-up ecosystem. Gobi Partners has already invested in over 350 start-ups in Asia, with the latest one being Islamic-themed subscription-based streaming service Durioo+.

- In the meantime, venture investments in Saudi Arabia are up 284% from last year, led by Saudi Venture Capital (SVC). Islamic VC investments are up 412% in the same period. In Malaysia, RHB Islamic International Asset Management launched the RBH i-Sustainable Future Technology Fund which will provide investors access to Shariah compliant technology companies with a sustainable and responsible focus.
- And also in Saudi Arabia, SVC invested US$30 million in Shorooq Partner's new US$150 million Bedaya Fund II, which will invest in the GCC start-ups in fintech, software and digital assets.

Preview of 2024

The following trends are going to dominate the field. The emergence of corporate VC will continue to be a leading trend in Shariah compliant funding. Many corporate players want to secure their future simply by 'buying' start-ups and developing companies. This strategy is more cost-effective than funding their own research & development for years to come. For many start-ups, being invested by a corporate

venture capitalist is beneficial as well — corporate venture capitalists usually have a longer investment horizon, and the 'exit' question gets partially solved. Funded with abundant wealth, Aramco, Ma'aden, SABIC, ENOC, Masdar and the entire NEOM project will drive the new economies of the GCC and create a 'brain-drain' effect for outside tech companies.

1. Geography-wise, Saudi Arabia and the UAE will remain the brightest spots in the Islamic VC universe. They both have state coffers that are overflowing with hydrocarbon cash, but what is more important they both have a clear vision of development — the former's Saudi Vision 2030 and the UAE's 'Operation 300 billion'.
2. The proliferation of renewable energy projects will create a 'pull' effect for regional tech projects that will be funded in part from Shariah compliant pools of capital, sourced mainly from Islamic banks.
3. Development of new Islamic fintech-based investment products
4. The 2023 United Nations Climate Change Conference in Dubai will witness the official launch of XTCC — the world's first Shariah compliant exchange-traded carbon credit investment note. Engineered by Islamic fintech veteran Al Waseelah, XTCC will offer a unique chance to change the world … without risking the principal of the investment.

Conclusion

Without Riba, Maysir and Gharar, Islamic VC continues to earn its place in the financial world by adhering to our community-centered values. And conventional venture funds represent a necessary but temporary substitute for the 'real thing'.

Islamic banks will not enter the VC market in 2024. Again. The active Islamic fintechs are reinventing Islamic finance services through technology-enabled disruptions. Most Islamic banks view fintechs as competitors seeking to seize their market share (surprisingly, this is almost a direct quote from my 2022 report).

COUNTRY REPORTS

Afghanistan: Humanitarian conditions eclipse aspiration for stability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Two years after the regime change in Afghanistan, the economy has slowly showed signs of recovery, exemplified by ongoing deflation, increased exports and stable exchange rates (The World Bank (2023): Afghanistan Economic Monitor August 2023; The World Bank (2023): Macro Poverty Outlook for Afghanistan: April 2023). Nevertheless, according to a report published in August 2023, the World Bank expects a further decline in the overall demand for goods, endangering these positive developments (The World Bank (2023): Afghanistan Economic Monitor August 2023).

According to a survey conducted by the World Bank, as of the beginning of 2023, only 50% of businesses were operating at full capacity. One-third of businesses could not reach their full potential due to decreased demand, uncertainty and limitations to banking services (**The World Bank (2023): Afghanistan Development Update October 2023**).

Among these developments, individuals and organizations continue facing tremendous challenges, as 70% of Afghanistan's population remains dependent on humanitarian assistance.

Extreme weather events and ongoing human rights concerns exacerbate this challenging situation. Extensive restrictions on girls and women put a strain on the relationship with donor organizations, leading to a reassessment of priorities in Afghanistan. These restrictions also exclude a substantial part of the population from previous income-generating activities and education, thereby jeopardizing the livelihoods of families and reinforcing the already-ongoing brain drain.

Review of 2023

The 2021 regime change and the ensuing information void paralyzed many financial institutions including the Islamic ones, hampered financial sector stability and temporarily halted service provision to customers. Notwithstanding the challenging political and macroeconomic environment, the financial sector stabilized gradually as financial institutions continued to adapt to the new Shariah compliant financial system over the course of 2023. Improved supervisory guidance and institutional restructuring enabled financial institutions to diversify their income sources by providing Shariah compliant financing facilities to customers. Financial institutions significantly progressed in their transition to fully-fledged Islamic banks, thereby contributing to stabilizing the Afghan financial market.

Despite these positive developments in the financial market and the opportunities of Islamic finance for the financial inclusion of the previously unbanked, evidence (ACGF internal study of 700 Afghan MSMEs in Q4 2022) suggests that the currently available array of Shariah compliant products do not always correspond to customers' requirements, resulting in an apparent mismatch between products offered and customer needs.

Low customer trust in the formal banking system, lack of knowledge of Islamic finance principles and ongoing regulatory bottlenecks create further challenges for financial institutions and their ability to provide suitable Shariah compliant products to customers. Hence, financial institutions are still facing significant obstacles in stabilizing their income base and securing funding.

Preview of 2024

Even though the economic situation in Afghanistan stabilized over the past year, the economic, political and humanitarian conditions remain volatile. Therefore, any prognosis of future developments and events is subject to considerable uncertainties.

Nonetheless, financial institutions will likely continue transforming into fully-fledged Islamic banks. If these ongoing transitions prove successful, these institutions will be poised to diversify their product offerings and expand their portfolios, thereby playing a pivotal role in stabilizing the country's fragile economic situation, a critical imperative for supporting Afghan businesses and livelihoods.

However, looming on the horizon is the challenge posed by the restrictions imposed by the regime, particularly impacting women and girls and severely impeding their active involvement in income-generating and other economic endeavors. The looming risk of a reduction in international aid further compounds the situation, potentially resulting in a deteriorating exchange rate, increased inflation and mounting food price pressures.

Conclusion

2023 proved that Afghanistan's financial market is more resilient than expected. Although, over the course of 2023, Afghanistan's economy showed positive developments, the situation remains challenging. The convoluted political situation and the continued international isolation jeopardize the country's ability to strive for long-term economic recovery and stability which are much needed to improve livelihoods.

It remains essential to ensure active international donor engagement as a fundamental contribution to counter economic uncertainties and alleviate the devastating consequences of the humanitarian situation by promoting positive developments in Afghanistan's financial market. The transition of financial institutions to fully-fledged Islamic banks has the potential to further improve the economic situation of Afghanistan by financially including a greater share of the population.

The international donor community must be aware that its cooperation remains a fundamental contribution to maintaining the livelihoods of many people in Afghanistan. Strengthening the financial sector is and remains one of the ways to cushion the fatal consequences of the humanitarian situation and to sustainably improve the situation for many people in Afghanistan.

The generalization of the Islamic finance industry finding its place in the new Algeria

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Islamic finance in Algeria is entering a new era. Both Islamic banking and Takaful fueled the growth of so-called alternative modes of financing and insurance in a country with a Muslim-majority population. The presence of the first fully-fledged Islamic bank, Al Baraka Bank Algeria since 1991, did not move the rock from its position but political willingness has the power to move the unmoved. The remarkable step was Regulation No 18-02 dated 2018 that authorized conventional banking to open Islamic banking windows (IBWs) with appropriate products. Unfortunately, due to some ambiguous articles and the absence of such central institutions, Regulation No 18-02 was repealed with the new Regulation No 20-02. The last regulation explains clearly the different aspects and roles of Islamic banks, including those with windows.

Besides, Takaful is developing gradually with a vision to strengthen its position in the north of the country and approximately in Islamic banking branches. In addition, Sukuk appears crucial to raising funds for the new projects that the government wants to start. That is why the government believes in preparing a legal basis before proceeding.

Review of 2023

The Islamic banking sector is characterized by the presence of six public Islamic banking windows, two fully-fledged Islamic banks (Al Baraka Bank Algeria and Al Salam Bank Algeria) and four foreign private Islamic banking windows.

In 2023, the Islamic banking system improved its position in attracting savings and financing projects. According to recent data from ABEF, which is the association gathering all the working banks in Algeria, the total Islamic bank deposits accumulated an amount of US$5.14 billion through 600 branches. This raised the share of Islamic bank deposits from around 1.5% before 2020 to more than 4% of the total resources in August 2023.

The year also recorded an encouraging signal of embedding Islamic banking legislation through encompassing five articles in the new Law of Monetary and Banking No 23–09. It had a positive impact on the Islamic banking sector. Further, the Bank of Algeria (BoA) finally raised its speed to follow many other jurisdictions in the region to build a favorable ecosystem to develop Islamic banking in the country. Meanwhile, there are more than 13 regulations under preparation that will be promulgated by the end of the year. These regulations essentially concern the interbanking and money market Islamic instruments and other guidance to the well-functioning Islamic banks.

Remarkably, in 2023, the government, via the Ministry of Finance, and after completing an agreement of assistance with the IsDB, launched an international consultancy to prepare a Sukuk and Takaful regulation framework. The vision is to tackle all the legal and regulatory issues to get ready for issuing the first sovereign Sukuk, as said by the Ministry of Finance at the end of 2022. The will exists as the draft of the new commercial law encloses four articles concerning Sukuk, which will be discussed in the coming days in parliament.

With Executive Decree No 21-83, the Takaful sector is growing steadily. The main companies are Algeria ElMoutahida Family Takaful and Algerian General Takaful. The two companies spread their networks and concluded many memoranda, especially with IBWs, to attract voluminous clients.

Preview of 2024

The landscape of Islamic finance in Algeria in 2024 looks more positive. The competition among the main players in the Islamic banking sector will increase significantly. The year also presents a great opportunity to multiply Shariah compliant products from the IBWs.

The presence of the six public IBWs is important to alter the conventional financing contract to an Islamic one, as CPA will propose to its customers. In addition, the significant approach goes further to finance new heavy projects directly through Shariah compliant contracts. For instance, the National Bank of Algeria will opt to finance big projects using Islamic contracts. This allows us to build a strong asset portfolio, primarily from public sector companies. For the retail sector, including individuals, IBWs are going to multiply their new products to attract more Halal financing borrowers. In terms of deposits, the amount may reach US$7.35 billion at the end of the next year.

Hence, the liquidity in IBWs is increasing month after month, which requires finding new Islamic tools such as Sukuk in the short term from both the sovereign and corporate sectors. Meanwhile, the supervisory institution, BoA, after including Islamic banking provisions into the monetary and banking law in 2023, will launch regulations, instructions and guidelines to strengthen the Islamic banking regulation framework. The private Islamic banking sector may see the entrance of new Islamic banks from the Middle East and GCC countries, as Algeria has strong relations with some key countries in these regions.

Takaful continues to spread branches throughout the country. The two Takaful companies are going to make more efforts to facilitate the use of Halal insurance policies by increasing awareness among the population and opening branches closer to high-density residential areas. Discussing Takaful and Sukuk, the policymaker will establish the legal and regulatory framework of Sukuk and Takaful as declared before in 2023. The coming year will be an attempt to finish all provisions related directly to issuing Sukuk, especially the amendment of the commercial law and new capital market regulations. As a consequence, the government is looking to introduce the first sovereign Sukuk in the country.

Conclusion

Although there have only been three years of regulating Islamic banking in Algeria, its impact on the whole Islamic finance industry has been positive. Takaful is starting to work with Islamic banking windows. However, Sukuk need more time to be introduced into the Algerian capital market. Therefore, increasingly, the generalization of the Islamic finance industry is finding its place in the new Algeria and looking to the strength associated with high performance where the new opportunities wait to be grasped.

Australia: Growth trajectory of Islamic finance to continue into 2024

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As of 2023, the Islamic finance industry in Australia has been growing at a steady pace. 2023 saw several significant developments in the Islamic finance industry in Australia with the industry gaining traction in the country.

Review of 2023

Australia witnessed the launch of the first Islamic bank in the country, the Islamic Bank of Australia (IBA), in 2023. The bank is set to offer a full suite of retail and business banking services that are Shariah compliant and interest-free. The establishment of IBA is expected to provide a boost to the Islamic finance industry in Australia, which has been held back by tax issues. The bank is currently operating as a restricted authorized deposit-taking institution and plans to launch to the public after July 2024. The bank was boosted by a US$10 million investment in 2023 from Hejaz Group, an Australia-based Islamic asset manager and lender.

In 2023, National Australia Bank (NAB), one of the big four banks in Australia, launched a Shariah compliant loan product in the Australian Islamic finance market. The product specifically targets transactions over US$5 million for commercial property and construction. The product was launched with the aim of tapping into the potential size of this market in Australia which is estimated to be worth US$250 billion. NAB believes that this market has been growing at a rate of about 15% since the 1990s. There are currently no plans for NAB to offer retail products to consumers. NAB is the only major bank in Australia to offer an Islamic finance product and there are currently no plans for any other major bank to offer an Islamic finance product.

2023 saw the highest number of Islamic finance provider participants to date in the Australian market. Products offered cover lending (consumer and commercial) and asset management (including superannuation). This reflects a growing demand for Islamic finance products, as well as a growing awareness among the local market. This interest is further boosted by a growing demand by commercial entities which are taking steps to ensure that private commercial transactions are also Shariah compliant.

Challenges

While there have been significant developments within the industry recently, Australia has been slow to capitalize on the potential of the Islamic finance industry. This is partly due to the Australian government's reluctance to focus on policy initiatives that will facilitate growth within the industry. To date, the government has not acted upon the Board of Taxation's report on Islamic finance, which was completed in 2011.

Despite the growing interest in Islamic finance in Australia, there are no current government policy initiatives directed toward developing the industry further. The lack of government action also means that capitalization of international investment through Islamic finance is also hindered.

With one of the most stable banking and finance regulatory frameworks in the world, Australia is an attractive investment choice. However, to date, the Islamic finance market has not seen any significant long-term investment by international participants. In November 2023, the Australian National University's Centre for Arab and Islamic Studies was due to host the 'Symposium on Islamic Finance in Australia'. The symposium aims to bring together scholars, practitioners and other interested parties to discuss recent trends and developments in Islamic finance and banking, challenges and prospects of Islamic finance in Australia and implications of the Australian taxation and legal frameworks on Islamic finance.

Preview of 2024

Looking ahead to 2024, it is expected that the growth trajectory of the Islamic finance industry in Australia will continue. The population of Muslims in Australia is expected to reach one million by 2024. Awareness and demand for Islamic finance products are steadily increasing. There remain challenges to expansion of the industry due to a relatively small Muslim population.

Despite the projected population, not all Muslims do or are expected to use Islamic finance products. In the case of lending products, many Muslims may be reluctant to purchase these products due to differing religious opinions regarding the validity of such products from a Shariah perspective.

Conclusion

In conclusion, while there have been some challenges faced by the Islamic finance industry in Australia such as tax issues, it has been growing steadily with several key players driving growth. With initiatives such as NAB's Shariah compliant loan product and IBA's launch as Australia's first full-service Shariah compliant bank, it is expected that this growth trajectory will continue into 2024.

State of Islamic finance in Bahrain

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Bahrain's financial system is one of the most sophisticated in the MENA region. There are 362 licensees as of 2023 comprising 54 wholesale banks, 30 retail banks, 40 insurance firms and other specialized licensees.

The banking system which comprises both conventional and Islamic banks is the most important component. As of Q3 2023, total banking assets amounted to circa US$229 billion, five times the country's GDP.

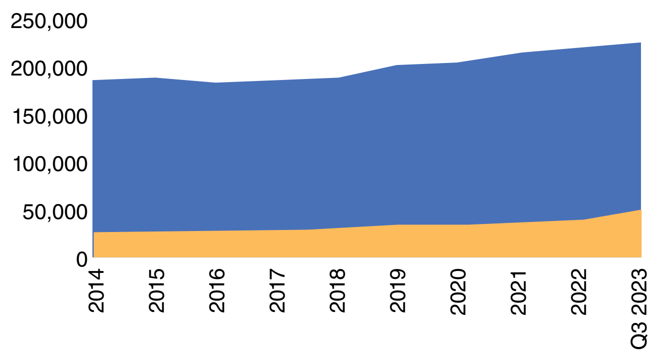
Industry growth has been supported by an open market economy, stable and prudent macroeconomic and fiscal policies, a credible regulatory framework in line with international standards and a well-qualified local and expat workforce. All these factors have combined to cement Bahrain's position as a regional Islamic finance hub, successfully attracting numerous foreign banking organizations to establish their presence in the country.

Review of 2023

Sustained growth of Islamic banking

Between 2014 and 2023, banking assets have grown 21% corresponding to a compound annual growth rate (CAGR) of 2%. On the other hand, Islamic banking assets have grown 86% corresponding to a CAGR of 6%. As of Q3 2023, Islamic banking assets amounted to US$53.9 billion. The sustained growth of Islamic banking has enabled the industry to capture a quarter of total banking assets as of Q3 2023.

Chart 1: Total banking assets vs. total Islamic banking assets



Source: Central Bank of Bahrain – Statistical Bulletin

When looking at the data with more granularity, fully-fledged Islamic banks have grown 53% during the same period, representing a CAGR of 4%. On the other hand, Islamic windows of conventional bank have grown 294%, a CAGR of 15%. However, it is post-COVID-19 that Islamic windows have captured most of their growth.

With the completion of the merger of Kuwait Finance House (KFH) and Ahli United Bank (AUB), the share of Islamic banking assets will

mechanically increase by another US$40 billion (at the end of 2022, AUB carried US$40 billion of assets). It is likely that the consolidation of the banking sector will continue as there are a few players which may follow the example of Al Salam Bank–Ithmaar Bank and KFH–Ahli United Bank.

Geographical repartition

Assets

During 2023, in line with the trend that started 10 years ago, the aggregate assets of Islamic banks are geographically focused on Bahrain. Bahrain represented 75% of total assets, followed by Americas and the GCC with respectively 10% and 9%.

Liabilities

The major sources of funding for Islamic banks remain Bahrain and the GCC, representing between 85% and 90% of liabilities.

Key indicators

Islamic banks have maintained solid capital adequacy ratios with the industry averages at 21.4% and 17.2% for retail and wholesale banks respectively. Nonperforming loan ratios for both categories of banks are around 5% of gross loans, as Islamic banks adopt solid risk management frameworks. While the industry as a whole has dramatically improved compared with the 2014–20 period, there are still efforts to make to further improve the quality of the loan portfolio compared with their conventional counterparts. Return on assets for Islamic retail and wholesale banks stood at 0.4% and 0.7% respectively. The performance is quite modest, and shows the competitive nature of the market. In the long term, it is likely that the sector will see further consolidation.

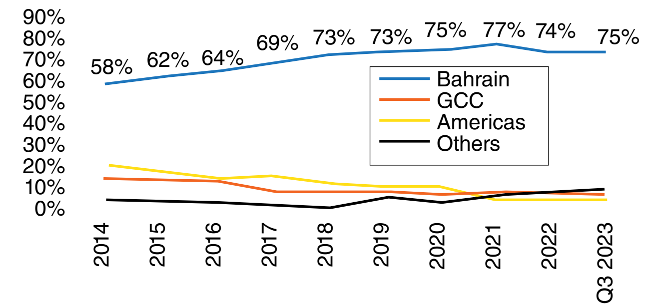
Sectors financed

In terms of sectors of activity, the key recipients of financing by retail banks were the manufacturing sector (BHD1,329 million (US$3.54 billion)), the construction and real estate sector (BHD1,539.5 million (US$4.06 billion)) and the trade sector (BHD838.2 million (US$2.21 billion)). On the personal finance side, mortgage financing is the largest component (BHD2,922.1 million (US$7.7 billion)) followed by salary assignments (BHD1,760.3 million (US$4.64 billion)).

Merger and acquisition activity, fintech and ESG

While completed at the end of 2022, the merger between KFH and AUB has entered the integration phase. The merger has helped KFH

Chart 2: Geographical repartition of assets over time



Source: Central Bank of Bahrain - Statistical Bulletin

leapfrog Dubai Islamic Bank to become the third-largest Islamic bank in the world by asset size. The combined entity will consolidate its position as a market leader while AUB gradually converts its balance sheet to a Shariah compliant one.

Several banks have implemented ESG frameworks and are pushing the agenda for better financial inclusion, climate impact and better governance under the umbrella of responsible banking.

The Central Bank of Bahrain (CBB) has been a frontrunner in the GCC in setting up a regulatory framework for digital currencies and fintech innovations such as the regulatory sandbox. During the year, several initiatives took place. For example, Bank ABC launched its digital bank, Ila Bank. Singapore-based Whampoa Group announced the selection of Bahrain as the home of its new digital bank. Finally, we note the approval by the CBB of Spire Technologies as a fully regulated open banking ancillary service provider.

Preview of 2024 and conclusion

The CBB has been very diligent in setting up a regulatory framework that may foster Bahrain as a hub for fintech and digital banking. Given the friendliness of the business environment in Bahrain, we believe that the country's potential is certain. However, the size of the market, ability to export itself and its innovation will be key to the success of the hub. On the banking side, it is likely that further consolidation will happen; smaller banks will find it increasingly difficult to operate in a highly competitive market.

Four decades of Islamic banking in Bangladesh: From inception to innovation

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Islamic finance has emerged as an effective instrument for funding economic endeavors on a global scale. In Bangladesh, Islamic banks have played a substantial role in sustaining the nation's economic landscape. These Islamic financial institutions are pivotal in facilitating agricultural financing, thereby enhancing food security, fostering the growth of the financial sector and promoting broader financial inclusion.

Review of 2023

Over the span of four decades, Islamic banking in Bangladesh has made remarkable strides, securing a substantial market presence. Currently, Shariah-based banking commands significant market shares in various sectors, with a breakdown as follows: 26% in deposits, 26% in imports, 24% in exports, 39% in remittances, 27% in industrial finance, 17% in agricultural investment and 38% in CMSME (cottage, micro, small, and medium enterprises) investment.

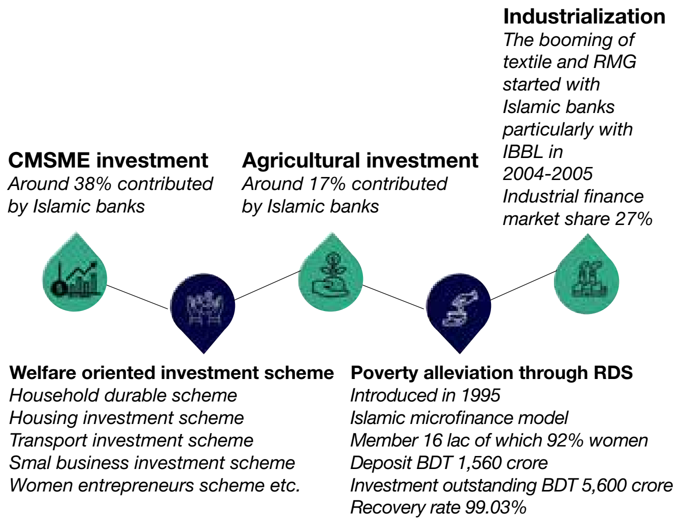
Islamic banking has played a pivotal role in creating employment opportunities for approximately 120 million individuals. Notably, Islami Bank Bangladesh (IBBL) has made a remarkable contribution of US$12 billion to the nation's reserves since its establishment. Furthermore, within the banking sector, Shariah-based banking accounts for a significant 50% share of corporate social responsibility initiatives, with IBBL alone contributing an impressive 29% to this noble cause.

Presently, Islamic banks command a substantial market share, accounting for 25.81% of total deposits and 29.2% of investments. According to data from Bangladesh Bank, these figures have shown significant growth since 2017 when they were 23.13% and 23.81% respectively.

The central bank's report on Shariah-based banks highlights the potential for the broader Islamic financial industry, including the Islamic capital market, Takaful and the microfinance sector, to thrive systematically if supportive policies are adopted and effectively implemented.

Bangladesh Bank has instituted the 'Mudarabah Liquidity Support' program to ensure the stability and resilience of Islamic banks. Furthermore, the introduction of the 'Islamic Banks Liquidity Facility' by

Figure 1: Contribution of Islamic banking in Bangladesh: Investment



Source: Bangladesh Bank

Bangladesh Bank serves as a means to assist with liquidity management and bolster the financial system of Shariah compliant banking.

In response to the growing public demand for Islamic finance, the Bangladeshi government and regulatory authorities have implemented various Islamic monetary policy tools to effectively manage liquidity within the Islamic banking system. One noteworthy initiative is the 'Bangladesh Government Islamic Treasury Bill', which has been introduced to facilitate funding for Islamic finance, with Bangladesh Bank acting as the government's representative.

Currently, Bangladesh boasts 35 non-bank financial institutions (NBFIs), with a subset of them, including Islamic Finance and Investment, Hajj Finance and Aviva Finance, operating with fully-fledged Shariah-based operations. Additionally, several other NBFIs, such as IDLC Finance, DBH Finance and Strategic Finance & Investments, have obtained approval to establish Islamic windows within their operations.

Preview of 2024

While Bangladesh Bank is eager to establish dedicated legislation for Islamic banking, progress in this regard has been lacking. Therefore, it is imperative that the central bank prioritizes the establishment of separate legislation.

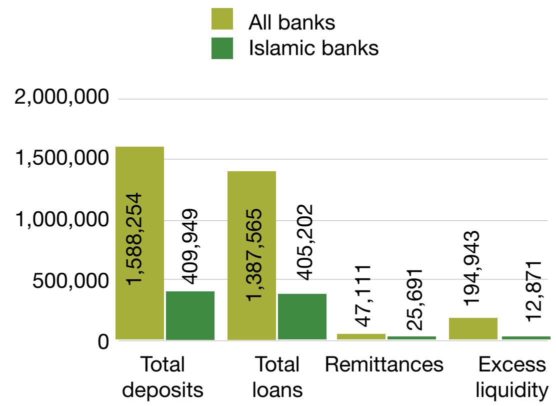
The essence of Islamic banking lies in its capacity to provide tailored and socially beneficial financial solutions. This banking system actively promotes ventures that benefit society while discouraging those with negative social implications, thereby fostering sustainability in the banking sector.

A notable advantage is its asset-based and asset-backed sustainable financing mechanism, which contributes to the advancement of the green economy. Islamic banking seeks to maximize overall welfare and encourages stakeholders to contribute to the well-being of both themselves and society, thus alleviating discrimination and poverty.

To fortify the Islamic banking sector, the establishment of a regulatory authority with a robust legal framework is crucial. This

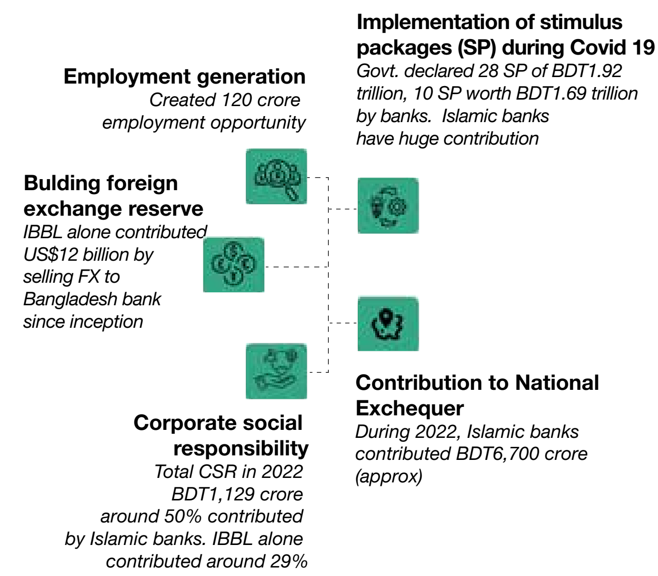
Figure 2: Performance of Islamic banks compared to all banks (2022, crore taka)

Expansion of Shariah based financial system	2017	2022
Deposits (Tk)	214,259 Cr	409,949 Cr
Investments (Tk)	201,101 Cr	405,202 Cr
Full-fledged Shariah bank	7	9
Shariah based branches (traditional banks)	9	11
Islamic window (traditional banks)	8	14



Source: Bangladesh Bank

Figure 3: Contribution of Islamic banking in Bangladesh: Socioeconomic development



Source: Bangladesh Bank

should encompass distinct laws for Islamic banks, appropriate licensing criteria, prudential regulations, minimum capital and liquidity standards, and methodologies for risk-weighted asset classifications.

Islamic banks in Bangladesh also grapple with the challenge of managing relationships with foreign banks and conducting international operations. This necessitates the creation of financial instruments that align with Islamic principles and are acceptable to interest-based banks, including foreign counterparts.

Islamic banks should redirect their investments toward socially beneficial sectors, with a particular focus on agriculture and small businesses. Currently, investments in ideal Islamic modes like Mudarabah and Musharakah remain minimal. To address this, Islamic banks should prioritize the development of comprehensive guidelines and policies to promote investments under the Mudarabah and Musharakah modes.

Furthermore, Islamic banks can explore untapped customer segments by engaging in microfinance projects, supporting women entrepreneurs and catering to the financial needs of government agencies that are not currently served by conventional banks. These initiatives would provide Islamic banks with a significant advantage for growth. To fully utilize the excess liquidity held by Islamic banks, there is a need to introduce a broader range of money market and capital market products.

Key challenges in the Islamic banking landscape encompass a shortage of skilled personnel, the absence of a well-defined research and development framework within the country and a lack of Islamic banking literacy among the populace. The existing 2009 guideline from the central bank governing Islamic banking in the country is outdated and needs alignment with contemporary developments. Ensuring uniformity in Islamic banking practices is equally important.

The future holds the promise of legal frameworks that address Islamic contracts and financial transactions, equitable taxation policies for Islamic financial products and mechanisms for resolving disputes specific to Islamic banking. Encouraging collaboration between Islamic banks and conventional financial institutions, both domestically and internationally, is also advised. Such partnerships, joint ventures and cross-border cooperation can broaden the accessibility and availability of Islamic banking services.

Conclusion

Enhancing the performance of Islamic banks hinges on upgrading the quality of their human resources through increased investments in research and training. This investment should be aimed at preparing a skilled workforce of Islamic banking professionals capable of effectively addressing Shariah compliance issues in the Islamic financial industry. Islamic banks must prioritize these initiatives to meet the evolving demands of creating new Islamic financial instruments and improving existing ones. Consequently, a strong emphasis on employee skills and knowledge development, achieved through scientific research and training, is essential.

Additionally, Islamic banks should intensify their professional efforts to enhance competitiveness, both in the local and global financial markets. In line with Bangladesh Bank's efforts, Islamic banks, branches and windows should embrace technological innovations and digital banking to achieve deeper financial inclusion and advance toward a cashless society in Bangladesh.

For the Islamic banking sector to reach its full potential, Bangladesh needs to enact comprehensive Islamic banking laws that provide a legal framework commensurate with the industry's growth. Effective implementation of laws and regulations, the cultivation of a culture of compliance and the practice of good governance and ethical transactions are all essential for maintaining dynamic leadership in the sector. Given that Islamic banking already constitutes a significant portion of the overall banking business, its continued growth and demand underline the importance of these measures.

Islamic finance principles and products imperative for Brazil

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Brazil is the largest economy in Latin America, and a G20 member. It is part of the global economy and has trade and investment relations with countries around the world. Muslim-majority countries are not an exception to those relations. On the contrary, Brazil and Muslim-majority countries are traditional partners where trade and investments are concerned.

In December 2021, the Brazilian Senate through its Economic Affairs Commission (*Comissão de Assuntos Econômicos*) organized an audience to discuss and evaluate the necessary changes in the Brazilian legislation aiming at allowing access to Islamic finance resources.

According to *Agência Senado* (the Senate's news agency), the adoption of financial transactions following Islamic finance principles would require changes to avoid the double taxation of assets in Islamic finance transactions, and the improvement of trade and investment treaties between Brazil and other countries.

As to close relations to Muslim-majority countries, it is clear that this trend is definitive. The free trade agreement between MERCOSUR and Egypt came into force in Brazil in September 2017. In turn, in May 2021, it was introduced in the Brazilian legal system, through Decree 10.705, the convention executed by Brazil and the UAE for the elimination of double taxation with respect to taxes on income and for the prevention of fiscal evasion and avoidance and its protocol.

Gulf countries have major investments in Brazil. The Bahraini Arab Banking Corporation is the controlling shareholder of Banco ABC Brasil. Saudi Aramco, through SABIC — Saudi Arabia's Basic Industries Corporation — has, since 2007, a subsidiary in Brazil. Mubadala Capital, a subsidiary of the Mubadala Investment Company, through Acelen Indústria e Comércio de Plásticos, holds the Mataripe Refinery in the state of Bahia. It is also the controlling stockholder of the concessionaire of the subway services in the city of Rio de Janeiro. As to Brazilian investments, one can mention BRF's presence in Saudi Arabia and Vale's presence in Oman.

Review of 2023

The Saudi Public Investment Fund through SALIC — the Saudi Agricultural and Livestock Investment Company — has strong ties with Brazil during the last decades and this year acquired approximately 10.7% of BRF's outstanding shares. BRF is a very large company, a leader in the poultry sector, and a well-known exporter of Halal products.

The Edge Group, a global defense technology company based in the UAE, made a strategic investment by acquiring a 50% stake in Brazilian company SIATT–Engenharia, Indústria e Comércio. The Edge Group also signed a strategic agreement with Brazilian turbine engine developer Turbomachine. In turn, Mubadala Capital acquired two medicine schools in the state of Bahia in the Brazilian northeastern region.

In August this year, in a summit held in Johannesburg, the BRICS countries — Brazil, Russia, India, China and South Africa — decided

to admit five new members and four of them are Muslim-majority countries: Egypt, Iran, Saudi Arabia and the UAE. In September this year, the admission came into force through Decree 11.696/2023, the Agreement for the Cooperation and Investments Facilitation executed in 2019 by Brazil and the UAE.

Preview of 2024

Fintech is a success story in Brazil. As of today, there would be hundreds of fintechs operating in Brazil. Moreover, the monetary authorities approved regulations to render the Brazilian foreign exchange market less bureaucratic.

Financial institutions in Brazil are not allowed to buy and sell goods and, therefore, Murabahah would not be possible today. However, in view of this scenario in which fintechs are part of the economic scenario and the deregulation of the exchange market is a reality, why can't financial institutions be allowed to buy and sell goods?

Brazil has a Civil Code system and the current one is dated January 2002. The Civil Code establishes several provisions related to the purchase and sale of assets, loans and insurance. The Brazilian Senate created on the 24th August 2023 the so-called Commission of Jurists (Comissão de Juristas) to present, within 180 days, a bill of law about the review and update of the Civil Code.

Although it is necessary to amend and complement regulations related to financial institutions and their transactions to introduce Islamic finance principles, it could be a good opportunity to revisit the conclusions of the Senate Economic Affairs Commission and to propose, if applicable, changes to the Civil Code.

Conclusion

Despite all these facts, Brazil has not yet introduced Islamic finance principles to its legal system and economy and, consequently, is losing the opportunity to major players in the relevant sectors of the global economy. Brazil should take the opportunity to introduce Islamic finance principles and products in its laws and regulations as fast as possible so as not to lose the great opportunity to become the sole Islamic finance hub in South America.

Fostering growth in Brunei Darussalam through Islamic finance development

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Brunei Darussalam's Islamic finance sector continues to maintain a strong commitment to its Islamic values and principles. Guided by the Financial Sector Blueprint 2016–2025 produced by Brunei Darussalam Central Bank (BDCB), Pillar II aims at fostering competitive and innovative financial institutions and services. This reflects the dynamic approach in shaping the direction of the Islamic finance sector while promoting innovation and enhancing global competitiveness. The current Islamic financial ecosystem includes government Sukuk issuances, Islamic banks, Takaful operators, Islamic investment dealers, the operation of an Islamic window in the securities sector and Islamic finance service providers. As of Q2 2023, Islamic financial assets accounted for 58.2% of the nation's market share.

Review of 2023

In Brunei Darussalam, the Islamic banking sector continues to dominate the banking industry, representing a substantial 61.9% share in terms of total assets. As of Q2 2023, the Islamic banking sector still held assets worth BN$12.3 billion (US$8.96 billion), a slight decline of 1.3% compared with BN$12.5 billion (US$9.1 billion) in the previous year.

In contrast, the Takaful sector demonstrated positive growth, recording a 3.7% year-on-year increase, with total assets reaching BN$642 million (US$467.62 million). This growth was primarily driven by activities under General Takaful, which saw an increase in investment assets, receivables and other assets. Reflecting the decline in the banking sector, the Islamic financial industry overall saw a 1.3% year-on-year decline in total assets as of Q2 2023, decreasing from BN$14 billion (US$10.2 billion) to BN$13.8 billion (US$10.05 billion).

Brunei Darussalam remains committed to supporting the development of the Islamic securities market. The availability of Brunei Darussalam Government Sukuk Ijarah and BDCB Islamic Bills (I-Bills) helps to serve the investment and liquidity needs of the banking institutions in Brunei Darussalam.

As of Q2 2023, over BN$16.2 billion (US$11.8 billion) of Brunei Darussalam Government Sukuk Ijarah had been issued since the inaugural issuance in April 2006. Meanwhile, BDCB also successfully issued BN$3.2 billion (US$2.33 billion)-worth of short-term BDCB I-Bills as of June 2023 since the initial offering in October 2020.

In terms of regulatory developments, BDCB continues to strengthen its Islamic finance regulatory framework and market oversight. This is to align with global standards and to ensure that integrity and professionalism continue to be enhanced within the financial sector.

Some of the regulatory developments are as follows:

(i) Guidelines on Liquidity Risk Management

In July 2023, BDCB introduced the Guidelines on Liquidity Risk Management, which will come into effect on the 1st July 2024. These guidelines will apply to all banks and are designed to facilitate effective liquidity risk management at a foundational level. These guidelines will complement BDCB's Risk Management Framework and are a precursor to the forthcoming liquidity prudential framework.

(ii) Notice and Guidelines for Conducting Islamic Investment Business

The notice issued in September 2023 imposes additional requirements on Capital Markets Services Licence (CMSL) holders conducting Islamic investment business. These include the responsibilities of compliance officers, maintenance of accounts and the need for segregation of funds. The accompanying guidelines provide a comprehensive framework for CMSL holders engaged in Islamic investment business. These regulatory instruments are set to replace the existing Guidelines on Conducting Islamic Investment Business Dealing and Arranging Deals in Investments, previously issued in December 2017.

(iii) Notice on Shariah Governance Framework and Notice on Shariah Non-Compliance

In August 2023, BDCB enhanced its notice on the Shariah governance framework to align with international standards. The amendment highlights the importance of a Shariah compliance culture within banks and financial institutions by assigning oversight responsibilities to the board, Shariah advisory body (SAB), senior management and Shariah control functions. It also introduced new disclosure requirements regarding the implementation of Shariah governance and the state of Shariah compliance, all of which must be included in the annual report. The Notice on Shariah Non-Compliance was issued to impose the need to establish clear reporting requirements for banks and financial institutions to report any event of Shariah non-compliance to the authority and other related requirements.

(iv) Notice on Appointment of Shariah Advisory Bodies and Guidelines on Fitness and Propriety for Shariah Advisory Bodies

To elevate the professionalism of SABs, BDCB issued the aforementioned two documents in August 2023. The Notice on Appointment of Shariah Advisory Bodies outlines general requirements for the appointment and reappointment of SABs, including criteria such as the minimum number of members, their experience and term limits. The Guidelines on Fitness and Propriety of Shariah Advisory Bodies provide a structured approach to assess the fitness and propriety of individuals proposed for appointment or reappointment to the SAB of banks and financial institutions.

To exchange knowledge and to raise further awareness, the Brunei Institute of Leadership & Islamic Finance (BILIF), in collaboration with the IsDB and the World Bank Group and with support from BDCB, organized the Brunei Islamic Finance (BIF) Summit 2023 in June 2023. The BIF Summit 2023 carried the theme 'Securing A Resilient & Sustainable Future Through Innovative Islamic Finance' and brought together global experts, leaders and practitioners to discuss key issues, opportunities and challenges in Islamic finance. The event focused on three main themes: innovation in Islamic finance and technology, opportunities in the digital finance space and Islamic finance projects and initiatives.

Underscoring BILIF's commitment to promoting professional excellence in the country, it attained recognition as an authorized test center for Pearson VUE in September 2023. BILIF also successfully conducted the first run of the AAOIFI Certified Shari'ah Advisor and Auditor examination. This marked a significant milestone in enhancing proficiency and expertise within the Islamic finance sphere in the sultanate.

To encourage more research and publications related to Islamic finance that can contribute to Brunei Darussalam's economic growth, BDCB and Universiti Islam Sultan Sharif Ali are co-organizing a call-for-paper (CFP) event with the theme 'The Role of Islamic Finance as a Catalyst for Economic Growth and Shared Prosperity'. This event aims to benefit local participants by facilitating knowledge exchange, providing peer recognition from experts in the field and offering the opportunity for their papers to be published in a journal. The CFP encompasses six key focus paper streams: 'Sustainable Finance and ESG'; 'Islamic Social Finance'; 'Fintech Innovations'; 'Financial Inclusion'; 'Shariah Governance'; and 'Islamic Finance and Economic Growth'.

Preview of 2024

Islamic financial assets in Brunei Darussalam are expected to maintain the majority of market share, with the Islamic banking sector continuing to dominate the industry. BDCB remains dedicated to strengthening Shariah governance and upholding Islamic values and principles in the Islamic finance sector through regulatory guidance.

Looking ahead, BDCB is exploring the introduction of continuous professional development for SABs to further enhance expertise and professionalism. This initiative aims to bridge the knowledge gap between senior and junior Shariah scholars. Additionally, there is a pivotal project that involves the creation of a suitable platform to compile all Shariah resolutions by the Shariah Financial Supervisory Board. This platform will be easily accessible and provide guidance to the financial sector, practitioners, researchers and academicians.

In addition to the issuance of guidance on certain Shariah standards, namely Mudarabah, Wakalah and Murabahah in 2022, BDCB plans to expand its guidelines for various other Islamic finance products to further promote regulatory clarity.
BDCB continuously explores various initiatives and opportunities for knowledge-sharing and fosters discussions in order to further promote Islamic finance in Brunei Darussalam and increase the demand for Islamic financial products and services, in line with the nation's aspiration to become an Islamic finance hub.

Conclusion

Brunei Darussalam remains resolute in its commitment to Islamic finance. This commitment is exemplified through BDCB's active promotion of diversification of Islamic finance products and services, welcoming innovative financial solutions, enhancing regulations to ensure a robust financial market and continuing knowledge-sharing and awareness initiatives. These combined efforts aim to showcase Brunei Darussalam's position and mission in fostering the development of our Islamic finance sector.

Canada's Islamic finance landscape

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In 2023, Canada's Islamic finance sector witnessed significant developments, making it a landmark year for the industry. The government of Alberta's pioneering initiative on Islamic finance, the emergence of new Islamic financial products and partnerships among major financial institutions marked key highlights.

Review of 2023

Alberta's Halal mortgage initiative

One of the most notable developments in 2023 was Alberta's groundbreaking move to expand access to Halal mortgage financing. This initiative was driven by a commitment to enable qualified homebuyers within the Muslim community to own housing while respecting their religious beliefs and values. Alberta became the first province in Canada to establish a regulatory sandbox dedicated to testing and implementing Halal financing by provincially regulated financial institutions, distinguishing itself as a North American leader in this regard.

The regulatory sandbox provides businesses with temporary relief from certain legislative and regulatory requirements during the experimentation phase of new financial products and services. Alberta's stringent criteria for applicants ensure that only viable and innovative financial products are introduced to the market, prioritizing consumer protection.

Alberta Premier Danielle Smith and Minister Nate Horner expressed their commitment to making Halal financing options a priority, emphasizing the inclusive and attractive business environment that this initiative creates.

Expanding Islamic finance offerings

The year 2023 saw the emergence of Eqraz, a new player in the Canadian Islamic finance landscape. Eqraz specializes in Shariah compliant retail financing, specifically Tawarruq-based offerings. CEO and Founder Zuhair Naqvi highlighted Eqraz's compliance with Canadian tax and disclosure regulations, addressing scalability challenges often faced by traditional Murabahah and Musharakah offerings.

Additionally, not-for-profit organizations in Canada ventured into Shariah compliant social and affordable housing. Organizations like Islamic Family & Social Services Association have been working to create interest-free financing solutions that align with Islamic principles. Ongoing dialogue with the Canadian Mortgage and Housing Corporation aims to share the need the community has for Halal products, demonstrating a commitment to expanding Islamic finance into the not-for-profit sector to assist those in need.

The Canadian Halal Financial Corporation (CHFC) and its president, Thomas Lukaszuk, emphasized the importance of providing financial inclusion for Muslim families in Canada. The CHFC explored various opportunities, including auto financing and student loans, to expand its product line while contributing to social causes.

Shariah compliant equity funds

Mackenzie Investments and Primerica Financial Services joined forces to introduce the Mackenzie FuturePath Shariah Global Equity Fund. This fund offers Primerica clients in Canada access to Shariah compliant global equities. The fund focuses on identifying high-quality companies with strong growth potential while adhering strictly to Shariah principles. This initiative reflects the growing demand for investment options aligned with faith requirements and seeks to provide accessibility to all, regardless of investment thresholds.

The role of Islamic financial advisories

Abrahamic Finance continued the year with educating and advising clients locally and globally and partnering with Mufti Ismail Desai to promote his latest book titled 'Your brief guide to Islamic finance'. Abrahamic Finance also launched 'Islamic Finance Shorts', providing quick clips on various Islamic finance topics, which has been warmly received.

Shariah compliant asset tokenization

Mabrook, a Canadian platform utilizing polygon blockchain technology, introduced arguably the world's first Shariah compliant asset tokenization platform. Guided by Mufti Ismail Desai, Mabrook allows entrepreneurs and business owners to convert illiquid assets into digital shares on the blockchain. This innovative approach enhances liquidity and access to investments while maintaining Shariah compliance.

Preview of 2024

If 2023 is an indication of what has transpired, then it positions 2024 as a solid year. We see Alberta's pioneering initiative, the emergence of new Islamic financial products and partnerships between financial giants set the stage for continued growth and inclusivity in the industry. Canada's commitment to fostering diversity, innovation and financial inclusion positions its growth in gaining traction to be a hub for Islamic finance that resonates with diverse values and principles.

The progress taking place is allowing new offerings to gain traction and ones that have been sitting on the sidelines to come forth. Fintech, education and advisory will play a strong role in the growth for 2024 as the country continues to gain awareness of this industry. With governmental support and making Islamic finance a priority, Canada can position itself as a regional leader with future ambitions to become a global player — and the year 2024 can be the litmus test in how this progress continues forth on this positive trajectory.

Conclusion

In summary, the year 2023 stands as a testament to Canada's commitment to fostering an inclusive and innovative Islamic finance landscape. With Alberta's pioneering initiative, the emergence of new financial products and strategic partnerships at the forefront, the nation has set the stage for a promising future in this sector. As we eagerly anticipate 2024, the industry's continued growth and inclusivity, driven by fintech, education and advisory services and coupled with robust governmental support, herald Canada's journey toward becoming a regional leader with global aspirations in the realm of Islamic finance. The progress witnessed serves as a beacon, illuminating a path toward financial inclusion and innovation that resonates with diverse values and principles, offering promise and potential for all.

Promising outlook for Islamic banking in Central Asia

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The concept of Islamic banking and finance has gained significant traction in recent years, especially in Central Asia. The region, comprising countries such as Kazakhstan, Uzbekistan, Tajikistan, Turkmenistan and Kyrgyzstan, has been increasingly embracing Islamic financial principles.

Review of 2023

In 2023, the aforementioned nations embarked on a comprehensive review to assess the progress and performance of their respective Islamic banking sector. During this period, the Islamic banking and finance sector in Central Asia exhibited considerable growth and resilience. Furthermore, the Central Asian countries have recognized the potential of Islamic banking to foster economic growth and provide financial services that align with their cultural and religious values.

A flow in consumer interest, particularly among the Muslim population, led to increased market penetration, expansion of Islamic banking branches and the introduction of innovative Islamic financial products such as Shariah compliant services, and Islamic microfinance products.

Market share and penetration of Islamic finance products

A report by the Eurasian Development Bank (EDB) on the 31st October 2023 stated that the global share of Islamic finance in total assets stood at 1% in 2022 and is experiencing rapid growth. Between 2015 and 2021, the annual average growth rate of Islamic assets worldwide was an impressive 10.5%, surpassing the 5.8% growth rate observed in traditional finance assets.

The EDB member countries in Central Asia, which include Kazakhstan, the Kyrgyz Republic and Tajikistan, are predominantly Muslim nations. There is a growing demand for Shariah compliant financing each year. As of the end of 2021, Islamic assets accounted for 0.2% of all banking assets in Kazakhstan, 1.5% in the Kyrgyz Republic and 1.1% in Tajikistan which has increased as of 2023.

However, data for Uzbekistan and Turkmenistan is not publicly available. Kazakhstan is the icon when it comes to Islamic finance in Central Asia. This is mainly because of its big economy and its consistent efforts to develop the Islamic finance sector. On the other hand, the Islamic financial sectors in the Kyrgyz Republic and Tajikistan are evolving within the context of smaller economies, which means they receive less support from the scale effect.

Nevertheless, Kyrgyzstan boasts the highest share of Islamic finance in its asset structure at 1.5%, with a substantial network of financial agents operating following Shariah principles. Within this sector, there is significant potential for insurance and leasing instruments to play a crucial role in the structural landscape.

Challenges

However, the Central Asian Islamic banking finance industry is not without challenges. Limited awareness and understanding of Islamic financial principles among the general public, inadequate human resources with expertise in Islamic finance and the need for harmonization of regulatory frameworks across the region still pose hurdles to the industry's further growth and development.

Despite these challenges, the future prospects of Islamic banking and finance in Central Asia appear promising. As governments continue to promote Islamic finance with universities offering specialized courses, and as awareness campaigns increase, a larger pool of professionals with Islamic financial knowledge is expected to emerge. Moreover, regional collaborations, such as the establishment of the Central Asian Association of Islamic Banking and Finance, can strengthen the sector's capacity, standardize regulations and promote cross-border operations.

In addition, Islamic banking regulations in Central Asia emphasize the importance of Shariah compliance and governance. Islamic banking institutions are required to establish dedicated Shariah boards or committees consisting of Islamic scholars who provide guidance on the Shariah compliance of products and transactions. Furthermore, robust governance frameworks are crucial to ensure transparency, accountability and ethical practices within Islamic banking institutions.

Preview of 2024

Technological advancements and digitalization

Embracing technological advancements and digitalization presents immense opportunities for the growth of Islamic banking in Central Asia. Developing user-friendly mobile banking apps, online platforms and digital solutions will enhance accessibility and convenience for customers. By leveraging technology, Islamic banks can not only streamline their operations but also reach a wider customer base, especially the tech-savvy younger generation.

Collaboration and partnerships with international Islamic financial institutions

To promote the growth of Islamic finance in Central Asian countries, it is vital to collaborate with international Islamic financial institutions. These institutions bring expertise, knowledge and resources to improve the Islamic banking ecosystem. By forming alliances, Central Asian countries can learn from established players in the industry. The EDB report suggests key recommendations such as regulatory cooperation, innovation, financial literacy programs and international collaborations. Implementing these recommendations will help unleash Central Asia's potential in Islamic banking and establish them as regional Islamic finance hubs.

Development of human capital and expertise in Islamic finance

Advancing Islamic finance in Central Asian countries requires investing in developing human capital and expertise in this field. This involves providing training, workshops and educational initiatives to empower individuals with the necessary skills. By nurturing a talented pool of professionals, these countries can ensure the long-term sustainability of their Islamic finance sectors.

In 2024, it is crucial for Central Asian countries to prioritize efforts to expand access to Islamic banking services in rural areas. By establishing branches or mobile banking facilities in remote regions, underserved communities can benefit from the financial services and opportunities provided by Islamic banks.

Central Asian countries should focus on developing targeted Islamic microfinance programs and SME financing initiatives to cater to the specific needs of these sectors. By providing accessible and Shariah compliant financial solutions, Islamic banks can contribute to the development and sustainability of micro and small businesses, ultimately boosting the overall economy.

Conclusion

Central Asian countries can further develop their respective Islamic banking industry by enhancing regulatory frameworks, promoting financial inclusion and fostering partnerships. With a commitment to Shariah compliance and innovation, Islamic banking has the potential to contribute to economic stability and social welfare, offering an alternative to conventional financial systems.

The future outlook for Islamic banking in Central Asia is promising, but stakeholders must continue collaborating for its sustainable growth. This can bridge the gap between the unbanked and formal financial sectors, providing access to essential financial services.

Additionally, Islamic banking and finance can attract foreign investments and foster entrepreneurship, contributing to overall economic development. By leveraging fairness, transparency and ethical conduct, Islamic banking can create a more inclusive and sustainable financial ecosystem in Central Asia.

Islamic finance along the Belt and Road is on the ascendancy at the right time

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2023 marks the 10th anniversary of China's 'Belt and Road' initiative. The Belt and Road initiative encompasses the world's major Islamic financial centers in the Middle East and Southeast Asia, where assets in line with Islamic principles make up as much as one-quarter of the total banking assets. Islamic finance plays a crucial role in realizing the vision of the Belt and Road initiative, and China will therefore pay greater attention to the development of this industry. Traditional finance is based on debt, with customers bearing all the risks and responsibilities during the transaction process, while Islamic finance is asset-based. As part of a partnership, financial institutions and customers share both profits and risks. Islamic finance is more focused on providing financing for products and the real economy. The Chinese government is currently making efforts to shift financial services from virtual to real, with a stronger emphasis on serving the real economy and SMEs. This will provide a broad stage for Islamic finance.

Review of 2023

According to global news, many sovereign funds in the Middle East have an intention to set up offices in China. It has been a consensus among these countries to increase their investment in China. Currently, investors from the Middle East are actively seeking investment opportunities in China and considering making small-scale investments in the field of venture capital, with a focus on emerging technology, new consumer trends and biotechnology.

In addition, in the secondary market, Islamic finance has also become a significant force for buying Chinese assets. However, due to the degree of openness in the financial system, Islamic finance still struggles to adapt well to the Chinese financial environment at the market access level.

Islamic finance's regulatory framework in terms of product design, profit structure, accounting standards and various aspects does not align perfectly with China's existing financial model, regulatory system and legal, financial and tax systems. Furthermore, the development of Islamic financial talent is also in urgent need of enhancement.

Preview of 2024

Egypt, Iran, Saudi Arabia and the UAE will become official members of the BRICS group of countries in 2024. It is foreseeable that in the future, Islamic finance will have a broader development space within the BRICS cooperation mechanism. It is expected that by 2030, the total investment capital of the Middle Eastern sovereign funds will increase by 150% from the current US$4 trillion to US$10 trillion. More than one-tenth of this capital will be allocated to Chinese assets, meaning that US$1 trillion to US$2 trillion of funds will be redirected into investments in China. Currently, only a small portion of the Middle Eastern sovereign funds (about 1% to 2%) is invested in Asia, mainly in China, making the incremental capital quite substantial.

Conclusion

Currently, the global situation is full of uncertainties, with ongoing regional conflicts, but the Belt and Road initiative has gained support from an increasing number of countries. The Belt and Road initiative aims to use historical symbols of the 'Silk Road', and raise the banner of peaceful development by actively developing economic cooperation relationships with its partners. It also jointly creates a community of shared interests, a community of shared destiny and a community of shared responsibilities marked by political trust, economic integration and cultural inclusivity. This closely aligns with the core principles of Islamic finance, which is based on Islamic jurisprudence. It can be foreseen that in an increasingly complex international landscape, Islamic finance will play an increasingly important role.

Could sovereign Sukuk help save Egypt from its debt crisis?

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The Egyptian Islamic finance industry is still managing to grow amid the backdrop of the country's economic struggles and the burgeoning currency crisis. In fact, the success of Egypt's first sovereign Sukuk issuance indicates the potential of the Shariah compliant financing method to boost foreign currency inflows and manage government debt servicing obligations. Islamic financing mechanisms will remain critical as Egypt awaits two pending IMF reviews and external pressure to devalue the local currency. Meanwhile, the Shariah compliant banking sector remains stable, though the appetite for corporate Sukuk has all but vanished.

Review of 2023

Ever since the issuance of Sovereign Sukuk Law No 138/2021, the Egyptian government promised the country will make its first foray into sovereign Sukuk. In February this year, the promise was realized when Egypt issued US$1.5 billion in Sukuk Ijarah with a periodic distribution rate of 11%. The Egyptian Financial Company for Sovereign Taskeek acted as the SPV, while the Ministry of Finance acted as the originator. The Sovereign Sukuk Law mandates that the Ministry of Finance be the originator for all sovereign Sukuk issuances, regardless of the public entity to whom the proceeds will be directed.

The issuance has a short tenor of only three years, which is wise, considering that at least two further devaluations are expected to happen within the next 12 months. Under the Sovereign Sukuk Law, sovereign Sukuk issuances have a maximum tenor of 30 years.

With Sukuk, Egypt can also diversify its foreign investor base. Egypt has issued panda bonds, green bonds and samurai bonds over the past two years. However, none of these options are suitable for conscientious investors who eschew interest-bearing sovereign bonds for religious or ethical reasons.

Global sovereign Sukuk issuances have decreased by almost 8% year-on-year, so there is less competition between Egyptian sovereign Sukuk and those issued by other jurisdictions. Egypt's issuance was oversubscribed by four times the number of available shares. Despite the success of the sovereign Sukuk issuance, no corporate Sukuk were issued.

Egypt's pioneer Sukuk issuance was listed on the London Stock Exchange, but the government is considering the creation of a separate index for Shariah compliant securities on the Egyptian Exchange. As a preparatory measure, the Egyptian Exchange is consulting with select corporations boasting high liquidity portfolios to ensure the success of the Shariah compliant index, if launched.

Islamic banks' share of the overall banking sector is now 5%, indicating a year-on-year growth margin of 27%. Eleven new Shariah compliant bank branches were opened as well, bringing the total to 256. In a show of cooperation between the Shariah compliant sector and the Egyptian government, ADIB Egypt appointed Minister of

International Cooperation Rania Al-Mashat to the bank's board of directors.

Preview of 2024

The latest estimate for Egypt's financing gap, according to the IMF, is US$17 billion over the next four years. Depending on the success of the country's privatization program and monetary adjustments to the local currency's value and interest rates, this gap could widen as time passes. Moody's Investors Service's recent downgrade of Egypt's credit rating from 'B3' to 'CAA1' both undermines the sovereign Sukuk program while highlighting the program's importance.

Fortunately, the outlook is stable, which gives Egypt room to maneuver and improve its economic prospects. The size of Egypt's sovereign Sukuk program is US$5 billion, which means that another issuance could be under consideration for the upcoming year.

It is very unlikely that the corporate Sukuk market will see a resurgence in 2024. Egypt's expected monetary adjustments will increase borrowing costs, which presents a long-term risk to corporate issuers. Even local currency issuances, which are less risky for the issuer, may not attract the same subscription rates as a foreign currency issuance, in light of the local currency's expected valuation. Given the economic uncertainty, it would be almost impossible to specify a periodic distribution rate that would allow Sukukholders to profit even if the currency lost 16–20% of its value.

So far, none of the fully Shariah compliant banks in Egypt have had their credit ratings downgraded by one of the top rating agencies. In contrast, the National Bank of Egypt, Banque du Caire, CIB and Banque Misr were downgraded from 'B3' to 'CAA1' by Moody's, while Bank of Alexandria's rating fell to 'B2'. If this trend continues, then Islamic banks may be in a stronger financial position next year than their conventional counterparts, which will make them a more attractive savings option for customers.

Conclusion

The Islamic banking sector is the most robust element of Egypt's Islamic finance industry. Shariah compliant banks may be more competitive than conventional banks in the upcoming year. Meanwhile, the promise of future sovereign Sukuk issuances has the potential to alleviate Egypt's deficit. Higher interest rates and currency devaluations will continue to have a negative impact on corporate Sukuk issuances until the economy stabilizes.

Positive strides promise a more inclusive and diverse financial landscape in Ethiopia

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In Ethiopia, where a community of around 40 million Muslims resides, equivalent to the entire population of nations such as Canada, Iraq, Afghanistan, and Uganda, Islamic finance plays a pivotal role in fostering financial inclusion. By adhering to Shariah compliant financial principles, financial institutions can create avenues for the Muslim population to access financial services tailored to their religious beliefs. The nature of Islamic finance (concept of risk and liability sharing) may even better fit the needs of poor and vulnerable populations given their limited incomes and limited possession of valuable assets that impede their access to and participation in the formal and conventional financial services sector. Hence, Islamic finance not only ensures the equitable participation of the Muslim community in the country's economic activities but also promotes a more inclusive and diverse financial landscape in Ethiopia.

Review of 2023

Despite recent formidable challenges, including the impact of the COVID-19 pandemic, war, and specific issues within the banking and capital markets, Ethiopia stands out as one of the few countries actively incorporating Islamic finance into its financial system responding to the long-standing demand from its sizable Muslim population. In 2020, the government adopted a series of regulations welcoming the introduction of Shariah compliant financing services.
By the end of 2023, the National Bank of Ethiopia jointly with the international finance community has achieved notable success in the development of Islamic finance which resulted in the establishment of two full-fledged Islamic banking institutions and many conventional banks and microfinance institutions (MFIs) initiated the operational "windows" for offering Shariah compliant financing and deposit-taking services.

Though the Ethiopian government and banks are making efforts to reduce the financing gap for the Muslim population, local studies revealed that there is still a large aggregate disparity in satisfying the demand for Shariah compliant financial services. This disparity can be attributed not only to the relatively nascent but growing supply of such services but also to a significant lack of awareness among the population regarding the benefits of Islamic finance.

The need for better education becomes paramount in bridging this gap, as many potential users may not fully comprehend the advantages and principles of Shariah compliant financial products. There is also a notable lack of studies focusing on the utilization and awareness of Islamic financial services among some of the most marginalized populations in Ethiopia, including rural women and youth.

This lack of research poses a challenge to understanding the specific needs, preferences, and barriers faced by these groups in accessing Shariah compliant financial products. In-depth studies targeting these marginalized populations along with regulatory and institutional frameworks enhancing public awareness remain essential to identify opportunities for tailored financial solutions, address potential awareness gaps, and promote financial inclusion that resonates with the unique circumstances of rural women, youth, and other vulnerable groups in Ethiopia.

Preview of 2024

The overall lack of capital in Ethiopia also presents another significant obstacle to the expanded supply of Islamic finance. The scarcity of financial resources constrains the ability of Islamic financial institutions to scale up operations and offer a broader range of Shariah compliant products and services. This capital shortage not only limits the growth potential of existing Islamic finance institutions but also hampers the establishment of new ones. However, the Ethiopian government is actively working to enhance its regulatory framework for Islamic finance and address the challenge of capital shortage through concerted efforts to attract investment, fortify financial infrastructure through digitization, and create an enabling environment for increased capital flow into the Islamic finance sector.

As part of this broader strategy, the Ethiopian government is planning the process of establishing a long-awaited capital market, with plans for official operation by the end of 2023 or the first half of 2024. This initiative encompasses the introduction of Shariah compliant products and services.

The Ethiopian Capital Market Authority (ECMA) is proactively developing a comprehensive framework to accommodate Islamic finance products, foreseeing demand based on stakeholder engagements. ECMA has already announced its preparation of directives and regulations, set to be implemented within the next three to six months. These measures aim to streamline the issuance of licenses for capital market service providers, including those offering Shariah compliant services.

The impending launch of the Ethiopian Securities Exchange in early 2024 is also expected to mark a significant milestone, being the first to secure a capital market service provider license. This development is welcomed as a positive stride toward economic growth and the provision of an alternative funding source for Ethiopian companies including financial institutions.

Conclusion

Ethiopia, with a substantial Muslim population, has recognized the pivotal role of Islamic finance in fostering financial inclusion. Despite recent international and domestic challenges, Ethiopia has actively incorporated Islamic finance into its financial system, resulting in the establishment of Islamic banking institutions.

However, there remains a significant disparity in satisfying the demand for Shariah compliant financial services, attributed to a lack of awareness and studies, especially among marginalized populations such as rural women and youth. The overall shortage of capital in Ethiopia poses another obstacle to the expanded supply of Islamic finance.

Nevertheless, the Ethiopian government is proactively addressing these challenges by enhancing the regulatory framework, attracting investment, digitizing financial infrastructure, and planning the establishment of a capital market with Shariah compliant products. These efforts signify a positive stride toward economic growth and financial inclusion, promising a more inclusive and diverse financial landscape in Ethiopia.

French Muslim retail market more resilient than the institutional market

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2023 was a challenge due to market conditions, from mortgages to property deals through investment funds in a downward economic cycle impacting all financial segments. But interesting enough, the fall is impacting far less the Islamic finance retail segments in France as the main push is for families to access homeownerships and put their savings in a compliant manner.

Review of 2023

Business Scoot, a specialist finance consulting and statistical firm, published an updated market study about the Islamic finance market in France in **February 2023**. It estimates the national market to have a potential of EUR25 billion (US$26.54 billion), and it mentions two main active market players, ie 570easi (in the banking and finance segment) and Saafi (in the Takaful segment). According to its report, the Muslim population growth is the main driver, evolving from 8.8% in 2017 up to 12.7% by 2050 (surpassing the 10 million people bar).

Nevertheless, the current economic conditions in France are not appealing. On a yearly basis, the production of real estate credit was in a sharp decline according to the Credit Logement Observatory. After a bad first half, the number of new real estate loans granted fell by 43.4% compared with one-year rolling, and the amount of production was down by 44% over the same **period**.

Overall, in the real estate market (all markets combined, commercial and residential), the trend is toward falling prices although residential prices are not decreasing enough for potential new homebuyers to get access to home finance at affordable conditions. In most French regions, we are seeing a fall in sales, particularly during the second quarter, and a decline in purchases of old homes (-10.6% compared with 2022).

The average rate for a fixed-rate home loan was limited to 1.8% in Q1 2022. It increased in 2022, 2.6% in Q4 and 2.2% on average annually. It reached 3.18% in Q1 2023 and 3.51% over the March–April–May period and overtook the 4% threshold since the summer.

It is clear that clients are more hesitant to invest in the face of rising rates and high price levels. Over the past year, the increase in home loan rates has led to a reduction of "circa EUR32,000 [US$33,970.9] in the amount borrowable by an average buyer, or around -12%," said Olivier ELUERE, an economist at Crédit Agricole.

Unfortunately, the credit crunch occurred in 2022 because of the French regulator (Haut Conseil de stabilité financière)'s drastic conditions imposed on a no-consensus basis, which surprised the whole real estate market with heavy impacts on the supply of mortgages and their costs.

By market segments, the situation is more nuanced, especially for Islamic finance. 570easi, the main Islamic mortgage platform, has reduced its production not by 50% but by around 20%, maintaining its annual target of reaching EUR100 million (US$106.16 million) with a sizeable portfolio of circa EUR650 million (US$690.03 million) of current Islamic loans.

Conexcap Finance, on the other side, focused on the savings markets, with different products such as a property open-ended fund (SCPI), a life insurance contract and a retirement savings plan (PER), fully invested in investments funds such as HSBC, BNPP, Templeton … allowing thousands of new clients to access alternative non-Riba-based products.

Nevertheless, the instability of the financial markets, the inflation impact and the gloomy economic perspective are not reassuring for the retail clients who are looking for non-risky investments, preferably capital guaranteed which are not available in a Shariah compliant way.

The challenges for the new players are to match clients' expectations, creating more alternatives and easy-to-understand products. There seems to be some good reactions from the retail clients about the soon-to-be-launched new payment/neobank providers, trusting that their savings can be put in a different banking environment away from a Riba-based one, and potentially that investing in these new platforms (as equity investors) may provide a good capital appreciation in the long term.

Preview of 2024

From our understanding and discussion with different professionals, the market is gearing toward more advanced fintech following the initial trend of crowdfunding platforms. More investors are chasing alternatives to capture market share through fintech (new home finance or car leasing platforms), artificial intelligence investment coach (for personalized savings), private equity funds (tapping the SME market) or Sukuk alternatives (either for project finance or property investments).

As for now, these new initiatives are still to be properly launched in such a way to get sufficient market traction and funding from investors. We are looking for different ways to combine expertise from the different fields and value propositions from either incumbents or start-ups, more realistically in the Takaful industry as this market is ripe for Islamic disruption. Tokenization of real assets is also an interesting avenue for innovation and ground-up initiatives from the large French Muslim population.

Conclusion

The main challenge of Islamic finance in France is still the same, with an analogy to an iceberg: a lot of things are happening underneath, from the Muslim-led SME push to the Halal food market, from the flow of new homeowners to more retail investors, but not much on the supply side, and from banks or insurance companies and asset managers still on the side of economic history.

The potential impact of Islamic finance as an alternative in The Gambia

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In The Gambia, the Islamic financial services industry is on an upward trajectory with a significant increase in the number of institutions and total Islamic finance assets. Compared with six in 2022, this year, there were 10 Islamic financial institutions, comprising one Islamic bank, one Islamic window of a conventional bank, two Islamic microfinance institutions, four Takaful operators (one of them Family Takaful), one Islamic credit union window of Gambia Teachers Cooperative Credit Union and one microfinance entity undergoing conversion. There are other credit-only Islamic microfinance institutions and credit unions that are in the informal sector and many more institutions preparing to join the industry. Operating in a fully conventional environment, the sector has gone through a laudable growth, highlighting the ever-growing interest Gambians have in Islamic finance products and services.

Review of 2023

The year 2023 witnessed tremendous success in the Islamic financial system in the country. For the first time, the central bank issued the guidelines for the regulation and supervision of Islamic financial institutions covering banking, Takaful operation and microfinance. The guidelines cover key areas including Shariah governance, financial reporting, product development, etc. The guidelines complement the current regulatory framework and enhance the Shariah compliant and operational efficiency of Islamic financial institutions as well as consolidate the confidence of customers in the products and services offered by these institutions.

The year also witnessed the Central Bank of The Gambia issuing licenses to two more Takaful operators, Salam Family Takaful and Yonna Islamic Insurance. Salam Family Takaful has since started operations and Yonna is expected to start in 2024. Furthermore, one of the conventional banks, Banque Sahélo-Saharienne pour l'Investissement et le Commerce, a Libyan subsidiary, was given approval by the central bank to operate an Islamic window. The window started operations in November 2023. The central bank also launched the capital market of The Gambia including an Islamic window for the trading of Shariah compliant stocks and fixed income securities.

As predicted in 2022, the industry is on track to register double-digit growth as two more Islamic financial institutions, a Takaful operator and an Islamic window started operations in 2023. As of June 2023, Islamic finance assets represented 8.4% of the total assets in the industry. In the same period, Islamic finance assets grew by 2.1%. However, this figure excludes the assets of the two new Takaful companies, the Islamic window and one of the microfinance institutions undergoing conversion to Islamic microfinance. With the addition of these institutions, the growth will be remarkable.

Notwithstanding the aforementioned, the country continues to grapple with capacity issues especially Shariah advisors and product development specialists. Despite this, the talent pool recorded remarkable growth with more people graduating with Master's and PhD degrees in Islamic finance and many more taking up courses in the University of The Gambia's newly introduced Bachelor of Science degree in Islamic finance program. To tackle the capacity gap, complementary short-term courses in Islamic financing especially by institutions of higher learning will greatly help to produce the right kind of capacity for the growth of the industry.

Preview of 2024

We are expecting 2024 to be an exciting year. Again, a double-digit growth is predicted in the Islamic financial services industry with the introduction of new fully-fledged Islamic financial institutions and windows, and overall growth in Islamic finance assets. We may witness the listing of the first Shariah compliant stock and/or fixed income securities on the stock exchange.

We are also expecting Yonna Islamic Insurance to start operations in 2024 as the institution has already started recruitment and putting structures in place. Moreover, the conversion of one of the microfinance institutions is expected to be completed next year. The institution has already appointed an Islamic financial specialist and provides Islamic finance products and services.

The Central Bank of The Gambia continues to work on new Murabahah guidelines that will encourage Islamic financial institutions to explore new Shariah contracts in their product development, given that Murabahah currently represents almost 81% of financing by Islamic finance contracts. We are expecting the guidelines to be issued in the early part of 2024.

Conclusion

Despite the remarkable success, awareness of Islamic finance products and services is still low. Perhaps, Islamic finance institutions should invest more in creating awareness and sensitizing the general public. With the right kind of information and resources directed to educating the public about the potential impact of Islamic finance as an alternative, I believe the Islamic finance industry will be dominant in the future.

Islamic finance thrives in Germany: A look into the growing market and innovations

Ahmad Kamal Chenzaie *is the chief growth officer at SUKUUK, a crowdfunding platform for ethical, sustainable and safety-oriented real estate investments in Germany. He can be contacted at kamal.chenzaie@sukuuk.com.*

Germany is home to approximately 5.7 million Muslims, and this number continues to grow. Due to the ethical values inherent in Islam, Muslims adhere to specific rules when it comes to financial transactions. This adherence is fueling the continuing growth of the Islamic finance market in Germany.

Ongoing factors, such as inflation, war and uncertainty, contribute to a tense economic situation. This uncertainty drives up the price of gold, providing substantial gains to existing Islamic finance customers in Germany, who predominantly invest in precious metals.

Germany boasts one of the world's strongest economies and hosts the second-largest Muslim community in Europe. In Germany, Islamic financial institutions are more akin to start-ups. Even within the target audience, they must diligently establish recognition and trust.

Review of 2023

The entities shaping Islamic finance offerings in Germany in 2023 primarily emphasize innovation, intelligent products and personalized advisory services.

In addition to the well-known KT Bank (Kuveyt Turk Bank) is the German fintech company INAIA.

KT Bank

Besides its five branches in Germany, KT Bank provides an extensive online presence and mobile banking through the KT Bank App to Islamic finance customers. Its Shariah compliant banking products and services are diverse and include a notable range of account and card options, such as free checking accounts, gold accounts, a Mastercard and a Jetzzcard for installment payments. KT Bank also offers various savings accounts and financing options for consumers and businesses. While real estate financing is part of the product portfolio, it is based on debt financing.

INAIA

INAIA is Germany's first Islamic fintech company, founded in 2007. INAIA's website features not only product information but also an Islamic finance blog, an Islamic finance lexicon and an online shop for gold and silver. Customers are provided with useful tools for managing their investments through an online account and the INAIA App.

The primary and most well-known product is the INAIA Gold Dinar savings plan, an innovative way to invest in real gold. Since 2023, the selection of precious metal products has expanded to include silver due to high demand.

INAIA also offers Shariah compliant stocks, participation certificates (Sukuk), investment funds and exchange-traded funds. The company actively contributes to the launch of new products in the German market, such as the Halal-certified Saturna Al Kawthar Tech Fund.
All products are fully and independently Halal-certified and qualified according to the INAIA Halal Code by reputable scholars.

SUKUUK

SUKUUK is a crowdfunding platform for Shariah compliant real estate investments in Germany. It connects investors and homebuyers through a bridge, offering them an ethical, sustainable and security-oriented entry into the real estate market. Investors can participate in residential properties for as little as EUR250 (US$265.4), and buyers can finance their desired properties through the platform. The buyer occupies the property while the investor receives a monthly rent. SUKUUK plans to start by 2024.

Getinsha

Getinsha was founded in 2018 under the name Insha. Its purpose was to provide technologically innovative customer solutions in the banking and financial services sector. The company does not have its own banking license but processes the transaction of money via Solarisbank. Recent research showed that not only Shariah compliance is important to Muslim consumers, but also service and quality — why the German fintech Getinsha recently went bankrupt as it was not able to service its customers in a proper way. This year, Getinsha started to unilaterally terminate its customers' current accounts.

Lack of products

In an Islamic Finance *news* **article** dated the 31st May 2023, INAIA presented survey results regarding Islamic finance offerings in Germany highlighting what Islamic finance customers value and which products are lacking in the German market. At the forefront is property financing (equity-based), which is of utmost importance to customers in Germany. Building insurance and private and occupational pension plans are also of interest to the German Islamic finance market.

Preview of 2024

In 2024, further growth is anticipated in the Islamic finance sector in Germany. This is attributed to the steadily increasing number of Muslims in Germany and the growing sustainability mindset among the population, advocating for values represented in Shariah compliant products. The increasing interconnectivity and digitalization in Germany provide excellent conditions for online services, making it increasingly easier to introduce new products to the German market.

The positive trajectory of the Islamic finance market in Germany is expected to unfold across the entire DACH region (Germany, Austria and Switzerland) in the medium term. The challenging interest rate situation with conventional financial service providers presents an opportunity for new products with sustainable solutions that resonate with society at large.

Conclusion

Islamic finance in Germany is on the rise, fueled by the growing Muslim population and a demand for Shariah compliant financial products. Notable players like KT Bank, INAIA and SUKUUK offer innovative options. The sector's future looks promising, with an emphasis on property financing, building insurance and pension plans. In 2024, sustained growth is expected due to increasing digitalization and a societal shift toward sustainability. This positive trend may also extend to the broader DACH region, offering new, sustainable financial solutions in the face of conventional finance challenges.

Ghana: Advancements and future prospects in Islamic finance

Dr Shaibu Ali *is the director-general of the Islamic Finance Research Institute, Ghana and the chairman of the Research & Business Development Committee, Supreme Council for the Arab–African Economy (SCAAE), West Africa. He can be contacted at director@ifrig.org.*

Ghana, a country known for its rich cultural diversity and economic dynamism, is experiencing a gradual but noteworthy increase in the number of people embracing the principles of Islamic finance. This has led to efforts to ensure progress toward establishing a formal Islamic finance industry. Although not yet fully realized, the rising awareness of Islamic finance principles and the dedicated efforts of various organizations within the nation lay a strong foundation for future developments.

Review of 2023

Islamic finance forums

In 2023, several impactful Islamic finance forums provided platforms for discussions, knowledge-sharing and regulatory insights.

A one-day forum on ethical banking and finance held on the 28th January 2023 explored the global growth, trends and new markets. The keynote speaker, Prof John Gartchie Gatsi, the dean of the Business School at the University of Cape Coast, highlighted the need for crucial regulatory reforms in order for ethical or non-interest banking and finance to thrive in Ghana.

Another forum held on the 20th July 2023 on non-interest banking and finance provided a platform for the exchange of insights with scholar Prof Naail Mohammed Kamil Dangigala as the keynote speaker.

Training and certification

The Institute of Islamic Finance Professionals Nigeria made commendable efforts to provide training and certification opportunities for Islamic finance enthusiasts in Ghana.

Cutting-edge research initiatives

The year 2023 witnessed a surge in knowledge-sharing through the publication of several research papers and articles by the Islamic Finance Research Institute of Ghana (IFRIG). These articles delved into crucial areas such as Ghana's debt restructuring from an Islamic finance viewpoint, the role of non-interest banking and finance in promoting financial inclusion in Ghana, assessing the potential demand for non-interest insurance in Ghana and assessing the readiness of Ghana's capital markets for non-interest capital market instruments.

Engaging webinars

Webinars addressed critical subjects, including prospects and challenges of non-interest banking and Zakat as a pillar of Islamic finance.

Islamic business networking

The formation, as well as inception, of the Ghana Chapter of the Global Islamic Chamber of Trade and Commerce is a significant step in economic empowerment and networking within the Halal business sphere. The National Muslim Conference in Ghana plays a crucial role in these endeavors.

Empowering women through finance

The FOMWAG Conference organized by the Federation of Muslim Women Associations in Ghana focused on economic empowerment of Muslim women for sustainable community development.

Preview of 2024

Stepping into 2024, Ghana's Islamic finance industry stands on the cusp of meaningful progress, with several critical focal points shaping the year ahead. First and foremost, there is a concerted drive to secure more funding and investments. This financial infusion will serve as the lifeblood of the industry, facilitating the creation of Islamic finance products and services, while also nurturing the growth of Shariah compliant businesses and ventures.

Simultaneously, the advocacy for a formal Islamic finance framework remains persistent. Industry leaders and stakeholders are working collaboratively to engage with governmental bodies and promote the establishment of comprehensive guidelines and regulations that will provide a clear and secure pathway for Islamic finance in Ghana. Such formal recognition is crucial for ensuring the sector's long-term stability and attractiveness to both domestic and international investors.

Furthermore, the year ahead is expected to be marked by more intensified training and capacity-building initiatives. Recognizing that a well-informed and skilled workforce is essential for the industry's success, a host of educational programs, workshops and certification courses are expected to be rolled out. These initiatives are aimed at cultivating a pool of knowledgeable professionals who can cater to the evolving needs of Islamic finance.

Conclusion

Ghana's journey into Islamic finance, albeit slow, reflects a nation with many enthusiasts making efforts toward embracing the principles of ethical finance. While the industry has not yet reached its full potential, the groundwork laid in 2023 and the promising initiatives on the horizon are indicative of a bright future for Islamic finance in Ghana.

Taking Islamic finance to the grassroots

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The year 2023 has been a remarkable year for the Indian economy in many respects. When the world economy remained under duress due to war, inflation and climate impacts, the Indian economy displayed resilience and promise. There have been impressive gains on tax collections. Agriculture did well supported by a favorable monsoon. The services sector got hit due to global shocks, but the real domestic concern has been in the manufacturing sector. The government of India is putting a special focus on improving the manufacturing capability in the country. Rising global concerns against China have put India in a sweeter spot as developed economies led by the US have shown greater eagerness to support India.

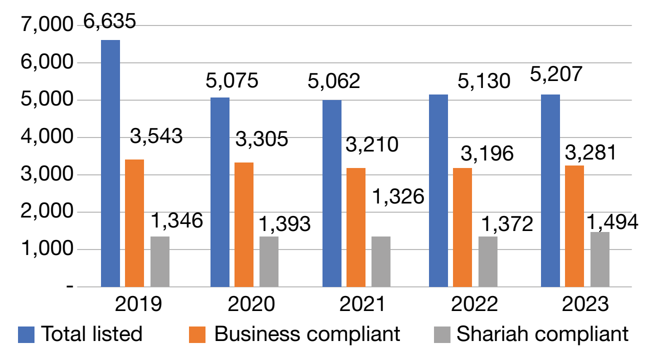
On the population front, India has surpassed China and has now become the world's most populous country with 1.4 billion, with roughly 66% of the population below 35 years of age. With this burgeoning population, employment remains a perennial challenge, especially for the young graduates and the less skilled. The government is wary of the issue and is trying hard to lead people to self-employment channels. Accordingly, several regulatory changes have been introduced to support this policy initiative.

On the Islamic finance front, India this year is celebrating 100 years of concerted efforts. India's first interest-free cooperative credit society was established in 1923. However, 100 years of the Islamic finance journey have not been smooth. There have been dozens of trial-and-error cases resulting in mixed experiences. While the Muslim community has shown great interest in establishing and running financial institutions adhering to Islamic norms of ethics and fairness, government and secular institutions have stayed away from any notable experimentation in recent years.

Review of 2023

Islamic finance activities in India can be viewed from the perspectives of two important stakeholders: the mainstream players as well as the community.

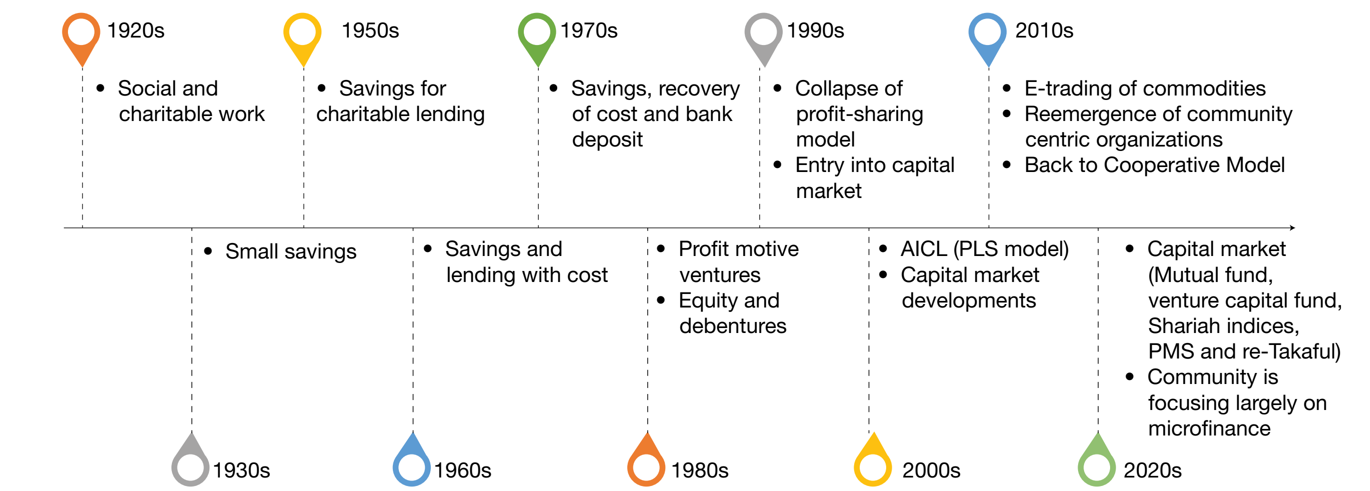
Chart 2: Shariah compliant stocks in India



Source: Tasis Research

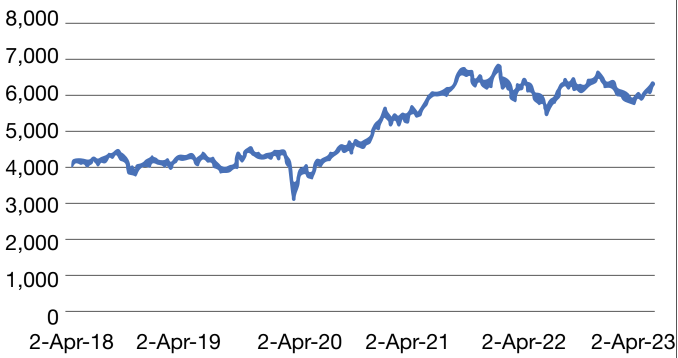
The mainstream players continue to be the two ethical funds offered in India, namely Tata Ethical Fund and Taurus Ethical Fund. Tata still commands the highest share of Shariah compliant assets under management (AuM) in the country followed by many

Chart 1: Islamic finance's progress



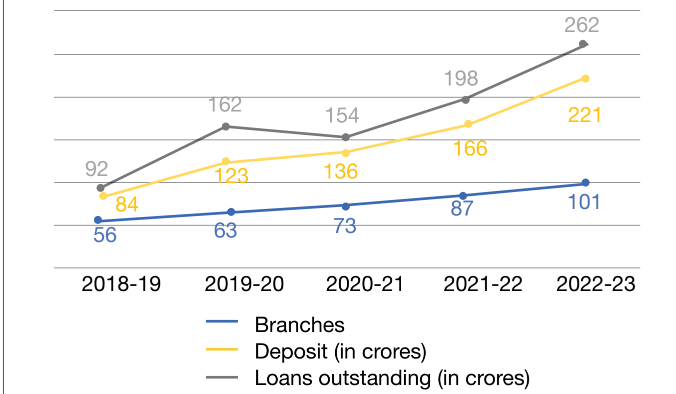
Source: Author's own

Chart 3: Nifty Shariah 25



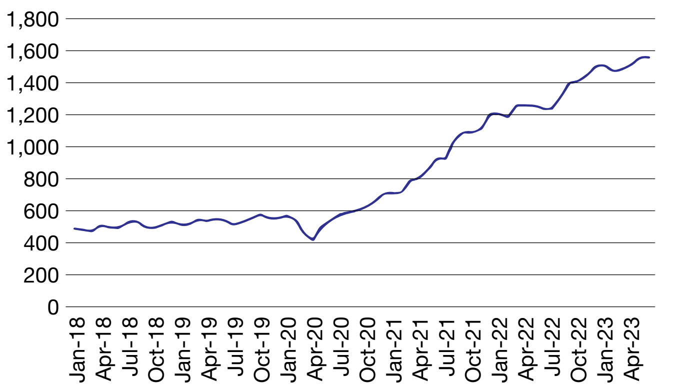
Source: https://www.niftyindices.com/

Chart 5: Sahulat Society's progress



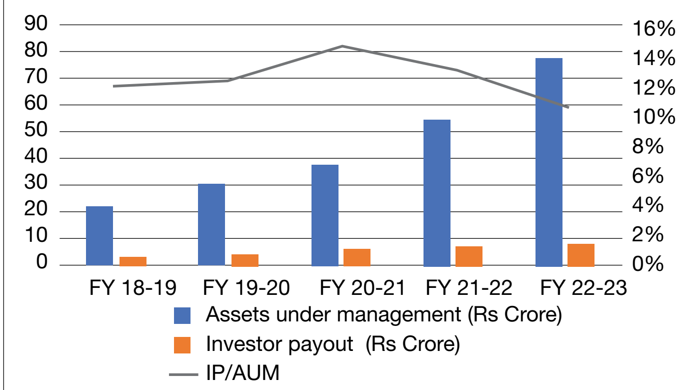
Source: Sahulat's annual reports of various years

Chart 4: Tata Ethical Fund (AuM INR crore)



Source: https://www.tatamutualfund.com/downloads/portfolios

Chart 6: Rehbar's financial performance



Source: https://rehbar.co.in/

smaller-sized funds managed by Taurus Asset Management and others. India continues to be one of the largest markets for Shariah compliant investors in terms of the number and variety of stocks. Comparing the last five years, 2023 had almost 1,500 stocks which are Shariah compliant comprising sectors like healthcare, technology, fast-moving consumer goods, energy, transportation, etc.

From the community's perspective, Sahulat and Rehbar remain a notable success story in the year 2023. Sahulat is an umbrella organization comprising various cooperative credit societies operating in various states of India. The number of branches under Sahulat has almost doubled from 56 in 2018–19 to 101 in 2022–23. Deposits during the same period have gone up from INR92 crores (US$11.04 million) in 2018–19 to INR262 crores (US$31.45 million) in 2022–23. And in similar fashion, loans and advances have gone up from INR84 crores (US$10.08 million) in 2018–19 to INR221 crores (US$26.53 million) in 2022–23.

Rehbar is another initiative which achieved notable progress in the year 2023. Celebrating its 10th year in 2023, it has climbed several ladders in its business model and regulatory compliance. It has also paved the way for others to emulate its business model.

Rehbar started in 2013 with only 10 shareholders investing INR3 lakh (US$3,600) each. Between 2014 and 2017, it remained attached to a P2P model with a focus on profit-sharing structures and social deals. From 2018 onwards, it changed its business model to specializing in operating lease and mezzanine finance.

Rehbar has successfully facilitated investments for more than 1,000 investors, financed more than 100 businesses so far to the tune of INR150 crores (US$18 million) and paid out INR30 crores (US$3.6 million) to investors.

Preview of 2024

2024 looks a promising year as far as the capital market and community-owned institutions are concerned. Government-owned and managed institutions are unlikely to make any serious effort in making their presence felt. One new change that is expected in 2024 is the community's involvement in the microTakaful segment. There are several pilots being done in different parts of the country and it is expected that some of the efforts will materialize into a sustainable business model riding high on the use of technology and the people's desire to have a meaningful health coverage. There are also positive signs of community leaders, especially Islamic scholars, taking a greater interest in the community's financial well-being.

Conclusion

2024 is going to be an election year in the country. Not much is expected to change as far as government policy toward Islamic banking and finance is concerned. However, it is expected that the impressive growth which the capital market and private initiatives have shown will continue owing to strong economic and business sentiments. There is a strong possibility that the number of players operating in the formal and community segments will increase both in terms of size and numbers. Government-owned entities transacting in Islamic finance business such as the central government-owned General Insurance Corporation of India and the Kerala government-promoted Cheraman Financial Services will continue operating without much fanfare.

A new equilibrium of Indonesian Islamic finance

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After three consecutive years of economic growth hit by a recession due to the COVID-19 pandemic, 2023 was a year full of hope. However, many analysts predict that business activities will not return to normal as before the pandemic but will form a new normal. Indonesia is one of the countries experiencing this condition, a new normal economy.

Based on the OECD Economic Outlook, Interim Report September 2023, the Indonesian economy in 2023 was expected to grow by 4.9%, the third highest in the world, higher than the growth of G20 countries (3.1%) and even the world (3%). Even though it looks good, this prediction actually implies that Indonesia's economic condition is lower than before the pandemic, where growth in 2018 was 5.17% and 2019 was 5.07%.

Review of 2023

The latest data released by the Indonesian Central Statistics Agency showed that it is possible that Indonesia's economic growth in 2023 will be higher than OECD estimates, where Indonesia grew by 5.17% in the first semester of 2023.

However, until September 2023, the interest rate did not change, remaining at 5.75%, and the inflation rate consistently decreased from 5.28% in January to 2.28% in September 2023. As a result, the Indonesian Islamic finance industry experienced relatively no growth during 2023; in fact, when compared with the previous year, there was a tendency to slow down.

It is true that economic activity has returned to normal as indicated by increased public consumption, but on the other hand, people's income levels have remained relatively unchanged. As a result, the Islamic banking sector is relatively not growing, both in terms of assets and third-party funds. As of September 2023, Islamic banking assets increased by 2.5%, lower than the previous year (15%). Meanwhile, third-party funds grew even lower at 0.9%, even though the previous year grew by 13%.

The merger of three state-owned Islamic banks into Bank Syariah Indonesia has not had a significant impact on the Indonesian Islamic banking industry. The regulation requiring the spinning-off of Shariah business units of conventional banks into Islamic commercial banks has also not been effective.

Meanwhile, the Indonesian Islamic capital market industry consistently innovates to encourage growth in its performance. Several new milestones were achieved in the Indonesian Islamic capital market in 2023, including:

- Retail Sukuk were issued in two different tenors
- There was the first issuance of Islamic asset-backed securities, and
- There was the issuance of a new Fatwa on Islamic exchange-traded funds by the Indonesian National Shariah Council

The number of Shariah investors is consistently increasing where, as of September 2023, it increased by 10.6% compared with the end of the previous year. However, there has been a significant decline in Islamic stock transactions by Shariah investors, both in value and volume. Some of the money that was used

for investment during the pandemic has started to be used for consumption.

Preview of 2024

There are two important variables that will drive the growth of Indonesian Islamic finance in 2024. First, the use of technology in all Islamic financial sectors and secondly, the issuance of new regulations in response to the issuance of Law No 4 of 2023 concerning Financial Sector Development and Strengthening, which is an omnibus law in the financial sector, including Islamic finance.

It must be acknowledged that the use of information technology in Indonesian Islamic finance is still far behind, both in terms of use and risk management, even though the largest Indonesian market share is made up of young people who are very dependent on technology. So, when a technological disruption occurs at a Shariah financial institution, the recovery process takes a relatively long time, as happened in mid-2023 at the largest Islamic bank in Indonesia.

The issuance of Law No 4 of 2023 is one of the milestones that will change the map of Indonesian Islamic finance development in the future. Where the Indonesian Islamic financial industry will go is greatly influenced by how the government translates the law into its regulations. For example, the change in the definition of securities, including digital assets as a form of securities, will open up very wide opportunities to develop digital Shariah securities in the Indonesian Islamic capital market. Another thing is the possibility of investment-based Shariah banking products will encourage innovation in hybrid products in banking and the Islamic capital market.

Conclusion

After the pandemic, the Indonesian Islamic finance industry will form a new equilibrium, where technology and regulation will be the main drivers. Whether these two factors will disrupt or accelerate the growth of the Indonesian Islamic finance industry in the future really depends on the response of Islamic financial institutions to both.

The OECD estimates that Indonesia's growth will be 5.2% in 2024; this shows that Indonesia is one of the countries that can consistently maintain its performance. This signal is expected to encourage positive growth even though the Islamic financial industry will form a new equilibrium in the future.

Iran's Islamic capital market — the next step forward

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Iran's capital market witnessed many fluctuations in 2023 with different events which were quite important for market players. Basically, the market is a key place for fundraising and securities trading. Another important aspect of the market is in relation with its compliance with Shariah principles as well as its pillars. Iran's financial system, as a wholly Shariah compliant financial market from the legal point of view, is composed of the banking sector and the capital market as the two pillars of its financing system and besides them, Shariah compliant insurance services protect market players against some risks and damages which might harm them.

Review of 2023

During 2023, Iran's capital market welcomed new ideas for development where some of them affected the fundraising capacity of the market. Briefly speaking, in 2023, Shariah-related aspects of the following financial instruments were finalized in the Iranian capital market:

1. Issuing Sukuk Salam which are tradable during a specific period of time instead of a specific date at the maturity time.
2. Issuing Sukuk Murabahah based on the assets which had been purchased at some time before the issuance date.
3. Development of Sukuk Murabahah to answer contractors' financing needs in an Engineering, Procurement and Construction Agreement.
4. Issuing renewable energy certificates.
5. Issuing exchange-traded notes certificates in the capital market.
6. Swap contracts in Iran's capital market.

Additionally, some specific Shariah considerations for currently available financial products were on the table of the market supervisory entity which led to specific modifications in the financial products.

Moreover, it is noteworthy that in the capital market, 11 investment banks and five data processing companies have received an operation license in the market. Likewise, 30 portfolio managers and 244 funds were providing services to their clients following the regulations which the regulator had announced. Nevertheless, in the banking system, eight state-owned banks besides 20 private and semi-state-owned banks were actively providing services to their clients. Additionally, two Qard Hasan banks are technically operating in the field of Shariah compliant microfinancing.

Additionally, the 14th International Forum on Islamic Capital Markets was held in 2023. The event brought together Shariah scholars, Islamic finance practitioners and market players from different countries in order to discuss the latest achievements in the Islamic finance industry in the international environment.

Nevertheless, in the financial year ended the 11th March 2023, the value of Shariah compliant debt-based issued instruments such as different Sukuk types and Islamic treasury notes reached over IRR3,000 billion (ie. US$71 billion according to the official IRR/US$ rate) and during the next six proceeding months, the issuance value reached over IRR130 billion (ie US$30.5 billion according to the official IRR/US$ rate).

Preview of 2024

Next year might be a year of further development for Iran 's capital market. The main events which might occur in 2024 are as follow:

1. **Modification of Sukuk structures**: the upcoming year will welcome new adjustments in Sukuk issuance structures. Such new items will focus on the financial aspects of Sukuk mainly in the field of revenue. Also, the profit payment structure will notify the market in 2024.
2. **Development of new Shariah compliant derivatives products**: A derivative is a financial contract whose value is derived from the performance of an underlying asset, index or interest rate. There are various types of derivatives, including options, futures, forwards and swaps. These financial instruments are used for hedging, speculation and arbitrage in the financial markets. Profit-rate hedging is a risk management strategy used by businesses and investors to protect against fluctuations in Sukuk profit rates. This is typically done by using financial instruments such as Islamic treasury notes futures contracts. By employing profit-rate hedging, entities can mitigate the impact of profit-rate changes on their financial positions, reducing the potential for losses and providing greater certainty in cash flows and profits.
3. **New Islamic capital market-related events**: as predicted, 2024 will see how the international Islamic financial experts welcome the 2024 Islamic Capital Market Conference. Moreover, the market will see new exhibitions and roadshows to bring together market players in a more cooperative environment.

Conclusion

The aforementioned paragraphs included some facts about what happened in 2023 and discussed some plans for the New Year. 2023 passed with all the ups and downs it had for financial policy makers and market players. Iran's Islamic financial market has a lot to do in order to realize brilliant Islamic finance goals such as SRI and realization of profit payments, and there should be much more developments to take place. The tokenization of financial products is another notable aspect of financial products which the market will very probably see in 2024.

2024 is a great opportunity for officials to provide better services for the people. God bless all in the New Year of 2024 with great wishes for the development of Islamic finance and banking globally.

Iraq: A slow but steady comeback for the banking sector

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The Islamic financial sector has a vast potential to perform efficiently in Iraq due to the extraordinary wealth the country retains; however, all the resources are unexploited and/or mismanaged. Iraq, being rich in oil, gas, natural resources including phosphate, sulphur, water and many others, is a country with high financial potential. Moreover, the country has a high rate of young generation and is a pivotal site for historical archeology and religious tourism, being the origin and shrine of many Muslim scholars and righteous. Yet, all these potentials are not well exploited due to overt reasons of political instability and corruption. Thus, I can easily say it is the country where opportunities are constantly and consistently lost. Iraq owns all the major elements that allow it to be among top tier countries in the MENA region, and to facilitate the booming of the banking sector.

Review of 2023

Despite all the harsh socioeconomic and political circumstances that have been prevailing over the past years, the revenues of oil sales of alone reached US$52 billion between the months of January and July only, allowing us to predict the revenues by the end of year to reach approximately than US$100 billion, scoring slightly below last year's numbers (US$115 billion in 2022). As a result, the public debt to GDP ratio is now 40.8% and is on an ongoing decrease.

It is worth mentioning here that the Central Bank of Iraq (CBI) was able to rebuild its foreign currency reserve amounting to more than US$109 billion by end of September 2023. Furthermore, Iraq has mentioned it will ban all cash withdrawals in US dollars as of January of 2024 which will suppress the illegal use of around 50% of the US$10 billion that Iraq ships in cash from the New York Federal Reserve each year.

However, sanctions on some banks have already started; in 2023, 14 banks, at least 3 of which are Islamic, were banned from using US dollars which affected their ability to offer operate specially processing transfers. On the other hand, other countries in the MENA region are witnessing currency depreciation, hyperinflation, and severe economic conditions.

The financial sector in Iraq is dominated by banks controlling 75% of the total assets, according to the World Bank. There are 74 banks with 904 branches spread out across Iraq, out of which 30 banks being Islamic and only one being state-owned.

The total banking assets are estimated for US$109.2 billion as of end-2021 and Islamic banks constitute a small portion of it (8.1%). Nevertheless, this share is increasing, and Islamic banks are performing better than their opponents in the conventional sector.

It should be noted here that in Iraq state-owned banks are the major players in financial sector owning 80% of the total assets. The Iraqi banking sector is underdeveloped with low banking penetration rates (the loans/GDP ratio was 18% at end-2020).

In terms of capital, Islamic banks have higher capital ratios than the conventional banks representing 42% of total capital in Iraq. Such levels of capital can be consumed quickly in such a weak and volatile operating environment unlike that of non-Islamic banks, claims Fitch Ratings.

Challenges specific to Islamic banking include low awareness of Islamic products, lack of standardization, limited product range and lack of Islamic liquidity tools. Many Iraqi banks deploy extra liquidity into CBI placements acting as treasury function with no real banking activities.

Other challenges to the banking sector in general are challenging operating environment, political instability, limited lending opportunities, lack of comprehensive banking regulations, weak enforcement of the financial regulations, issues in reporting and transparency triggering a lack of confidence in the banking system, money laundry concerns and under-skilled human resources.

Preview of 2024

Ihe CBI has taken many initiatives to improve the regulatory environment by establishing guidance and requirement documents relating to organizing risk management controls, governing bodies' functions including the Shariah Board, internal and external Shariah audit and Shariah compliance. Moreover, the decision taken by the CBI to stop all cash withdrawals in US dollars will offer better transparency regarding banking operations which will open the door for a new-founded trust in the banking system.

In an attempt to enable investment and liquidity management tools, the CBI also issued the Islamic financing controls, drafts of the Takaful insurance regulation and the Islamic investment Sukuk law. Also, CBI has been engaging with the local and international Islamic organizations such as the AAOIFI and the IFSB.

Moreover, The US Treasurer communicated with the CBI and obliged the banks to undertake a thorough review of the AmL/CFT procedure by independent parties. In 2024, the bank is expected to perform better and thrive beginning of the corresponding year which will reflect positively on the banking sector as a whole.

Furthermore, substantial efforts and investments are being made into technology to digitize baking in Iraq and many partnerships and banks such as FIB, NBI, and Al-Taeef Bank have already taken a step in this direction. Numerous investments from other countries have also been made. For instance, three Qatari companies agreed with the National Investment Commission of Iraq to work on US$9.5 billion worth of projects.

Also, Saudi Arabia signed a US$1 billion agreement to build a residential and commercial district in the Iraqi capital, and it set up a Saudi-Iraqi investment fund with a capital of US$3 billion. Such investments can and will restore the booming banking system in Iraq, if not reshape it.

Conclusion

Finally, it is obvious that Islamic banks are entertaining stronger financial position than the conventional banks. However, this is due to low-risk appetite and lack of investment strategy. On the other side, they have been gaining more public momentum revealed by the exponential growth in deposits. They also have the regulator's support who's been extorting efforts to facilitate the operating environment and encourage better banking practices.

However, it depends on the Islamic banks' owners to decide which investment strategy they would follow to practice real banking. All banks in general and Islamic banks in particular should be cautious and regulate their processes in correspondence with international standards and be warry of sanctions as well. It is also crucial that the political management is set on the right track to decrease international and domestic effect on the whole country.

Japan desires forging partnerships with countries on the Islamic finance bandwagon

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The upcoming Liberal Democratic Party (LDP) presidential race, slated for September 2024, has set the stage for a high-stakes political maneuver. Prime Minister Fumio Kishida's calculus is clear: winning a general election before the LDP's internal contest could bolster his standing as a presidential candidate, potentially securing his tenure until 2027.

Fumio focuses more on economy to garner much-needed public support. In his policy speech at an extraordinary parliamentary session on the 23rd October 2023, Fumio said that he will give top priority to the economy above all else.

Islamic finance has the potential to significantly contribute to Fumio's ambitious plans for economic growth as he has identified the energy sector as a core element in strengthening Japan's ties with the Middle East. His vision involves harnessing the combined strengths of Gulf countries and Japan to transform oil-producing nations in the Middle East into global hubs for green energy production and the export of decarbonized energy and critical minerals. This synergy is expected to further stimulate economic growth in Asian and African economies.

To achieve this goal, Fumio has directed the leaders of government-affiliated organizations, such as the Japan Bank for International Cooperation and Nippon Export and Investment Insurance, to engage in direct dialogues with leaders and corporate executives in Gulf countries. We can expect more Sukuk deals and project finance initiatives with Islamic finance structures in the near future.

On the asset management front, Shariah compliant funds hold significant potential to address the needs of Japanese institutional and individual investors seeking foreign currency-denominated investment opportunities. With the yen's recent depreciation, Japanese banks have begun promoting US dollar term accounts offering interest rates of approximately 5%. Islamic banking products can emerge as attractive alternatives for socially responsible Japanese investors, particularly those interested in the ESG-conscious investment options.

Review of 2023

The Bank of Japan (BoJ) remains unwavering in its commitment to achieving sustainable economic growth and price stability. The yen's value has dwindled to its lowest levels in recent memory, with exchange rates reaching approximately US$1 to JPY145–150. Against this backdrop, the BoJ seeks to chart a course that balances the evolving economic landscape and the potential ramifications of monetary policy.

In a pivotal meeting with business leaders in Osaka in September 2023, BoJ Governor Kazuo Ueda elucidated the central bank's objectives. The BoJ aims to achieve a sustainable and stable 2% inflation rate, accompanied by commensurate wage increases. While Japan experienced price hikes due to cost pass-through, resulting in an annual inflation rate exceeding 3%, the central challenge lies in establishing a virtuous cycle between wages and prices to ensure lasting price stability.

Navigating the Middle East crisis

Japan finds itself closely monitoring the evolving crisis in the Middle East, acutely aware of its potential to impact energy security and trade dynamics. The Middle East serves as a vital source of oil and liquefied natural gas (LNG) for Japan, rendering any disruptions a cause for serious concern. Geopolitical tensions in the wake of the recent attacks by Hamas on Israel and Israel's counterattacks on Gaza have raised questions regarding the stability of energy prices and supply reliability.

Elevated oil and LNG prices could reverberate throughout Japan's economy, potentially resulting in increased costs for businesses and consumers alike. In response, Japan has embarked on a proactive diplomatic engagement, aiming to safeguard its energy supply.

Sukuk

In 2023, Japanese financial institutions have displayed an unprecedented interest in Islamic finance markets. Major Japanese financial conglomerates, including Mizuho, MUFG and SMBC Nikko, have actively participated in billion-dollar Sukuk transactions initiated by various Saudi Arabian institutions and the IsDB.

Key transactions with Japanese institutions as joint managers or bookrunners include the IsDB's first and second public Sukuk issuances of the year, each with deal sizes exceeding US$1 billion. Additionally, Saudi Electricity Sukuk Programme Company's US$2 billion issuance, and Saudi Arabia's Public Investment Fund's recent US$3.5 billion Sukuk issuance initiative include Japanese institutions as joint managers.

Major Japanese financial institutions have continued their expansion into Southeast Asia's flourishing Islamic finance markets, with a particular focus on nations like Malaysia and Indonesia. Furthermore, the Japanese government's forward-thinking planning and extensive research initiatives regarding Indonesian housing finance and mortgage sectors demonstrate a dedication to sharing expertise and showcasing leadership in a region where Islamic finance is rapidly gaining traction.

Preview of 2024

Japan's heightened involvement in Islamic finance markets aligns seamlessly with its strategic vision. The nation aims to diversify investment channels and deepen economic collaboration with countries in the Islamic world. This strategic commitment extends beyond financial transactions; it encompasses knowledge-sharing and capacity-building, further solidifying Japan's standing as a valued partner within the global Islamic finance community.

Japan's engagement reflects a genuine desire to forge enduring partnerships with countries in regions where Islamic finance plays a pivotal role.

Conclusion

As Japanese financial institutions forge ahead in Islamic finance markets, the momentum is undeniable. To ensure a comprehensive and mutually beneficial relationship, it is recommended that Islamic finance institutions outside Japan consider reciprocating this interest in the domestic Japanese market. Exploring opportunities to offer Shariah compliant investment vehicles, such as ESG funds, will cater to the burgeoning demand of Japanese retail and institutional investors.

Jordan's Islamic economics contributes to encourage investment in agriculture

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Jordan, similar to other countries in the Islamic world, suffered negatively from the impact of foreign debt, which led to more poverty and unemployment. Successive governments have sought to propose several solutions to resolve the foreign debt crisis; however, they have not succeeded. Rather, the adoption of debt correction and rescheduling policies had major negative effects that deepened the indebtedness of the entire world. It was necessary to search for legitimate solutions to solve the external debt crisis, move the wheel of the economy and search for solutions to the crisis, so as to secure job opportunities, support the economy in general and achieve food security for citizens according to available resources without depleting them. In accordance with an Islamic Shariah economic policy, in which a disciplined Islamic financing pattern is followed, and due to the lack of investors in the Jordanian agricultural sector as well as the limited Islamic financing capital, Jordan has resorted to obtaining grants from the World Bank to support the agricultural sector.

The finance sector in Jordan has succeeded in overcoming several crises that afflicted the Middle Eastern region, due to its reliance on the principles of Islamic economics, and the strength of the Jordanian dinar has not declined, thanks to God, despite the conditions of unemployment, poverty and economic stagnation. Therefore, the Jordanian financing system is considered a suitable model in the region.

Review of 2023

The World Bank provided support to Jordan with new investments in climate-smart agricultural production that will create job opportunities and build the capacity of specialized farmers using water-efficient and climate-resilient agricultural methods, while continuing to adopt good practices and innovations that are consistent with the new national strategy for food security in Jordan. The World Bank supported the project to enhance the agricultural sector's resilience and develop the value chain and innovation, known as (Ardi), which was launched by the Ministry of Agriculture in early 2023 to provide financing for approximately 30,000 agricultural families, and provided about 12,000 job opportunities for women and youth.

The project aims to implement agricultural practices. It is characterized by social inclusion and efficiency in the use of water, with the aim of encouraging the innovative social enterprise model for commercial fruit and vegetable production in marginalized areas, using highly efficient hydroponics technology, as this technology reduces water consumption by 80%, increases productivity and achieves the desired results.

The diversity of climates and the variation in temperatures and amounts of rain between the plains, plateaus, mountainous and valley regions have created different agricultural patterns that suit each region and provide different crops throughout the year that contribute to securing the market's needs and raising the value of Jordanian export revenues.

Investment in the fields of multi-pattern agriculture, including aerobic and hydroponic, and using soil and field crops, provides a

multi-production pattern and represents a successful investment for investors with capital. It follows the Halal Murabahah method according to the Islamic financing pattern, achieves humanitarian goals by providing food to humanity and provides job opportunities for the youth sector, which suffers from poverty. Employment results in these projects achieving wages in this world and the hereafter; the pattern of Islamic finance and economics is also to be applied in these projects.

Preview of 2024

According to the plans for 2024–26, the Jordanian government has given utmost importance to training farmers in using modern techniques and methods in agriculture which require less water, in growing crops that are more resistant to drought and other climate-related threats, and in following a multifaceted approach to enhance the resilience of the food system. In the face of challenges, Jordan is moving to open the field of investment in various types of modern agriculture to achieve better agricultural results and provide a safe food basket for citizens.

Conclusion

Jordan has taken a new approach to economic transformation, following its achievement in food security through a policy of using all kinds of resources and agricultural land as well as encouraging work and production. The policy of rationalizing food consumption enables the Islamic economic situation in Jordan to achieve food security.

Also, Jordan's economic policy increases the volume of production and rationalizing consumption by determining the size of the gap between self-sufficiency and plant food supply, as well as using advanced agricultural policies and patterns to develop both plant and animal parts in the agricultural sector of Jordan, through the use of models that suit the reality of the current situation.

Jordan has developed new plans to use modern agricultural patterns that will reduce the usage of water in line with the scarcity-of-water situation in Jordan. The modern agricultural models will be used in 2024.

The ousting of double compliance regime in Islamic finance in Kenya

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The Islamic population in Kenya makes up approximately 10.9% of the overall population. Given the marginal numbers, the county's historical legislative efforts have not had a sharp focus on Shariah-related laws. In fact, to date, the only substantive law that is Islam-centerd is the Kadhis' Courts Act Chapter 11 of the laws of Kenya, which was meant to make provisions for certain matters under the constitution.

Notably, the constitution recognizes the application of Shariah law to personal matters only, and therefore, the said courts were established for the determination of questions of Muslim law relating to personal status, marriage, divorce and inheritance, and only if, all the parties to the proceedings profess the Muslim religion. The same Act stipulates that the Kadhis' Courts are subordinate to the High Court, and that their jurisdiction over those matters is not exclusive.

Review of 2023

Setting the stage for a unified Islamic finance regulation in Kenya

From the foregoing, it is clear that as of the year 2023, there are no codified Islamic laws in Kenya to guide even the proceedings of the Kadhis' Courts in personal matters, let alone in the sphere of Islamic finance.

Therefore, when the concept of Islamic finance took center stage as a prospective way of funding ventures, the main legislative challenge has always been that there is no enabling law since Shariah compliant instruments have been generally uncommon in the region. In fact, the Central Bank of Kenya Act, which regulates all commercial banks, does not mention Islamic finance at all.

While Islamic banks have been regulated by the central bank just like any other commercial banks, matters relating to Islamic finance were left to ministerial adhoc orders and scanty legal pronunciations, posing the question whether the existing Islamic banks in Kenya can be strictly upheld to their status through a religious lens.

The year 2023 in Kenya has been both challenging and instrumental in demonstrating to the lawmakers how Islamic finance can be useful to the economy. The last 10 months specifically have seen the deliberate exploration of Islamic financial institutions as an alternative way of cushioning the country from a looming economic crunch.

Specifically, when the government considered the issuing of a sovereign Sukuk facility as a way of repaying some of its liabilities, especially under a US$2 billion eurobond, this never saw the light of day due to a myriad of legal challenges and the lack of well-versed transactional advisors in the country.

This therefore paved the way for the lobbying of Islamic finance legal interventions, mainly through the proposal to amend certain provisions of the Central Bank of Kenya Act through the Central Bank of Kenya (Amendment) Bill 2023 (Bill). For the first time in Kenyan law, this Bill seeks to provide for the definition of Islamic banks as well as Islamic financial institutions. This had been remarkably

missing in Kenyan laws. Further, in order to provision for a budget for the development of the sector, the Bill seeks to establish a Shariah Advisory Council which will be responsible for formulating and monitoring policy to regulate the licensing and supervising of Islamic banks and Islamic financial institutions.

The amendment of this principal Act will empower the Central Bank of Kenya to make sector-specific regulations in the licensing and supervisory of Islamic banks and Islamic financial institutions in the country. This will present a united regulatory front for the institutions, far from the previous scenario where the institutions had to look at multiple legal pronunciations in an attempt to find operational legitimacy and legal guidance on some of the peculiar aspects of Islamic finance.

In September 2023, the Capital Markets Authority followed suit by allowing the first-ever Islamic bond in Kenya to tap into Shariah compliant financing for affordable housing. The issuer, Linzo Finco Trust, is desirous of supporting the government's affordable housing program, and targets to raise US$20 million to build approximately 3,069 housing units. The expected return on the bond is 11.13%. While presenting a huge step toward achieving affordable housing in the country, the Capital Markets Authority also acknowledges that the issuance of the Sukuk will diversify the country's capital markets which in return will provide all-inclusive investment pathways for both local and foreign investors.

Preview of 2024

In the coming year, we expect to continue seeing an evolution toward a sustainable and all-inclusive economy. The further development of financial markets to offer Islamic products and services through the Capital Markets Authority, and the successful empowerment of the Central Bank of Kenya to regulate Islamic institutions will play a key role to achieve this.

A lot of hope is pegged on the passing and adoption into law of the Central Bank of Kenya (Amendment) Bill 2023. The success of the current Sukuk under the Capital Markets Authority and also the successful issuance of similar instruments will set the tone for the upshoot of Islamic finance in Kenya.

Conclusion

Even though Kenya as a country has historically lagged behind in fully recognizing the potential benefits of Islamic finance, the current focus reveals concerted efforts to catch up with the concept, and to fully actualize an inclusive financing framework that enables the seamless functioning of the target institutions.

Unveiling the dynamics: Islamic finance flourishing in Kyrgyzstan

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Today, we can already talk about the first successful results of promoting Islamic finance in Kyrgyzstan through the example of the issuance of Islamic securities Sukuk Mudarabah. But the Islamic finance business in Kyrgyzstan faces certain challenges. The biggest challenge is a lack of qualified Islamic banking employees and Shariah experts.

As an IsDB member, Kyrgyzstan is a landlocked country in the center of Central Asia. Most Central Asian countries are rich in oil and gas but Kyrgyzstan is a country with small oil and gas reserves. Most IsDB projects are aimed at financing projects in oil-rich countries. But Kyrgyzstan with its agriculture-oriented economy and small GDP size is mainly focusing on the development of the information technology, tourism and financial services industries. At the moment, many alternative financial instruments are available in the Kyrgyz market, including, fintech and crypto services, various online payment services and internet marketplaces.

At the same time, the domestic Islamic financial industry already includes a pilot bank, EcoIslamic Bank, and four traditional banks with Islamic windows: Bakai Bank, Mbank, RSK Bank and Aiyl Bank. In addition, there are five fully-fledged Islamic microcredit companies in the country and two more with Islamic windows. Three state-owned companies have Islamic windows: an Islamic leasing company (in partnership with the Islamic Corporation for the Development of the Private Sector (ICD)); State Mortgage Company (**www.gik.kg**); and State Guarantee Fund (www.gf.kg).

Review of 2023

A historical step for the development of the Islamic capital market of Kyrgyzstan was the first issuance of Sukuk in 2023 by Islamic special financial company Intercascade. The volume of the issue amounted to KGS750 million (US$8.4 million).

The Financial Market Supervision and Regulation Service has carried out state registration of the first private issuance of Islamic certificates with equity participation of two companies (Sukuk Mudarabah).

In September 2023, Rahma Invest, an Islamic special financial company, passed the registration procedure and announced the issuance of a second Sukuk Mudarabah facility in the Kyrgyz financial market.

And the third issuance was done by issuer Puremont Capital, an Islamic special financial company that has been in the market since March 2023. The company was registered in accordance with the laws of the UAE. The volume of issuance amounted to KGS5.7 billion (US$63.82 million). The tenor is until the 31st December 2033. The deputy executive director of the Deposit Protection Agency, Nurlan Baybosunov, announced that in Kyrgyzstan, the need for Sukuk securities issuance amounts to more than KGS3.3 billion (US$36.95 million) at the moment.

Preview of 2024

In 2024, Kyrgyzstan is starting an active phase of implementation of the guiding document called the 'Concept for the Development of the Islamic Economic Platform in the Kyrgyz Republic for 2023–2027'. According to this concept paper, the government of the Kyrgyz Republic has declared the following initiatives:

- The creation and foundation of the roots of an Islamic economic system including finance in the territory of the Kyrgyz Republic to ensure a more sustainable development model, in particular to expand the possibilities of Islamic banking
- To activate the market for Islamic securities (Sukuk), as well as the market for Islamic insurance (Takaful)
- To create a highly professional and independent Shariah supervisory board at the central bank level, and
- To provide access for Halal industry participants to Islamic investments and Islamic financing for the processing of the production and marketing of Halal products.

This concept paper also mentioned the creation of a center for scientific research on Islamic economics and finance.

A delegation from Kyrgyzstan had a meeting with the ICD led by Ayman Amin Sejini. During the meeting, the main questions of cooperation were discussed, including attracting financing from the ICD through the issuance of Sukuk. Probably in 2024, the key elements of Sukuk regulation and guidelines can be adopted to facilitate ICD Sukuk issuance in Kyrgyzstan.

The State Mortgage Company has raised US$100 million each from the IsDB and the Saudi Development Fund. The deputy head of the State Mortgage Company, Amantur Omurov, spoke about this at a meeting of the Parliament (Jogorku Kenesh) Committee on Transport, Communications, Architecture and Construction.

According to Amantur, relevant agreements have already been signed. The funds will be used for the construction of affordable housing in one of the micro districts of the capital city of Kyrgyzstan and also channeled through Islamic financial institutions in Kyrgyzstan using Islamic mortgage facilities and products. This project can be started in 2024 after proper evaluation and analysis of an affordable housing market. The implementation of these agreements will take the development of Islamic finance in Kyrgyzstan to a new level.

Conclusion

The Kyrgyz Republic has a lot of potential due to being a Muslim-majoritycountry and one of the fastest-growing Islamic banking markets in the Central Asian region. Having said that, the modernization of the banking sector is critical for economic growth in the Kyrgyz Republic to attract targeted segments to subscribe to a Shariah-based banking system beyond religious motivation.

Taking Malaysia as an example, Islamic banking has become an integral part of its banking system with tremendous growth over 30 years since its inception with a 40% share of total banking assets. As financial inclusion has become a buzzword in the financial fraternity, the project aims at contributing to address the issue of financial inclusion, a key element of sustainable economic development. By offering up-to-date financial products and services, the Kyrgyz Republic can reach out to underserved populations, reducing poverty and promoting social development.

In the case of the Kyrgyz Republic, the banking system has to be robust and attractive enough to attract foreign direct investment. One of the key aspects that foreign investors will assess before making any investment commitment is in terms of international standard compliance. Thus, the government and Islamic banking experts with their efforts will also emphasize on this aspect to allow the Kyrgyz Republic to align itself with international standards and practices, making it more attractive to foreign investors and promoting regional economic cooperation.

The stagflation of the Lebanese financial market

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In order to put this report on Lebanon in its context, the term stagflation, which combines the words 'stagnant' and 'inflation', refers to an economy characterized by high inflation and low economic growth. More precisely, a stagnant economy is an economy that neither grows nor shrinks. Economics and finance are interrelated disciplines that inform each other, even if the specifics are distinct. It goes without saying that Lebanon is under stagflation in terms of the simultaneous appearance of slow growth, high unemployment and rising prices. As such, the Lebanese financial market is stagnant and reflects the current situation of the Lebanese economy. The three categories of a financial market — public finance, corporate finance and personal finance — are affected by stagflation, noting that some comments in Lebanon link stagflation in corporate and personal finance to the fact that the Lebanese government did not honor its obligation under its issued treasury and euro bonds.

Review of 2023

That said, during the financial year of 2023, the financial market in Lebanon in terms of bond issuance, Sukuk issuance, fund establishment, marketing of foreign securities, security exchange trading, etc, is almost, not to say completely, inexistent. We did not hear of any finance transaction during the past 12 months.

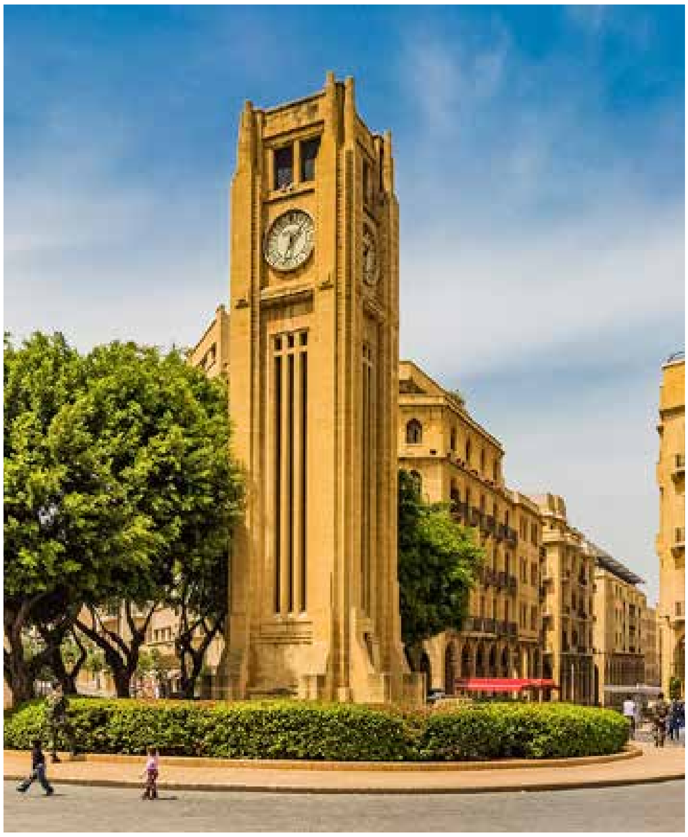
A high-level overview on the Capital Markets Authority (CMA)'s website demonstrates the lack of activities in the Lebanese financial market. Since the establishment of the CMA in 2011, only 15 companies have been licensed by the CMA to undertake financial activities. None of these companies have been licensed for fund management or discretionary portfolio management, reflecting the absence of personal finance activities.

No marketing license for foreign collective investment schemes was issued during the past year. The only activity we noticed on the CMA website is the delisting of companies and the fee schedule adjustment.

We understand this lack of activity in the financial market is a result of the Lebanese liquidity crisis where the banks operating in Lebanon, whether conventional or Islamic, have been fundamentally and materially destabilized and stopped all banking services. We see this liquidity crisis as a chance to replace the banking sector as the main financing sector with the debt capital market sector in terms of the public offering of Sukuk and bonds in order for companies to enhance their liquidity ratios and use the proceeds of such issues for their general purpose activities.

However, this has not been the case due to many factors but mainly because of the political instability in the country. The Lebanese cabinet resigned following the legislative elections in May 2022, the mandate of the president of the Republic ended on the 31st October 2022 and the parliament did not elect a new president at present.

Notwithstanding the aforementioned, we did not notice during 2023 any insolvency procedure, debt restructuring or bankruptcy of any financial institution or major company. In one unique case, the matter did not go beyond the appointment of the Central Bank of Lebanon as a temporary administrator to an Islamic bank, despite the fact that its funds were sufficient to cover all its obligations.



Preview of 2024

We do not believe that the Lebanese financial market in 2024 will be different from 2023 due to the persistence of the political crisis. The rise of the economy in general and the financial market in particular needs a legislative workshop as requested and pointed out by the IMF; this at present is far from being achieved in the absence of the fundamental structures of the Lebanese democracy, ie a president of the Republic and a legally established government.

However, we also believe that under these unusual circumstances, Islamic finance is still a trusted replacement of the collapsing banking system. It is well established that Islamic finance transactions are a secured investment given that they are not transactions based on speculation and hazardous assumptions. Because Islamic law holds that making money from money is wrong, Shariah compliant institutions tend to refrain from engaging in speculation. They traditionally avoid derivative instruments such as futures or options and prefer to have assets grounded in the real economy.

This asset-based structure is an important security to investors. As such, Islamic funds, ie Ijarah funds or Murabahah funds, may form a good and secured opportunity for investment during this crisis. However, the fundamental element for a prominent financial market is trust, which so far is not available due to the political instability.

Conclusion

The Lebanese are entrepreneurial in nature. They will not wait for the government to start this legislative workshop as requested by the IMF. We also believe that the funds are available, otherwise we would see a lot of bankruptcy and insolvency procedures. The only condition is to have a minimum level of stability and Islamic finance can serve as an effective financial tool to help overcome the crisis outside of any intervention on the part of the government.

Ekonomi MADANI framework a paradigm shift for the Malaysian Islamic finance industry

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In 2023, Malaysia witnessed several key developments that showcased its commitment and innovation in advancing the Islamic finance agenda, especially in line with the Ekonomi MADANI (or civilizational economy) framework launched in July by Prime Minister Anwar Ibrahim. A holistic and inclusive strategy, the framework aims to restructure the economy toward making Malaysia an economic leader through greater inclusivity, sustainability and a better quality of life for all Malaysians.

Review of 2023

Key focus areas of Ekonomi MADANI include positioning Malaysia as the global Islamic economic leader and reasserting its Islamic finance leadership through the 'Halal and Tayyib' (lawful and good) approach. While the foundation for this was laid in previous years, 2023 saw more focused efforts to accelerate the achievement of these principles across different segments of the industry.

This was reflected in the introduction of new government policies and roadmaps, regulatory frameworks and strategic plans, as well as nationwide industry initiatives to promote a green economy and financial inclusion and to create a greater social impact, with digitalization and financial technology (fintech) as the primary catalysts. Some of these highlights include:

Green and sustainable economy: The National Energy Transition Roadmap, Part 1 of which was launched in July 2023, followed by the roadmap in its entirety the following month, will drive the country's transition from a fossil fuels-based economy to a high-value green economy, with a view to reaching its net-zero emission target by 2050. The government also issued the mission-based New Industrial Master Plan 2030 (NIMP) to achieve a sustainable manufacturing sector through four enablers: (1) advance economic complexity; (2) tech-up for a digitally vibrant nation; (3) push for net zero; and (4) safeguard economic security and inclusivity.

These missions, each with its own strategies and action plans, will help realize NIMP goals, among which is to mobilize the financing ecosystem. This includes debt financing via banks for the digitalization and decarbonization transition, issuance of green Sukuk and other capital market instruments like crowdfunding, venture capital and private equity, and promoting supply chain financing for MSMEs. With Ekonomi MADANI, Islamic finance's role in facilitating advancements in the Malaysian financial system — while expressed in the Financial Sector Blueprint (2022–2026) and Capital Market Masterplan (2021-2025) — now takes center stage.

As it stands, industry players made great strides last year, introducing new product offerings to support Malaysia's decarbonization journey, such as electric vehicle financing, green home financing and solar financing, ESG wealth products and environmentally focused deposits. Moving beyond the Islamic-first strategy, some market players adopted an ESG-first approach in promoting banking solutions. In March 2023, Bursa Malaysia, via Bursa Carbon

Exchange — the world's first Shariah compliant carbon exchange — completed the country's inaugural carbon credit auction.

Financial inclusion: In June 2023, Bank Negara Malaysia (BNM) issued the second Financial Inclusion Framework 2023–2026 to advance holistic financial inclusion across the nation, aligning with the 2022–2026 Blueprint and Twelfth Malaysia Plan 2020–2025 to provide meaningful access to quality and affordable financial services, capitalizing on innovative and digital-based financial solutions.

The five newly operational digital banks and five successful applicants of 'Digital Insurers and Takaful Operators' licenses to be announced by year-end or in 2024 will help speed up the progress of the national financial inclusion agenda. Likewise, progress on other fronts, eg the Malaysian Takaful Association's Takaful4All campaign to promote inclusive and sustainable Takaful throughout 2023, and the strong growth of equity crowdfunding and P2P financing, was seen, enabling alternative access to funding for the unserved and underserved segments, particularly for the MSMEs. Furthermore, the e-services platform approved by the Securities Commission (SC) (via partnerships between Capital Markets Service License holders and e-payment, e-wallet and e-commerce service providers) has made additional investment channels available to retail investors.

The SC also launched an enhanced fintech initiative, FIKRA ACE, following its 2021 inaugural FIKRA program to boost the Islamic capital market to support the Islamic fintech space by building capacity and a talent pipeline for the industry.

Social impact initiatives: The Islamic social finance sector also became more mainstream in 2023. Wakaf MADANI, introduced to optimize the benefit of Waqf assets valued at over RM1 billion (US$211.37 million), is expected to contribute 20% of the Islamic social finance sector's growth by 2030. The iTEKAD initiative (launched by BNM in May 2020 at the peak of the COVID-19 pandemic) adopts a blended finance approach combining philanthropic and commercial funds via structured training, seed capital and microfinancing to improve the financial resilience of low-income entrepreneurs. As of August 2023, 11 financial institutions and 50 implementation partners participated in the program, expecting to benefit more than 4,000 microentrepreneurs by end-2023.

MyWakaf 2.0, launched by the Association of Islamic Banking and Financial Institutions in September 2023, involves nine Islamic banks and 11 state Islamic religious councils. Focusing on community and economic empowerment, along with a cohesive monitoring system, it targets the completion of 14 solar dryer domes within the next three years to benefit the fishing community in Malaysia. For the Islamic capital market, Bursa Malaysia enhanced its main market listing requirements in April 2023 to facilitate the offering of Waqf-featured REITs and exchange-traded funds, expanding on the SC's November 2022 Waqf-Featured Fund Framework.

Preview of 2024

The World Bank cut Malaysia's 2024 GDP forecast in October to 3.9% from 4.3%. Despite that, the guidance of the Ekonomi MADANI framework and the many strides made earlier will keep the outlook for the Islamic finance industry bright, with the expectations of its greater role in driving sustainable development and supporting economic growth and social well-being.

Malaysia's 2024 budget announcement also emphasized its role as a global Islamic finance leader: Apart from the tax incentives for the trading of Islamic securities for Labuan entities, it demonstrated continued commitment to sustainability and ESG with its plan to pioneer a RM1 billion biodiversity-based Sukuk issuance.

The entry of digital banks — including two Islamic digibanks — to the financial marketplace will keep the momentum, with the recently launched SC's guiding principles on Maqasid Shariah and the much-anticipated establishment of an Islamic social exchange being a game changer for 2024.

Conclusion

The major paradigm shifts from focusing merely on legal compliance to Halal and Tayyib across all sectors require developing more customized and tailored products and services that meet the specific needs and preferences of those sectors. Leveraging on digitalization and technology to increase access and efficiency of Islamic financial services, especially for the underserved and unbanked segments of society, also involves innovative solutions and requires strong collaboration and cooperation among market stakeholders.

Malaysia's Islamic finance industry has come a long way since its inception in the 1980s, having proven its resilience amid challenges and crises. If the 2023 highlights are an indication, the country is expected to maintain its momentum and leadership as the global hub for Islamic finance.

Hope ignites progress: Unveiling opportunities in the Maldives's Islamic finance journey

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In the recent 2022 Islamic finance growth indicator report by Refinitiv, the Maldives was ranked 11th in the Islamic Finance Development Indicator (IFDI). This indicates the country's strong position in the Islamic finance industry. Notably, in the category of other Islamic financial institutions, which encompasses various sectors such as financial technology, investment firms, financing companies, leasing, microfinance and brokers, the Maldives achieved a remarkable 31% asset growth in 2021. This growth places the Maldives among the rapidly expanding countries in this sector, underscoring its commitment to developing the Islamic finance market and its potential as an emerging player in the industry.

Review of 2023

In 2022 and Q1 2023, the Islamic finance sector in the Maldives witnessed several notable developments. During this period, Maldives Islamic Bank experienced growth in total assets, customer deposits and revenue in Q4 2022. Despite a decrease in net profit, it was still the highest recorded since the COVID-19 pandemic. The bank also introduced various initiatives, such as a new internet banking platform and the first Hajj Savings Account in the Maldives.

Amana Takaful Maldives, another key player in the Islamic finance sector, reported a significant increase in net earned Takaful contribution and distributed dividends to shareholders. Celebrating its 20th anniversary, the company achieved impressive financial results and emphasized corporate governance and sustainable practices. During its annual general meeting for 2022, Amana Takaful Maldives declared a final dividend of 15% per share.

The Capital Market Development Authority played a crucial role in advancing the Islamic finance industry. It issued a new Shariah ruling on Musharakah Mutanaqisah, the Sukuk structure used by Medtech Diagnostic, and granted licenses to two new Shariah advisors. Furthermore, the authority revised the regulation on the registration of Shariah advisors to increase the number of registered advisors.

Other noteworthy developments included Ayady Takaful's introduction of crop Takaful, which provides coverage to farmers against production cost losses caused by natural calamities. Medtech Diagnostics successfully listed the first private placement Sukuk on the Viyana portal, raising funds for a health facility in Hulhumale'. Moreover, the Maldives and the IsDB signed an MoU to establish the Shariah compliant SME Impact Fund worth MVR616 million (US$39.6 million), focusing on sectors such as Halal tourism and infrastructure development.

The Housing Development Finance Corporation reported positive financial figures and contributed to the development of the capital market by offering debt instruments. Additionally, Amana Takaful Maldives signed an MoU with the Islamic Corporation for the Development of the Private Sector to explore investment opportunities and expand Takaful operations globally.

These developments highlight the growth and commitment of the Maldives to Islamic finance, positioning the country as an emerging player in the industry.

Preview of 2024

Looking ahead to 2024, there are several anticipated developments and opportunities in the field of Islamic finance in the Maldives. Despite certain expectations that were not fulfilled in 2023, there remains hope for progress in the coming year.

One of the anticipated developments is the operationalization of an Islamic window by the SME Development Finance Corporation to provide Shariah compliant solutions for nano, small, micro, and medium enterprises. Although this did not happen as expected in 2023, there is optimism for its realization in 2024.

In order to strengthen the Islamic finance industry in the country, it is also expected that the Maldives Monetary Authority (MMA) will consider implementing a separate legal framework to regulate Takaful. Currently, there is no separate Takaful license issued in the country, and the existing legal framework applicable to conventional insurance is also applied to Takaful. It is hoped that in 2024, the MMA will address this issue and establish a distinct regulatory framework for Takaful. Additionally, there is a need for separate regulations for General Takaful and Family Takaful, accompanied by clear guidelines to govern these sectors.

With the advent of Industry 4.0 and the increasing importance of technology, there is an opportunity for the Maldives to introduce new modes of financing, such as crowdfunding, specifically targeting the younger generations (Gen Z and Gen Alpha). By actively involving these demographics in the finance industry, the country can foster financial inclusion and engagement.

Another concept that could be promoted in society is Islamic wealth management. Islamic financial institutions can offer retail customers tailored wealth management services that adhere to Shariah principles, catering to the specific needs of this segment.

Conclusion

In conclusion, the proverb "Where there is hope, there is opportunity" perfectly captures the essence of the Maldives's Islamic finance landscape. Despite some unmet expectations in 2023, 2024 holds great promise for the industry's growth and development. The Maldives has demonstrated its commitment to advancing Islamic finance through the achievements of institutions like Maldives Islamic Bank and Amana Takaful Maldives, along with proactive measures from the Capital Market Development Authority. By seizing the opportunity to operationalize the SME Development Finance Corporation Islamic window, establish separate Takaful frameworks, introduce crowdfunding options, embrace technology and promote Islamic wealth management, the Maldives can position itself as a dynamic player in the global Islamic finance landscape. With hope as our guiding light, we embark on this journey toward a brighter and more inclusive future for all through Islamic finance.

Toward the implementation of an Islamic financial regulatory framework by the Central Bank of Mauritania

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Islamic finance in Mauritania is developing, thanks to financial technologies, especially the mobile banking apps launched by several Islamic banks. These mobile banking apps such as Bankily, BAMIS Digital, BIM app and Masrevi are the most widely-used financial apps offered by the Popular Bank of Mauritania, Bank Alwefa Mauritanian Islamic (BAMIS), the Islamic Bank of Mauritania (BIM) and the Mauritanian Bank of International Trade respectively. Financial inclusion through Islamic banks has increased due to the simplicity of these applications such that Islamic banks hold more than 50% of the liquidity in the country. Therefore, the Central Bank of Mauritania (CBM) has started to implement a set of regulations for the Islamic finance industry to organize particularly the activities of Islamic banks. In addition, Islamic banks have excess liquidity which necessitates rapid implementation of a regulatory framework by the CBM.

Review of 2023

The CBM has held several meetings with various consultants and experts in Islamic finance to negotiate the approach to implement a regulatory framework for Islamic banks. Islamic banks want the implementation of the Islamic regulatory framework to be done as soon as possible, otherwise they will not be able to deal with the central bank and will have to keep the excess liquidity with them as a reserve to use whenever needed.

Due to the fact that Islamic banks cannot borrow from the central bank, they have to keep the excess liquidity with them. Fortunately, Islamic banks in Mauritania currently do not need any liquidity from the CBM.

A meeting between the deputy dean of CBM, Boumedienne Taya, and a delegation from the IsDB (Dr Abdellahi Mohamed and Dr Abozer Mohamed) took place in Nouakchott at the central bank's headquarters on the 31st July and the 1st August 2023.

The meeting was initiated by a call from the CBM for assistance in developing a supervisory and regulatory framework for Islamic banks only. The governance protocols do not include other Islamic financial institutions such as Islamic microfinance and Takaful institutions.

The main purpose of the meeting was to discuss technical assistance to be provided to Mauritania in implementing a new regulatory framework for Islamic banks. During the visit, the experts met with the heads of different departments such as supervision, monetary policy and strategies, payments, capital market and fintech. The problems and challenges of each department were discussed by the delegation.

The IsDB proposed a very detailed and structured plan to assess the current situation within the CBM, write the regulations and conduct training to familiarize with the new rules. The regulations include changing current practices to be consistent with Shariah, liquidity management and interbank money market instruments.

Preview of 2024

The IsDB and the CBM will sign an agreement very soon, and in early 2024 the IsDB will send an Islamic finance advisor to visit the CBM and provide it with its own strategies for implementing the regulatory framework. This advisor may be selected by Mauritania or by the IsDB. If all goes well, the texts of the application can be written and applied by the end of 2024, and released to Islamic banks. This will be a real milestone for the development and expansion of the Islamic finance industry in Mauritania.

However, prior to the agreement, a series of training sessions should be conducted for CBM staff, from the basics of Islamic finance to an advanced level, and from managers to decision-makers, to familiarize them with the new regulations. The training can include: Shariah governance framework, investment account, risk management, Islamic financial reporting, Islamic interbank money market and Islamic window regulations. Ignoring this step may result in the new rules not being applied and will not bear any fruit in the near future.

Conclusion

The CBM should reconsider the structure of the Shariah board that will review and oversee the process of implementing the new set of rules. The Shariah board should include experts in Islamic finance, and members should be independent of the central bank to avoid conflicts of interest. The CBM can learn from the experience of Malaysia or the Kingdom of Saudi Arabia in the process of implementing a Shariah governance framework.

For Islamic banks in Mauritania, the training of employees on various Islamic finance topics is mandatory as most of them only have a conventional background and find Islamic finance rules difficult to be applied. In every Islamic bank, there should be a Shariah committee to audit the process and verify that the rules are applied as set out in the regulatory framework.

Morocco: An immense potential in participatory banking

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The year 2023 proved to be tumultuous for financial markets, characterized by bank failures, tight monetary policies, persistent inflation and ongoing debates about global debt sustainability. Under these challenging circumstances, liquidity became scarce, and the cost of financing elevated. Despite a recovery since the COVID-19 pandemic, the global Islamic finance system remained influenced by this gloomy outlook. Global Islamic finance assets grew by 6.2% in 2022, estimated to reach US$3.25 trillion. Growth is also expected to remain below its long-term average in 2023. Nevertheless, despite an unfavorable external outlook, participatory banking assets in Morocco grew by 21.7% in 2022, reaching MAD27 billion (US$2.59 billion), making Morocco the world's fastest-growing market in 2022. While the growth rate was lower than in 2020 and 2021, Morocco's performance was remarkable.

Review of 2023

Launched six years ago, participatory banks only possess approximately 2% of the assets within the Moroccan financial system, despite outpacing conventional banks in yearly asset growth by a significant margin. The government's goal of increasing this percentage to 5% by 2024 underscores the significant potential of Morocco's Islamic finance industry. The goal's ambition is reflected in the fact that the share of Islamic banking is still below 5% in many African countries, even though they adopted Islamic finance much earlier than Morocco.

According to the 2021 Global Findex survey by the World Bank, 19% and 18% of participants identified religious reasons and difficulty of access respectively as the main obstacles to not having a bank account in Morocco. Launching a comprehensive awareness campaign on Islamic financial instruments and making them more accessible are important to promote financial inclusion and foster growth.

In fact, these practices have the potential to provide substantial advantages across Africa. A quarter of the world's Muslim population lives in Africa, but African Islamic assets constitute less than 1% of the total assets of the global Islamic finance sector. This disparity underscores the immense potential for Islamic banking, not only in Morocco but also throughout the African continent.

Morocco has taken steps to enhance the competitiveness of participatory banks by introducing new measures in recent years. The Al Wakala Bil Istithmar and Central Guarantee Fund's guarantee mechanisms under the Sanad Tamwil window are welcome developments. The government's recent actions to enhance the regulatory framework for Takaful, enforce external Shariah audit for Islamic banks and expand Sukuk coverage have also been remarkable. The positive effects of these regulations will become noticeable in 2024.

Preview of 2024

Participatory housing loans make up 83% of total participatory loans in Morocco, significantly exceeding the global average. Although real estate financial assets pose less risk, they generate less profit. Expanding the range of products and offering additional short- and medium-term financing to various customer segments, especially SMEs, can contribute to the profitability of participatory banks. Given the robust demand for retail and small business loans, directing efforts toward these segments will yield mutual benefits. Robust growth

in equipment finance during 2022 showed that the sector is already moving in the right direction.

Additionally, the expansion of savings instruments to provide education and retirement solutions, along with furnishing deposit insurance for Islamic deposits, can further stimulate participatory banking.

Another factor that can contribute to the development of the participatory banking industry in Morocco is the Sukuk market. In 2018, Morocco issued its first Sukuk certificates, worth MAD1 billion (US$95.89 million), shortly after authorizing participatory banking in 2017. Although no new issuances have occurred since then, the government permitted new Sukuk types like Murabahah, Mudarabah and Musharakah in 2022.

Sukuk certificates will offer two essential benefits to the Moroccan economy. First, Sukuk enable banks to finance long-term loans, including real estate loans, with stable long-term funding sources, reducing maturity mismatches. This will be crucial for Moroccan participatory banks since the sector's financing-to-deposit ratio was 238% in 2022, the highest among IFSB members.

Second, Morocco aims to increase the share of renewable energy in its power capacity to 80% by 2050. In this respect, issuing green Sukuk for funding renewable energy infrastructure projects is a good opportunity to promote both clean energy and Islamic financial instruments.

Conclusion

Morocco, with its 99% Muslim population and flourishing economy, has enormous potential in Islamic finance. Although Morocco joined the Islamic financial system late, it is quickly moving toward becoming a leader on the African continent due to its ambitious reform agenda and the world's highest Islamic asset growth rate. It would not be surprising if the sector reports a profit for the first time in 2023.

It is possible for Morocco to turn the low insured rate in the country into an opportunity with Takaful, attract customer deposits with an awareness campaign, focus more on SME financing and meet its ambitious renewable energy targets with green Sukuk issuances. We can expect these to be among the policy priorities in 2024.

Islamic banking will enhance both the inclusivity and resilience of the national economy and support Casablanca Finance City's objective to become one of the world's leading financial centers. I highly recommend closely monitoring Morocco's progress over the next decade.

The views represented in this article are those of the author and do not necessarily reflect the positions or policies of the Embassy of Turkiye in Morocco and Turkish Ministry of Treasury and Finance.

Nigeria: Consolidating gains…

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The non-interest finance industry in Nigeria continued to extend its stride, gaining status as a potential market leader in the Nigerian financial sector. However, in 2023, the industry had to contend with numerous macroeconomic challenges, from a cash scarcity that bedeviled the economy to radical government policies targeted at spurring growth. Interestingly, the industry remained relatively unscathed and continued to welcome new players and issuances, showing resilience to economic headwinds.

Review of 2023

The year 2023 started on a cautious note as Nigeria elected its new set of leaders. The election that brought in President Bola Tinubu was closely contested and stoked deep-seated regional tensions. Against this backdrop, businesses cut back investment and inadvertently created supply shortages that fueled inflation. However, it was the Central Bank of Nigeria policy to redesign the naira that caused the first of several major economic shocks of the year.

The ensuing severe cash crunch tested the mettle of the entire Nigerian financial services sector. Most Islamic finance institutions managed to keep a steady head amid the turmoil. Islamic financial institutions that were previously overlooked due to their relatively smaller sizes compared with the conventional sector got a rare opportunity for visibility through effective cash management and customer service. Now that the dust has settled, I believe that more customers appreciate Islamic financial institutions for their customer service as well as their Halal products.

After the elections, the new administration immediately set the tone by announcing daring economic reforms including the removal of controversial petrol subsidies. It is noteworthy that although Nigeria ranks as the largest oil producer in Africa, it is also the largest importer of refined petroleum products on the continent. The presence of petrol subsidies effectively made the government the largest obligor of private sector petroleum financing contracts.

As a result, the removal of petrol subsidies created further shockwaves to the currency, inflation and to financial institutions, given the substantial allocation to petroleum product financing by conventional and Islamic finance institutions alike. Most Islamic financial institutions responded by shifting their portfolio allocation into other assets, such as soft and hard commodities and Sukuk.

The Sukuk market also provided some reprieve for Islamic financial institutions. Mid-year, the Lagos State government issued a Sukuk Ijarah facility to finance road construction around the sprawling Lekki Axis leading to the largest oil refinery complex in West Africa. Understandably, the NGN19.82 billion (US$25.66 million) issuance was oversubscribed 1.15 times.

This would be the only second publicly issued sub-sovereign Sukuk in Nigeria after Osun State in 2013. By October, the federal government issued NGN350 billion (US$453.05 million)-worth of Sukuk Ijarah which also enjoyed an oversubscription of 4.35 times of the NGN150 billion (US$194.17 million) initially offered. As a result of these issuances, the size of the Nigerian public Sukuk market swelled to NGN1.15 trillion (US$1.48 billion).

In the equities market, the NGX Lotus Islamic index — an index that tracks the performance of publicly quoted Shariah compliant stocks in Nigeria — returned 33.4% in the first nine months of 2023. This outpaced the general market return which stood at 29.52% for the same period.

The positive performance of Shariah compliant stocks improved the appetite for Shariah compliant funds and investment vehicles. This led to a growth of 115.43% in assets under management of Shariah compliant mutual funds, faster than the 33.8% growth recorded in the general asset management industry. Islamic funds — with assets under management valued at NGN101.17 billion (US$130.96 million) — increased their market share from 3.09% in December 2022 to 4.98% in September 2023. The number of Islamic funds also increased from 13 in December 2022 to 14 in September 2023.

In apparent recognition of the growth of Islamic financial institutions and an emerging appetite for short-tenored investments, the FMDQ Securities Exchange released an exposure framework for the issuance of non-interest (Islamic) commercial papers. This initiative is expected to enable Islamic financial institutions to channel short-term funding via the structured debt capital market toward real asset creation.

It is important to note however that this gain would not have been possible without regulatory support for the industry. Regulators were unwavering in their commitment to ensuring stability and standardization in the industry. The National Pension Commission also announced a framework for establishing a Pension Industry Non-Interest Advisory Committee that would comprise a group of Islamic scholars, demonstrating commitment to the sector and further raising confidence.

Preview of 2024

As the curtain falls on 2023, a sense of cautious optimism pervades the atmosphere, laying the foundation for a promising 2024. The combined efforts of regulators, operators and investors could pave the way for continued growth in the industry. The Takaful sector continues to stand out and holds immense untapped potential. In 2023 alone, two Takaful operators paid out NGN355 million (US$459,526) in surplus to contributors; this continues to be a game-changer in the insurance industry and should lead to higher patronage.

Green financing should also increase in prominence with the adoption of solar lighting to supplement gas-powered electricity from the national grid. In addition, the use of artificial intelligence should enhance work efficiency and the delivery of digital financial services to underserved segments. As the non-interest banks mature, we expect greater market penetration and financial inclusion.

In addition, the policy shift in favor of market forces and the incredible demand for creative solutions to the myriad macroeconomic challenges facing the nation may portend greater opportunities to introduce alternative Halal financial products that would add value to and deepen the market.

Conclusion

The year ahead holds promise. Step by step, Islamic finance in Nigeria inches closer to realizing its potential, having a positive impact on individuals and communities, and nurturing ethical financial practices.

Oman: 2023 in review and what to expect in 2024


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Keeping in line with previous years, the Islamic finance industry of the Sultanate of Oman showed another solid year of growth in 2023 where total assets of Islamic banks and windows in the Sultanate reached OMR7.2 billion (US$18.65 billion) by the end of August 2023. This figure translates into a very impressive 13.3% year-on-year growth for the Islamic finance industry which as at October 2023 comprised just short of 18% of the total banking assets in Oman. A similar growth was also seen in terms of financing provided by Islamic banks and windows in Oman with a 12.9% year-on-year growth in terms of financings provided up until the end of August 2023. Total deposits held with Islamic banks and windows in Oman also increased by an impressive 13% to OMR5.4 billion (US$13.99 billion) at the end of August 2023.

In terms of Takaful, as at the end of August 2023, the two Takaful operators in Oman had a Takaful portfolio of US$150 million out of the total insurance investment portfolio of US$2 billion.

With the aforementioned growth in the Islamic finance industry and several regulatory initiatives undertaken by the government, the year is moving toward a close with a number of rating upgrades having been undertaken this year by the rating agencies. The current credit rating assigned to the Sultanate of Oman by Fitch Ratings and S&P Global Ratings are 'BB+' with a stable outlook while the rating assigned by Moody's Investors Service is 'Ba2' with a positive outlook.

Review of 2023

The final quarter of 2023 started with the IPO undertaken by OQ Gas Networks (now, OQ Gas Networks). The IPO was very innovative in its structure and, in addition to it being the largest-ever IPO from Oman with an offering size of OMR288.2 million (US$746.39 million) (which was oversubscribed by about 14 times with orders of OMR4 billion (US$10.36 billion)), it was the first Shariah compliant IPO. The transaction was especially important given that it paved the way for Shariah compliant IPOs during the time when no specifical regulation governing the Shariah aspect of IPOs has been promulgated.

The OQGN IPO was preceded by the first-ever liability management exercise undertaken by the government of the Sultanate of Oman which involved the government's buyback of US$728.2 million of its outstanding notes and Sukuk. At the same time as this transaction, the market saw another Sukuk issuance which involved the establishment of a Sukuk issuance program by Energy Development Oman, through its wholly-owned subsidiary EDO Sukuk, and the issuance of a US$1 billion Sukuk facility thereunder. This transaction was particularly important because it was the first time that an Omani entity utilized an Ijarah–Murabahah structure for a Sukuk issuance.

The growth discussed at the beginning of this report is underpinned by active and collaborative regulators, including the Capital Market Authority (CMA) and the Central Bank of Oman (CBO), in the Sultanate of Oman. The role that the regulators have played and continue to play in the growth of Islamic finance in Oman cannot

be overstated. This is evident from the CMA's promulgation of the crowdfunding regulations which have been an enabler to the growth of the crowdfunding segment of the market. It is a result of this that within a little over one year, there have been nine crowdfunding platforms in Oman.

From the CBO perspective, the regulator introduced the Wakalah money market instrument at the beginning of the year to support an effective management of liquidity by Islamic banks and windows. This was a particularly important step given the prohibition on commodity Murabahah in Oman. As a result, now Islamic banks and windows in Oman have the Wakalah money market instrument available for short-term liquidity needs. There are additional measures underway to address the requirements for short-term liquidity of Islamic banks and windows and we do expect these to come to fruition in the coming months.

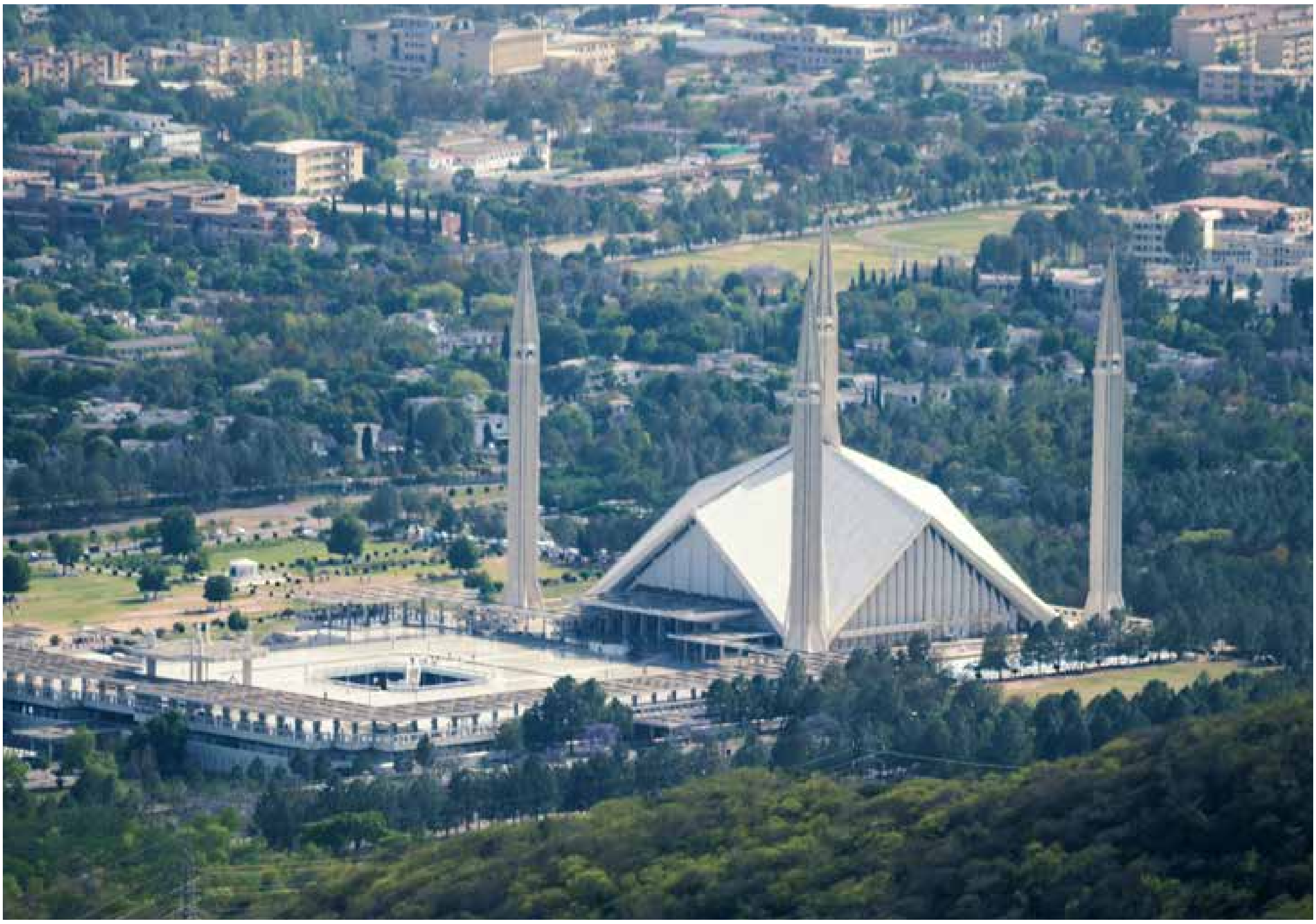
Preview of 2024

As the year ends, there are still a number of significant transactions that Oman will witness which include the Omantel Sukuk issuance (recently suspended to wait for more favorable market conditions) and other such issuances by Omani corporate entities. It is also expected that the REIT market will see the entry of new players into the market and take a larger share of the Muscat Stock Exchange index.

The CMA has also turned its attention to ESG and as part of the new regulations for bond and Sukuk issuance, it is expected that by the end of 2023 it will regulate the issuance of sustainable Sukuk. The new ESG framework being finalized by the CMA should, therefore, facilitate blue and green financing which should give way to Oman's food security initiatives (including its focus on aquaculture).
In addition, the CMA is finalizing its regulations relating to virtual assets which are also expected to come into force by the end of 2023. With these regulations, Oman should be able to tap into the crypto and virtual asset market.

Conclusion

2023 has been a very positive year for Islamic finance in the Sultanate of Oman. Given the initiatives being undertaken by the principal regulators of the industry (ie the CMA and CBO), the Islamic finance industry should continue to grow in 2024 and is expected to break the 20% barrier with respect to Islamic assets' share of total banking assets in the country.



Islamic finance of Pakistan: A rewarding journey

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The Islamic banking and finance industry in Pakistan has achieved tremendous growth during the last two decades with the support of a comprehensive legal, regulatory and Shariah governance framework. So far, Islamic finance has emerged as an effective alternative to conventional financing with a wide range of products. Islamic banking has emerged as the most vibrant and growing sector in Pakistan's financial market. Its assets have grown by an average of 24% per annum over the past decade, to stand at 20% in terms of current market share of the overall banking industry. This industry not only caters to the banking needs of faith-based customers, but also plays a great role in financial inclusion. The Islamic banking industry pie is getting bigger by successfully adding new products as well as enlarging the customer base.

Review of 2023

Islamic banking

The year 2023 was full of challenges for Pakistan's economy. The economy remained affected by several domestic issues and some external factors such as the high cost of commodities and regional conflicts. However, despite the difficult operating environment, the Islamic banking industry maintained its growth momentum and also managed to increase its market share.

Currently, the Islamic banking industry comprises 22 Islamic banking institutions which include six fully-fledged Islamic banks and 16 windows of conventional banks. In early 2023, Faysal Bank converted into a fully-fledged Islamic bank, increasing the number of fully-fledged Islamic banks to six. The conversion from a conventional banking system to a Shariah compliant one set a unique example, considering its size of assets and operations.

After the landmark decision of the Federal Shariat Court (FSC) for the conversion of the entire financial system to be Shariah compliant by 2027, an encouraging move has been developed within the banking and non-banking segments for the transformation of their business models to be Shariah compliant. The conventional financial institutions are also considering and devising their strategies for conversion in order to meet the deadline set by the FSC.

Islamic equity and debt market

During the year, the Central Directorate of National Savings established an Islamic window for the issuance of Shariah compliant certificates for prospective investors. Now, the said products are catering to the public demand for safe investments in line with the principles of Shariah. Furthermore, during the year, the federal government raised a record PKR371 billion (US$1.33 billion) through the sale of the government of Pakistan (GoP)'s Sukuk Ijarah This was the highest issuance of Sukuk in a single auction by the federal government since the start of the GoP Sukuk Ijarah program in 2008.

Non-bank financial institutions

The Securities and Exchange Commission of Pakistan (SECP) is also actively engaged in the promotion of Islamic finance through non-banking and capital market segments. Within the regulatory regime, the SECP regulates important segments of the Islamic finance industry such as Modarabas, Takaful companies and windows, Islamic mutual and pension funds, Shariah compliant REITs and Islamic debt and capital markets.

The SECP, as per the constitutional requirements and its mandate, is committed to the development and promotion of Islamic finance within the varied sectors regulated by it.

During the year, the Islamic Finance Department (IFD) took the following initiatives for the promotion of Islamic finance within non-banking finance companies (NBFCs):

- Formed a committee for the promotion of Islamic finance within NBFCs and reconstituted its Shariah Advisory Committee.
- Issued the Guidelines for Offering Islamic Financial Services, 2023
- Released a comprehensive diagnostic report to document key issues and challenges for Islamic finance in the sector of NBFCs.
- Hosted the first international conference on Islamic capital markets with collaboration from AAOIFI.
- The SECP and AAOIFI signed an MoU for mutual cooperation, exchange of information and joint efforts for the development of Islamic banking and finance.
- Recently issued the Shariah Governance Regulations, 2023; this is considered a breakthrough in the evolution of Islamic finance regulation in Pakistan which will support the development of a platform for a more transparent, compliant and investor-friendly financial ecosystem.

Within the SECP regime, the Islamic NBFIs are gradually progressing with a sound financial footing. Islamic mutual funds, Islamic REITs, Takaful, Modarabas and Shariah compliant finance companies are growing at a good pace and catering to the various masses which are expected to further grow with a solid footing.

Preview of 2024

The decision of the FSC has insightful implications on the entire financial landscape. The transformation of the entire financial system, such as banking, non-bank financial institutions and other segments, will have a great boost on Islamic finance in Pakistan. However, shifting to Islamic finance must be planned in a careful manner. Every aspect, such as systems, products, processes, human resources and business feasibility, requires vigilant evaluation. The customer is the key stakeholder for the entire process whose awareness and mindset need to be focused. The conversion of a mid-tier conventional bank, ie Faysal Bank, has set a great example and is an inspiration for other banks and financial institutions to follow.

The government may face challenges in implementing the FSC judgment for the conversion of public debt into Shariah compliant modes. A lack of adequate sovereign assets has remained a major impediment to the regular issuance of asset-backed Sukuk by the government. Although Sukuk issuances are now being auctioned on a regular basis, but the volume needs to be increased to replace the same with conventional debt to some extent.

With the focus strategy of the IFD of the SECP on the promotion of Islamic finance within NBFIs and the further development of the Islamic equity and debt markets, this is providing a solid foundation for growth at large levels. The issuance of Shariah governance regulations represents a breakthrough in the evolution of Islamic finance regulation in Pakistan, which will provide a platform for further growth and an investor-friendly financial ecosystem.

Conclusion

Pakistan is a potential market for the further expansion of the financial sector, particularly Islamic finance, keeping in view the very low rate of financial inclusion. So far, Islamic banking and finance has been able to grasp a market share of around 20%, which is one-fifth of the total pie. Pakistan's Islamic banking and finance landscape has grown on a very strong foundation with unwavering religious convictions. With the conducive environment provided by the State Bank of Pakistan and the SECP, and the recent governmental impetus toward a comprehensive Islamic financial system, this industry is on a trajectory for further expansion.

Digital transformation is also a key segment for growth that needs to reach out to unserved and underserved segments of society. It also enables financial institutions to reduce manual processes and physical infrastructure costs. There is also a growing interest in sustainability and ESG throughout Islamic finance circles as they are also naturally associated. Climate change is a big challenge and Pakistan finds itself at the forefront of the global battle against its adverse effects. Islamic finance can also play its effective role in creating an environmentally and socially sustainable Pakistan for future generations.

The Philippines: Regaining lost momentum toward Islamic banking and finance

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The Philippines is gradually regaining the momentum it lost during the COVID-19 pandemic in promoting the development of Islamic banking and finance.

Review of 2023

The year 2023 saw another important issuance from Bangko Sentral ng Pilipinas (BSP) aimed at clarifying the regulatory framework for Islamic banking and finance in the Philippines. This was BSP Circular No 1173 which confirmed the minimum capital requirement of conventional banks with Islamic banking units. The earlier BSP issuances were Circular No 1069 which contained the guidelines for the establishment of Islamic banks and Islamic banking units in the Philippines, Circular No 1170 which mandated a Shariah governance framework for these banks and units, and Circular No 1116 on the management of their liquidity risk.

A whole-of-government approach had emerged. The Department of Trade and Industry joined the BSP in encouraging foreign Islamic banks to enter the Philippine Islamic banking system, although that department's main focus is on making available Halal financing for MSMEs in the Philippines. This dovetailed with the Department of Agriculture's 10-year roadmap for the development of the domestic Halal industry.

The Philippine Stock Exchange continued its quarterly listing of Shariah compliant shares of stocks, in accordance with the standards set by AAOIFI.

Preview of 2024

The BSP will continue its strides in enticing more Islamic banking players to operate in the Philippines. For now, only one conventional bank has been authorized to open an Islamic banking unit. With the renewed post-pandemic momentum on the part of the BSP and other Philippine government instrumentalities, applicants are expected to come from the Riyadh-based GCC, as well as from non-Muslim countries looking for diversified investments.

The Bangsamoro Autonomous Region of Muslim Mindanao is expected to pursue the completion of its mandate under the Bangsamoro Organic Law to acquire an equity participation in Al-Amanah Islamic Investment Bank of the Philippines, currently the only Islamic bank operating in the Philippines.

With the issuance by the Department of Justice of its opinion that the Republic of the Philippines, through the Department of Finance, can validly issue Sukuk using Ijarah and Wakalah structures, the Philippine government might be encouraged, once and for all, to make its long-awaited entry into the global Islamic financial market.

Conclusion

It is expected that Islamic banking and finance in the Philippines will grow by leaps and bounds, with the entry of more players into the market now that the regulatory framework is fully in place. With the whole-of-government approach, there is good reason to believe that this expectation will be realized.

The calm before the storm

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The prestigious FIFA World Cup 2022 served as a pivotal moment for Qatar, highlighting its economic and financial potential to the global community and leaving an impact that continues to this day. While the event attracted a great global attention and investments, the domestic market experienced a period of relative quietness in its aftermath.

Beyond the grand stadiums, Qatar's strategic vision comes into sharper focus. Qatar continues its journey toward becoming a global Islamic finance powerhouse, with its economy poised for remarkable growth, and its Islamic finance sector playing a key role in this transformation.

With an eye on sustainability, integrating ESG policies is among the key priorities on Qatar's business agenda, and is an element of Qatar National Vision 2030. Meanwhile, fintech innovations are redefining the way banks and financial services are accessed and delivered in Qatar, with artificial intelligence-powered solutions at the forefront.

Review of 2023

As the world's leading liquefied natural gas exporter, Qatar has been working toward diversifying its economy with the aim to reduce its dependence on gas revenues. In recent years, Qatar's stock market faced a shortage of listings. However, government entities and financial experts have recognized this untapped potential and began supporting initiatives to revive the stock market, aiming to increase the number of listed companies on the Qatar Stock Exchange (QSE) and making the QSE more accessible to a wider range of investors. This strategic shift is expected to improve Qatar's financial landscape, with the QSE forecasting the addition of further new listings before the end of 2023.

One of the noteworthy listings in 2023 was the listing of Dukhan Bank (previously known as Barwa Bank), the third-largest Islamic bank in Qatar, on the QSE. This listing has opened up opportunities for a wider range of investors to participate in the bank's growth, particularly investors seeking ethical and Shariah compliant investment opportunities.

Another noteworthy listing was the listing of information technology firm Meeza on the QSE. Meeza is the first company to be listed on the QSE by way of book-building. Damaan Islamic Insurance Company (Beema) was also listed on the QSE at the start of 2023. With these listings, the number of listed companies on the QSE's main market increased to 51.

In Q1 2023, Qatar's Islamic banking sector demonstrated strong financial performance. Dukhan Bank reported a 5.6% increase in net income and a substantial 33.8% growth in total income compared with the same period in 2022. QIIB achieved a 7.7% growth in net profit. Lesha Bank also reported a net profit of QAR22.1 million (US$6.03 million), an increase of 5% compared with the same period last year. This year's positive financial results are an indication of the stability of the Islamic banking sector in Qatar.

In line with global trends and Qatar National Vision 2030, Qatar is making an effort to incorporate sustainable and environmentally responsible practices into its financial and banking sector. A testament to this commitment is Qatar Development Bank (QDB)'s recent achievement securing the Mena Banking Excellence Award 2023 as the best sustainable bank in the Middle East and North Africa. This came in recognition of QDB's innovative financing solutions as well as its continuous efforts to provide the national entrepreneurial business system with sustainable digital solutions.

In addition, Qatar Islamic Bank (QIB) became the first bank headquartered in Qatar to join the Equator Principles Association, and adopted the Equator Principles, a framework recognized globally for assessing, determining and managing social and environmental risk in bank-financed projects.

With respect to fintech, the Qatar Central Bank launched a new fintech strategy at the start of 2023. The fintech strategy is centered around developing the infrastructure to support fintechs, including developing the fintech regulatory framework in Qatar and leveraging Qatar's strengths to create a niche fintech market. A key area of focus in the strategy is ethical and green fintech, which Qatar aims to develop by using its strength in Islamic banking and its growing focus on ESG. As part of the strategy, Qatar aims to establish a world-class fintech curriculum in cooperation with Qatari universities and create a seamless cashless banking system.

Islamic banks and financial institutions in Qatar have broadened their services in recent years to cater to a more diverse clientele. Enhanced digital banking platforms, user-friendly mobile applications and innovative financial products have made Islamic banking more accessible and convenient for local and international investors.

Preview of 2024

As we look forward, the year 2024 promises to be another chapter in Qatar's journey toward growth, and it is expected that Qatar's Islamic banking and finance industries will continue to thrive by maintaining government and regulatory support, fostering innovation and promoting sustainable practices.

In light of the renewed focus on the equities market, financial experts anticipate a surge in IPOs in the near future, contingent upon stable global market conditions.

The QSE and the Qatar Financial Markets Authority have been encouraging listed companies to participate in and adopt ESG initiatives, and such ESG considerations have also recently been implemented in certain laws, regulations and governance codes. Furthermore, the QSE announced that reporting of material ESG metrics and the submission of sustainability reports will become mandatory in the near future.

The Public Works Authority (Ashghal) and the Qatar General Electricity and Water Corporation (Kahramaa) have recently announced that they plan to issue public tenders worth US$19.2 billion in 2024, distributed among various economic sectors. The majority of the tenders are expected to be issued during Q1 2024. A boom in infrastructure projects will be welcomed by the lending community in Qatar.

Conclusion

Qatar's commitment to regulating and fostering Islamic finance is propelling it toward becoming a prominent global hub for Shariah compliant financial services. Qatar's Islamic banks have leveraged innovation and technology to introduce advanced products, making banking more accessible to customers. We expect more growth in this area which will support Qatar's goal to lead in the Islamic finance and banking sector.

Russia focuses on cooperation with eastern countries in promoting Islamic finance

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The current political situation, significantly aggravated recently in connection with the intensification of the confrontation between western countries on Russia's actions to protect its interests, testifies to the expansion of the split between the global west and other countries in the desire to reformat the world order that does not meet modern economic and political realities.

The restrictive policy of western countries forced the Russian state and businesses to globally reorient to new areas of trade, investment and technological cooperation, finding new key partners and building new political and economic ties with those states that did not refuse to cooperate with Russia. Among them are countries of the Middle East and Southeast Asia which prefer the Islamic financial model in monetary and investment relations.

In 2023, Russian authorities made a very important step in Islamic finance promotion by adopting the first law related to Islamic finance.

Review of 2023

In 2023, in the context of the ongoing sanctions from western states, Russia has completely reoriented itself from the western to the eastern direction, building strategic relations with its reliable Asian partners and focusing on enhancing cooperation with the countries of the Islamic world.

Realizing the importance of developing comprehensive cooperation, including trade, investment and other ties with Islamic countries, Russia sought to consistently remove the barriers to the development of Islamic finance in the Russian Federation.

An important step in this direction was the adoption by the State Duma (Parliament) of Russia of the first law in the country, which launched on the 1st September 2023, a legal experiment on the introduction of Islamic (participating) finance in four Muslim regions of the Russian Federation (Tatarstan, Bashkortostan, Dagestan and Chechnya).

The first participants in the pilot project were conventional banks. The largest regional bank of Tatarstan, AkBars Bank, became the first participant to receive a license for Islamic financial operations. The largest federal bank, Sberbank, which opened its first Islamic branch in Kazan at the end of 2022, officially announced the opening of its second branch in Ufa (the capital of Bashkortostan), as well as the short-terms plans to open its Islamic branches in the capitals of other regions participating in the experiment, as well as in Moscow.

Russian universities are actively involved in the process of teaching Islamic finance, offering more training programs for specialists in various fields within the framework of Islamic finance, interacting with foreign universities of Islamic countries and building new world-class high-tech training programs.

In 2023, the international forum 'Russia – Islamic World: KazanForum', discussing the development of the Halal industry and Islamic finance, received federal status, which means the mandatory presence of the first persons of the Russian state. In total, there are only five forums of federal significance in Russia.

Preview of 2024

The first law on Islamic (participating) finance created the legal framework for the development of Islamic financial institutions in all segments of the Russian financial system: banking, Takaful and the stock market. I suppose that in 2024 Moscow, the Moscow region, St Petersburg and the Leningrad region will be included in the experiment, which will allow large federal financial institutions to develop Islamic financial instruments, without opening special branches in Russian regions.

Examples of successful activities to implement the Islamic financial model in banking operations and in stock markets among the largest conventional banks will attract followers from the medium-sized regional and specialized banking structures serving certain sectors of the Russian economy. The creation of a favorable regulatory environment and the provision of technical and consulting assistance from the regulator, the Bank of Russia, will allow non-banking companies to actively participate in the market for the provision of Islamic financial services for the population and SMEs.

Russian universities will coordinate their efforts in the implementation of educational services for training in various areas of Islamic business and finance, actively interacting with leading universities in Islamic countries, using their experience and attracting leading experts in Islamic finance for training.

Russian educational centers will widely use new technologies in the learning process, expanding the range of distance and online educational programs using artificial intelligence technologies, interactive programs and partial self-study programs in the field of Islamic finance.

Educational centers in 2024 in Russia may already reach the level of 'business incubators', in which the business ideas of young entrepreneurs will be transformed into business plans and implemented with the involvement of experienced Islamic businessmen in Russia and in foreign countries.

The popularization of Islamic finance among retail customers and businesses will also be facilitated via international forums and conferences organized and held with the participation of regional state authorities and religious Islamic leaders. Examples are: Volga Investment Summit & World Halal Day; Kaspiy Expo; Russian Islamic Economic Forum 'Russia – Guarantor of Partnership' at Grosny and 'Russia – Islamic World: Kazan Forum 2024'.

Conclusion

The creation of a fully-fledged dual financial system of the Russian Federation will construct a stable infrastructure of Islamic finance, providing a reliable mechanism for attracting foreign investments from Islamic countries, as well as the Muslim population which previously could not entrust their savings to conventional financial institutions, according to their ethical and religious principles.

Russian universities and educational centers, with the support of the state, business and religious organizations, will actively continue to solve the main problem of Islamic finance in Russia: a lack of qualified personnel.

Islamic finance has received a special status as a priority sector for the development of the Russian economy. The legislative and executive authorities, religious leaders and the experts' community are doing everything possible to accelerate the development of Islamic finance in Russia, consistently removing all obstacles to its development.

The legally appointed regulator — the Bank of Russia — will be responsible for the process of formation of Islamic finance and its introduction into the domestic financial system. The Expert Council created under the government of Russia will monitor the progress of the experiment and make the necessary adjustments at the federal level.

On the 1st September 2023, Russia entered another stage — the stage of active development of Islamic finance standing on a legal basis and using benefits from strong support of the state, Islamic religious organizations at the federal and regional levels, businesses and the population.

The success of this stage and its final result — the construction of a sustainable dual financial system in Russia — taking into account the interests of the multireligious population of the country, will depend on the coordination of the efforts of all participants in the process, as well as on their ability to overcome emerging external and internal challenges.

Shaping the Islamic finance framework in Saudi Arabia: Regulatory milestones and market expansion in 2023


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There have been significant developments in Saudi Arabia in 2023 that positively impacted the Islamic finance market. These developments include the promulgation of the Civil Transactions Law, and other regulatory reforms, that provide solutions and further certainty and clarity in commercial transactions. This report addresses some of these salient developments.

Review of 2023

The Civil Transactions Law

The much-anticipated Civil Transactions Law was published earlier in 2023 and is set to come to effect in mid-December 2023. This legislation is a crucial milestone in the revamping of the legal landscape in Saudi Arabia, providing comprehensive regulations for various aspects of civil transactions, including the definition of terms and concepts used in such transactions, legal capacity, contract formation and performance, liability and compensation, and the establishment of time limits for the bringing of action (ie statute of limitations).

The law sets out regulations for various areas that were previously governed solely by Shariah principles. Notably, the law establishes clear provisions for crucial contracting terms, such as the limitation of liability and liquidated damages. The inclusion of these elements addresses ambiguity that previously existed in the execution and enforceability of contracts, and will provide greater clarity in the formation, implementation and enforcement of contracts and arrangements.

The law expressly regulates the assignment/transfer of rights and debts, including the extent to which the approval of a debtor is required for its debt to be assigned/transferred to a third party; warranties that may be imputed to the assignor/transferor; defenses that would be available to the debtor against the assignee/transferee; and the extent to which security would continue to apply, and other jointly liable obligors would continue to be responsible, for assigned/transferred debt. This codified framework will provide creditors, debtors and other parties with confidence in exploring options for the structuring and enforceability of transactions involving the assignment/transfer of debt.

The Civil Transactions Law also addresses the subject of guarantees, including: guarantees of future or conditional debts; the ability of a guarantor to revoke its guarantee prior to the incurrence of debt; the restriction on guarantees covering an amount that is in excess of the amount of, or being subject to conditions that are more stringent than the conditions applicable to, the guaranteed debt; the liability of the guarantor being decreased to the extent of security that may have been lost due to the creditor's fault; applicable timelines for making demands on guarantors; and the liability of multiple guarantors and rights of subrogation. The law concludes by setting out the fundamental rules that Islamic scholars have long recognized as the bedrock of Islamic jurisprudence. These rules serve as guiding principles for legal practitioners and contribute to the overall development and standardization of the legal framework in Saudi Arabia.

Credit funds

Another development in the legal landscape in Saudi Arabia is the introduction of credit investment funds, through the issuance of the Instructions on Direct Financing Investment Funds by the Capital Market Authority (CMA). These funds provide further financing solutions to businesses in Saudi Arabia by allowing CMA-regulated entities to provide direct financing without the need to partner with banks or other entities licensed by the Saudi Central Bank.

Direct financing funds are required to be structured as private closed-ended funds taking the form of special purpose entities, in accordance with other CMA regulations, and must have a minimum size of SAR50 million (US$13.32 million) offered through private placement. Such funds may not extend financing to individuals.

In the year 2023, over 10 credit funds were formed, with a record number of investors of up to nearly 15,000 unitholders. This initiative brings promising opportunities for start-ups and small businesses with limited assets, which have been historically burdened by the challenges of securing financing by traditional means. Moreover, the framework empowers other qualified finance seekers by providing them with valuable leverage to negotiate and optimize their ongoing financing arrangements.

Use of Islamic finance products in restructuring transactions

The continued use of Islamic finance products in restructurings under the Saudi insolvency law has also been a notable feature of the Saudi market. In 2022, the market witnessed the pioneering use of a Murabahah and perpetual Sukuk facility to restructure the approximately SAR7 billion (US$1.86 billion) debt of a Saudi construction company **undergoing** a financial restructuring procedure.

This has carried over in 2023; the structure of a combination of Murabahah and perpetual Sukuk has now also been employed in some other financial restructuring procedures this year and we anticipate room for these and other Islamic finance products to provide solutions in the restructuring space.

Preview of 2024

The implementation of the Civil Transactions Law and the introduction of credit investment funds in Saudi Arabia are expected to have a transformative impact in 2024. These developments will strengthen the legal framework, facilitate access to financing for businesses, promote clarity and enforceability in contractual arrangements and provide innovative solutions for companies undergoing financial restructuring. Overall, they will contribute to a more dynamic and resilient business environment in Saudi Arabia.

Conclusion

By enchaining certainty, clarity and enforceability, and providing additional solutions, sources of financing and restructuring options, it is anticipated that the developments referenced will enhance the growth of the Islamic finance industry in Saudi Arabia, attract more investors and other participants, stimulate economic activity and positively contribute to the overall financial ecosystem of Saudi Arabia.
The year 2024 will mark the practical realization of these regulatory reforms, providing a unique opportunity to observe how Saudi courts will interpret and integrate the Civil Transactions Law with other existing legal frameworks.

Singapore 2023: A year of transformation and innovative resilience

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Singapore's 2023 stands as a testament to its mature political landscape, marked by significant transitions in leadership that would be pivotal in shaping its future trajectory. The nation welcomed Tharman Shanmugaratnam as its new appointed president, succeeding Halimah Yacob, whose tenure as the first female president was emblematic of Singapore's progressive values. Furthermore, the announcement of the planned leadership transition from Prime Minister Lee Hsien Loong to Deputy Prime Minister Lawrence Wong sets a precedent for strategic succession planning. Amid these changes, the country's rigorous legal and regulatory systems were put to the test with a major SG$2.8 billion (US$2.09 billion) money laundering scandal, resulting in decisive actions and multiple convictions — further reinforcing the nation's international reputation for strong governance and the rule of law.

Review of 2023

Financial sector's resilience and regulatory robustness

The finance industry saw the Monetary Authority of Singapore (MAS)'s steadfast dedication to improving cross-border transactional efficiency and financial interconnectedness. With the authority's

Figure 1: Singapore's achievements globally

Global Talent Competitive Index	Hinrich-IMD Sustainable Trade Index	Global Innovation Index
2^{nd} in 2023	3^{rd} in 2023	5^{th} in 2023
2^{nd} in 2022	5^{th} in 2022	7^{th} in 2022

Source: The Business Times

successful integration of PayNow from Singapore and DuitNow from Malaysia, citizens now have a smooth real-time payment option, ushering in a new era of financial ease and integration. In addition, Singapore's commitment to leading the way in financial technology and cooperation is shown by its partnership with Bank Indonesia to create a cross-border QR payment system. By examining the possibilities of central bank digital currencies via global partnerships, Singapore establishes itself as a trailblazer in the developing field of digital currencies.

The asset management industry in Singapore shows surprising resilience, with a rise in registered fund management businesses, despite global economic headwinds causing a 10% fall in assets under management. This tenacity is seen in the forceful reaction to the well-publicized money laundering case, which highlighted the robustness and dependability of Singapore's financial supervision rather than discouraging investors. Stricter capital requirements for big insurers have been imposed by MAS as a proactive measure to improve market trust and financial stability.

Start-up ecosystem and environmental commitment

Singapore's start-up ecosystem has emerged as a vital contributor to the region's innovation-driven economy, with considerable investment in deep tech start-ups in greentech and health tech. The assistance of the Global Innovation Alliance, which offers a platform for growing enterprises to reach global markets and create an atmosphere favorable to innovation and entrepreneurship, benefits these industries enormously.

Singapore's sustainability efforts are vigorous, with the country committed to a lofty 'net-zero emissions by 2050' target. The innovative SolarShare 2.0 program permits the trading of solar-generated power, demonstrating Singapore's commitment to renewable energy and its potential for scalable, long-term development.

Fostering a digital economy and stock market development

As digital assets gain international prominence, MAS's strategic objectives seek to establish Singapore as a center for digital asset innovation. This involves using blockchain technology to improve payment processes and investigating the issue of digital currency. Coinbase's complete licensure and Paxos's in-principle acceptance are major advances toward building a solid framework for digital asset operations in Singapore.

The stock market reflects Singapore's economic vitality, with MAS exploring changes to its corporate governance rules to support healthy business cultures. The strategic asset monetization by Singtel and Keppel demonstrates corporate Singapore's proactive approach to using assets for development and sustainability. Furthermore, TD Ameritrade's move in brokerage services indicates a strategy shift toward addressing a more sophisticated investor group.

The broad range of operations undertaken by Singapore's Islamic finance sector is indicative of a healthy, varied market that is continually expanding and evolving. Every institution's initiatives have helped create a more welcoming financial environment that permits increased Islamically compliant market participation. It is anticipated that these advancements will carry on evolving in the future, offering a favorable environment for additional innovation and expansion in the Islamic financial sector.

Preview of 2024 and conclusion

Singapore, famed for its ingenuity and perseverance in the face of shortage, has maintained its success trajectory in 2023. Sustained prosperity in the country has been attributed to its strategic focus on developing a highly qualified workforce, promoting a vibrant digital economy, preserving top-notch infrastructure and sustaining a strong regulatory framework.

On the other hand, the Islamic finance industry, which has been largely founded on the efforts of private citizens and organizations, might seem young. Nonetheless, 2023 established the framework necessary for the success of creative Islamic finance projects. In the upcoming year, these programs aim to establish stronger foundations, promoting increased collaboration and growth.

Looking ahead to 2024, Singapore looks like a very interesting place to be. Its steadfast dedication to development, coupled with the development of its Islamic finance industry, portends a year full of opportunity, creativity and expansion.

Figure 2: Singapore's Islamic finance industry — 2023 overview

Area	Institution	Achievements & Initiatives
Community initiative	Islamic Finance Singapore (IFSG)	IFSG has emerged as a beacon for Islamic finance in Singapore, marking its inaugural year with significant expansion plans. These include RizqX, a platform designed to facilitate investments in line with Islamic principles; Halal 2.0, an initiative aimed at ranking stocks based on their Shariah compliant and ESG information; and ZakatX, a dedicated service for the efficient collection and distribution of Zakat, enhancing the socio-economic impact of charitable giving within the Muslim community.
Investment platforms	RizqX	RizqX has established itself in Singapore as a pioneering Halal investing platform, methodically selecting investment options across a wide range of asset classes. It offers important independent analysis of all listed funds, allowing investors to make educated selections that are consistent with their ethical and religious values. The startup recently passed the NTUitive (NTU business incubator) Multidisciplinary Team Project Funding assessment to progress on their plans and product development.
	iFAST	The iFAST platform has expanded its Shariah compliant offerings, adding seven more exchange-traded funds listed on the London Stock Exchange. This expansion not only diversifies the investment options for clients but also offers a more tax-efficient investment route compared to traditional unit trusts or investment-linked policies, reflecting iFAST's commitment to providing competitive and ethical financial solutions.
Asset management	HSBC Asset Management	HSBC has leveraged its global expertise to introduce Shariah compliant investment products, such as the Islamic Global Equity Index and Global Sukuk Index Funds, on regulated platforms in Singapore. The funds track established indexes like the Dow Jones Islamic Titan 100 and the FTSE IdealRatings Investment Grade Index, both incorporating extensive Shariah standards and managed by a dedicated team of experienced Shariah scholars. With a competitive total expense ratio, these funds are appealing for both standalone investment and integration into multi-asset portfolios, offering Islamic investors the opportunity to diversify their portfolios on par with conventional investment standards.
	Milltrust International	The Climate Impact Asia Fund was set up by Milltrust in collaboration with WWF HK in 2019. The fund has performed positively in both relative and absolute terms, beating most Asian equity indices by a wide margin. It invests using Dark-Green Filter, developed proprietarily, to select stocks in Asia Pacific that are the key beneficiaries from the decarbonization theme. It has won a few awards in the short time span including Best ESG Fund Methodology (UK), WealthforGood Awards in 2023 and Best ESG Investment Initiative of the year (Asia) and Best Environmental Fund of the year (Asia) by Environmental Finance in 2022. Milltrust' Singapore affiliate is First Estate Capital Management. The new Shariah compliant Climate Impact Asia Fund will start trading early next year alongside the Shariah compliant multi-asset fund, benefitting from the overlap between Shariah principles and climate investing.

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Asset management	Walton Global	Walton's Shariah compliant pre-development land investment products have seen a distribution of over US$2.3 billion to global investors. Adding to their achievements, Walton has attained Shariah compliant certification for their EB-5 investment program, offering a pathway to US residency through investment.
Banking	Deutsche Bank	Deutsche Bank has strengthened its Shariah custody capabilities in Southeast Asia. It has partnered with CIMB Islamic (Securities Services) to provide Shariah custody in Malaysia, and launched international Shariah compliant global cash and custody services in Singapore. These capabilities complement the bank's CustodyOne offering in the region, making global access simple for clients.
	Maybank Singapore	Maybank Singapore continues to be an Islamic finance powerhouse, securing the title of Islamic Bank of the Year for the seventh consecutive year. The bank has been at the forefront of innovative Islamic financing, structuring the first Islamic sustainability-linked financing for a data centre in the city-state. Moreover, Maybank has facilitated the banking process for Islamic SMEs through user-friendly online applications, thereby enhancing the accessibility and efficiency of Islamic financial services.
Brokerage	CGS-CIMB	CGS-CIMB made significant inroads with the introduction of iCash, Singapore's first Shariah compliant trading account, empowering socially responsible and Islamic investors with ethical investment choices. The firm's commitment to excellence was recognized with prestigious accolades such as 'Best Broker' by FinanceAsia and Alpha SEA.
Decentralised Finance (DeFi)	Zayn Finance	In an ambitious move to expand its DeFi services, Zayn Finance integrated with Coinbase's Base network to establish a Shariah compliant gateway for investors in the decentralized finance space. This strategic initiative has streamlined liquidity contributions to digital exchanges and has seen a rapid increase in total value locked, indicating a strong market reception and the potential for continued growth.
Financial advisory	Ethiqal Wealth Advisory (EWA) — an authorized representative of AIA Singapore	Specializing in more than just insurance, EWA ensures the meticulous transfer of wealth through comprehensive financial planning, including Islamic estate planning and business succession planning, to provide peace of mind and financial security in accordance with Islamic tenets.
	Financial Alliance Islamic Wealth Advisory (FAiWA)	The introduction of the Horizon Capital Shariah Fund - Global Trade Finance positions Financial Alliance as a prominent hedge fund house provider within Singapore's Islamic finance sector. Registered under MAS's restricted scheme, it targets accredited investors and is designed to achieve absolute return performance with USD returns of 7-9% per annum and low volatility, marking a new investment avenue for those seeking Shariah compliant financial products.
	Modern Muslim Finance	With a passionate approach to serving the Muslim community, Modern Muslim Finance, led by Syed Afiq Syed Ismail, has provided extensive Islamic finance planning services. Their expertise has aided over 500 families, with the team conducting numerous Halal investing sessions and crafting over 100 wasiat (last will) documents, illustrating their commitment to financial education and empowerment based on Islamic principles.
	TAQ Wealth Associates (TAQWA) — an authorized representative of AIA Singapore	TAQWA has continued to excel within the Islamic finance advisory domain, achieving consecutive team awards within AIA. The co-founder, Qayyim Isa, received the Top Director award, highlighting TAQWA's leadership and excellence in representing Singapore's Islamic finance sector on a global stage.
Fintech	Hugosave	As a major financial institution, Hugosave caters to a growing client base with diverse financial services, including investments in precious metals. With a commitment to serving the Muslim market, Hugosave is advancing toward Shariah compliance, demonstrating its adaptability and dedication to inclusivity in the financial sector.
Insurance	Etiqa Insurance	Etiqa has been actively exploring opportunities to reintroduce takaful to the Singaporean market. By assessing consumer demand and focusing on value-added solutions, Etiqa is poised to revitalize the Islamic insurance offerings in the region.
Legal	Dentons & Rodyk	The firm received the esteemed title of Asset Management & Islamic Funds Law Firm of the Year at the 16th IFN Law Awards 2023, highlighting their its legal prowess and commitment to the Islamic finance sector.

Source: Authors' own

Diversified prospects underpin rewarding returns

Abdul Davids *is the head of research for Camissa Asset Management. He can be contacted at adavids@camissa-am.com.*

2023 saw global economic activity decelerating from higher post-lockdown rebound growth levels but it is proving reasonably resilient in the face of very rapid monetary tightening. US economic growth moderated from higher levels due to headwinds from sharply rising interest rates, less buoyant residential investment and notably higher consumer inflation. Europe's economy remained weaker, with persistently higher energy prices and low consumer and business confidence. The Chinese economy's recovery fell well short of expectations after the lifting of prolonged COVID-19 pandemic lockdowns.

Review of 2023

Economic growth in South Africa is severely constrained by an inadequate and acutely unstable electricity supply (at least for the next few years), the underperformance of transport infrastructure, poor service delivery from weak and revenue-hungry municipalities and chronically low business confidence.

For these reasons, coupled with the sizeable government debt burden and a large, unskilled population with high unemployment, we remain pessimistic regarding the structural growth rate for the local economy. This is despite signs of some incremental government moves toward economic reforms. Additionally, the economic contribution from the mining sector benefiting from high commodity prices is now far weaker.

Positively however, in a drive to broaden the investor base, diversify the debt portfolio and introduce a new set of savers into its funding universe, the National Treasury issued South Africa's second Sukuk on the 25th October 2023. The development was well timed with global Sukuk issuance growing strongly and potentially offering another avenue for South Africa's cash-strapped government to raise money. South Africa's Islamic banking industry is one of the most developed industries in Africa and total assets amounted to ZAR110 billion (US$5.82 billion) in the 2023 calendar year.

Additionally, following a series of meetings this year, the Islamic banking, Takaful and fund management companies in South Africa formed a new body called the Association of Islamic Financial Service Providers (AIFSP). The purpose of the AIFSP is to self-regulate Islamic financial service providers and promote the growth of the Islamic finance industry in South Africa.

Global markets were strong this past year (31st December 2022 to 30th September 2023), up 11.2% in US dollar terms, with France (up 12% in US dollars) and the US (up 35.4% courtesy of a very strong NASDAQ index) outperforming. Emerging markets were also positive in the period (up 2.2% in US dollars), albeit weaker than developed markets, with outperformance from Mexico (up 20.1% in US dollars) and Poland (up 13.8% in US dollars). China (down 2.3%) and South Africa (down 7.9%), however, underperformed.

The local equity market was up 2.2% in the period (in rand terms). Industrials outperformed (up 10.7%), with particularly strong performances from Bidvest (up 31.5%), Bidcorp (up 31%) and Aspen (up 28.5%). Weak performances were delivered by Vodacom (down 11.4%), Mr Price (down 10%) and MTN (down 9.1%).

Financials were also strong (up 8.5%), with positive performances from banks (up 5%) and outperformance from both life insurers (up 26.1%) and non-life insurers (up 33.8). Sanlam (up 43.6%), Reinet (up 28.9%), Old Mutual (up 20.5%) and Standard Bank (up 18.2%) also outperformed, while Growthpoint (down 23.9%), Capitec (down 6%) and Absa (down 2.8%) underperformed.

Resources underperformed (down 15.3%), although noteworthy highlights included Gold Fields (up 20.8%) and Harmony Gold (up 20.8%). Impala Platinum (down 51.7%), Anglo American Platinum (down 47.9%) and Northam Platinum (down 35.0%) all underperformed.

Preview of 2024

While 2023 was dominated by China's economic slowdown and the impact of the meltdown of the Chinese property market on commodity markets, we expect continued targeted stimulus measures by leadership in China to provide a much-needed boost for certain commodities.

We are likely to see divergent fortunes for commodity markets, with bulk commodities like iron ore and coal seeing continued weak demand. Consumer-facing commodities and those required for the transition to a low-carbon intensity economy will, however, continue to benefit from structural tailwinds. 2024 is likely to be the year of resource nationalism in energy transition materials and commodities with the likes of lithium, platinum and copper benefiting.

South Africa is well-endowed on the platinum front and, together with a Chinese economic rebound, this should bode well for the local economy. The South African inflation rate is expected to continue its declining trend although rampant oil prices could stymie the Reserve Bank's efforts to control inflation to within the 3% to 6% band. Critically, interest rates are likely to peak in 2024 before the banks start to cut these toward the end of next year. This bodes well for equity returns on the Johannesburg stock market.

The new South African domestic Sukuk and subsequent listing of the instrument on the Johannesburg Stock Exchange will provide South African investors with a tradeable, high-yielding non-equity instrument and is a first-of-its-kind for a Muslim-minority country. We therefore expect the tradeable Sukuk market to grow substantially in South Africa.

Conclusion

The South African economy is resilient and recovered from the unprecedented adverse impact of the global COVID-19 pandemic. While 2023 was a particularly challenging year for the economy, given its strong links with China, South Africa did not experience a recession. The low base of persistent loadshedding, high unemployment and lower corporate taxes are likely to provide an inflection point for the country as it regroups, rebases and grows in 2024. The National Treasury's stewardship of the economy has been remarkably sound despite the severe economic challenges faced by the country and the successful issuance of the new Sukuk should set South Africa apart from other emerging markets.

Exploring the potential of Islamic finance in Spain

José María Recio Valencia *is the director of the Saudi Spanish Center for Islamic Economics and Finance – IE University. He can be contacted at Jose.recio@ie.edu.*

Islamic finance is yet to make significant inroads in Spain, despite a moderate level of interest and comprehension regarding the concept. However, the practical application of Islamic finance remains relatively undeveloped, even in a country with a Muslim population numbering 2.3 million, a population size comparable with that of Bahrain or Qatar.

Both public and private institutions have made efforts to disseminate knowledge about Islamic finance. Universities like the Autonomous University of Madrid, Autonomous University of Barcelona, University of Sevilla and IE University have initiated programs in Islamic economics and finance. Notable research and awareness centers include the Saudi Spanish Center for Islamic Economics and Finance (SCIEF) at IE University in Madrid and the Centro de Estudios e Investigación en Economía y Finanzas Islámicas in Barcelona.

The Observatory for Islamic Finance in Spain, in collaboration with Casa Árabe and SCIEF, has played a crucial role in advancing research and awareness in this field. Major banks like Banco Santander and BBVA, as well as public entities like CESCE, ICEX and Banco de Espana, have actively participated in these initiatives.

Review of 2023

The year has not witnessed significant progress in the industry. Spain has been grappling with a complex macroeconomic landscape, which has implications for inflation and the local economy, alongside national elections held in July. As of the writing of this report, a new president is yet to be elected.

In December, the International Conference on Islamic Banking, Finance and Commerce will be held in Barcelona, Spain. There is a growing appetite for investment in Spain from the GCC countries, particularly Middle Eastern and Asian sovereign wealth funds. However, there is no clear Shariah compliant approach to investment decisions.

Recent developments underscore this trend, with the Abu Dhabi Investment Authority purchasing 17 Spanish properties for around EUR600 million (US$633.85 million) and acquiring a 50% stake in seven more hotels, marking a significant move in the Spanish hotel sector.

Saudi Arabia's STC Group has acquired a 9.9% stake in Telefonica, a Spanish telecom giant, valued at EUR2.1 billion (US$2.22 billion). This acquisition positions STC as Telefonica's leading shareholder, highlighting the increasing global influence of GCC countries in the telecommunications market.

Factors driving this interest include the resurgence of tourism to pre-pandemic levels, robust hotel profitability and the augmented budgets of sovereign wealth funds due to rising oil prices. Experts anticipate further acquisitions, with sovereign wealth funds having the capital to engage in large transactions without excessive debt. Diversification into various sectors and the solid fundamentals of the Spanish economy make it an attractive destination for investment.

If GCC sovereign funds were to increase their demand for Shariah compliant investments, it is likely that this would stimulate a more significant development effort within the Spanish market to accommodate such requirements.

Adoption of green Sukuk

Spanish companies are increasingly embracing Islamic finance instruments, such as Sukuk, to expand their international investment opportunities, especially in the robust sectors of infrastructure and engineering. In 2022, ACCIONA, a leader in sustainable infrastructure, secured US$480 million in green loans for sewage treatment plants in Saudi Arabia, collaborating with Islamic banks in the GCC.

Spanish company Solarpack raised RM285 million (US$59.61 million) in Malaysia through a green SRI Sukuk Wakalah facility, aligning with the ASEAN Green Bond Standards, Securities Commission Malaysia's Sustainable and Responsible Investment (SRI) Sukuk Framework and the International Capital Market Association's Green Bond Principles. These cases illustrate how Sukuk can bolster financing capacity for Spanish firms engaged in overseas infrastructure projects.

Moreover, Sukuk, including green Sukuk, offer attractive investment prospects abroad. Spain's robust infrastructure and engineering sectors can capitalize on the growing global demand for SRI, utilizing Islamic finance to support eco-friendly initiatives.

Furthermore, Sukuk could hold potential in the domestic market, offering a diversified financing tool that aligns with Spain's commitment to environmentally responsible projects and infrastructure development.

Preview of 2024

The development of Islamic finance in Spain holds great promise, especially with the increasing emphasis on ESG and socially responsible finance in the EU and Spain. While the emergence of commercial faith-based banking in Spain may not be imminent, there is potential for growth in wholesale banking, especially as financial relationships with GCC countries continue to flourish.

To fully embrace Islamic finance, legislative reforms are essential, particularly in tax and registration laws, enabling Shariah compliant projects to compete effectively with conventional financing methods. These reforms are pivotal for unlocking the vast potential of Islamic finance in Spain. Furthermore, extensive education and awareness initiatives are necessary, targeting both the general public and economic stakeholders to create a conducive environment for these reforms.

Islamic finance faces challenges in Spain due to cultural unfamiliarity, a lack of legal frameworks and limited regulatory support. Misconceptions and a lack of exposure have also contributed to investor and financial institution hesitance in embracing Islamic finance principles.

Conclusion

To foster the growth of Islamic finance in Spain, it is crucial for various stakeholders, including government bodies, financial institutions, academic institutions and Islamic finance experts, to collaborate. Legislative reforms that accommodate Shariah compliant practices should be prioritized, along with targeted educational programs and awareness campaigns to dispel misconceptions and build trust in Islamic finance.

Increasing interest in attracting investment from Islamic sources could be a pivotal factor in stimulating interest in Islamic finance. However, to attract Islamic investors, Spain must establish itself as a welcoming environment for Shariah compliant investments, offering incentives like tax breaks and favorable regulatory frameworks. Showcasing successful case studies and facilitating networking and collaboration between Islamic and conventional finance sectors can further instill confidence in potential investors.

Islamic finance in Tanzania: The future is here

Salum Awadh *is CEO of SSC Group. He can be contacted at sawadh@ssc.co.tz.*

2023 was a remarkable year for Islamic finance industry in Tanzania, with a lot of new developments seen in the market, as a pay-off of decade-long efforts to build and promote the industry. Despite that, challenges are still huge that need intervention from all across the board, and hopefully 2024 will be a better year.

Review of 2023

Banking industry

The KCB Bank Islamic window, Sahl, started publishing its reports to the public to indicate the growth of the window. For a while now, Islamic banking windows were not publishing their reports, and the banks that run such windows were only publishing the total banking performance reports without publishing that of the Islamic window separately.

We hope other Islamic banking windows will follow the practice to allow the market to track the growth of the industry.

Capital market

We saw the listing of the first Sukuk, Fursa Sukuk by KCB Bank Tanzania, the on Dar es Salaam stock exchange; the facility was issued in November 2022 and listed in January 2023. The Sukuk issuance is now available in the secondary market for trading.

There were also other activities in the market including the licensing of Yusra Sukuk, a Tanzanian Islamic market dealer licensed by the Capital Market and Securities Authority.

Another milestone was local Halal investment platform Shirkah transforming into a fully-fledged Halal asset management firm, while also launching Shirkah PRE, a premium service for personalized portfolio management that observes Shariah.

Takaful

The first licensed Takaful operator, ZIC Takaful, was officially launched and became operational in the market, after a decade-long wait for Takaful services in Tanzania.

Other ecosystem players including Yusra Takaful and ITFS were launched as Takaful brokers that will play a key role in the development of the industry.

Regulatory environment

The regulatory authorities in the market continue to show positive responses and buy-in of the idea of supporting the growth and development of Islamic finance in Tanzania.

Bank of Tanzania, Tanzania's central bank, partnered with CIFCA to continue offering knowledge on Islamic finance to different ecosystem players.

The Capital Markets and Securities Authority is initiating the process of enacting guidelines for Sukuk issuance in Tanzania. This will be a game-changer once launched.

Preview of 2024

We believe that 2024 will be another great year again for the industry, across all major subsectors.

We hope to see the following happen in 2024:

- **Takaful**: The increase of awareness and penetration of Takaful in both the consumer and institutional markets. With operators being fully operational, two brokers, and hopefully more Takaful agents, will be launching in 2024.
- **Capital markets**: We anticipate more Sukuk issuances in 2024, and we hope the government of the United Republic of Tanzania and the Revolutionary Government of Zanzibar will speed up the issuances of their sovereign and sub-sovereign Sukuk.
- **Banking**: With KCB Sahl Bank publishing its financial reports, we hope to see all remaining Islamic banking windows to also start publishing come 2024.
- **Regulations**: We hope to see the Sukuk guidelines finalized and published before the end of 2024; this will be an important development for Sukuk and the overall Islamic finance industry in Tanzania.

Conclusion

The growth of Islamic finance in Tanzania requires the ecosystem's efforts, instead of players working in silos. This is still lacking, and hopefully, all stakeholders will see that and be organized to come and work together.

The emerging trends around sustainable Sukuk, digital assets and Islamic fintech are still not well known in Tanzania; we hope in 2024 more people will become aware of these new developments and be ready for their adoption.

There is much to do to rebuild the Islamic finance ecosystem in Tunisia

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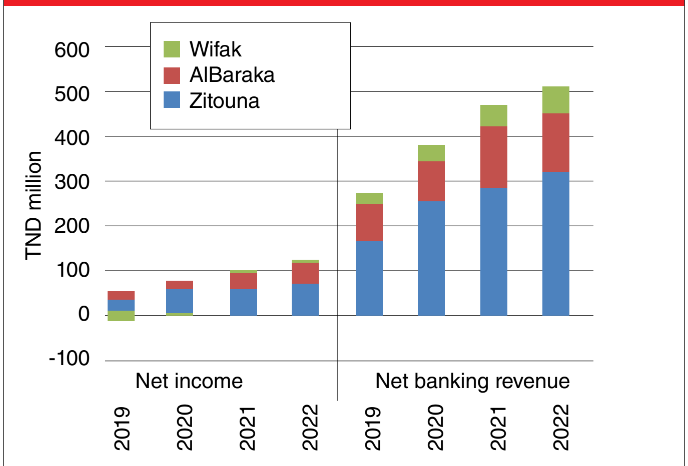
The Tunisian economy is struggling between:

- **the weak prospects for a final agreement with the IMF since subsidy reforms were rejected by the president, who dismissed the minister of economy and planning, considering that its impact on social strains will lead to protests, and**
- **the risks of faint voter participation — similar to the parliamentary election held in January 2023 — in the local council elections and presidential elections to be held in December 2023 and in 2024 respectively, that will also have policy implications on difficult domestic politics and already high exposure to social risks.**

Despite some positive signals of progressive return to financial sustainability in 2023, with a budget surplus reported in H1 2023 and the bilateral partnership signed with the EU, the government is still reliant on the domestic financial sector to balance its budget, which could weaken the latter's liquidity and increase solvency risks, according to Fitch Ratings which downgraded Tunisia's rating to 'CCC-' in June, after Moody's Investors Service downgraded it 'Caa2' in January 2023. Fitch also supposed some costs relating to subsidies and transfers over the period have not yet been captured in the budget numbers and the financial sector's improved performance in H1 2023 is overshadowed by banks' high exposure to the very weak sovereign and the uncertain operating conditions.

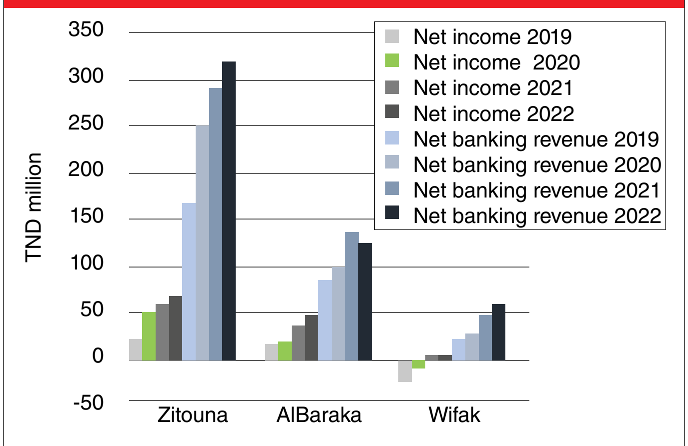
This is also applicable to a certain extent (except their limited recourse to the monetary market) to Islamic banks that performed well, regardless of the risks described earlier and the temporary tax of 4% on the profits of banks and insurance companies that will be imposed in 2024 and 2025, raising the rates paid by banks to nearly 40%.

Chart 1: Islamic banking sector's performance



Source: Financial Market Council

Chart 2: Islamic banks' individual performance



Source: Financial Market Council

Review of 2023

At the end of the financial year of 2022, despite a slight decrease in its net banking revenue by 5.7% and thanks to the sharp contraction in the cost of risk, Al Baraka Bank's net profit continued its increase by 37.4%, reaping the biggest profit of TND50 million (US$16.03 million) in its history and continuing its race with Zitouna Bank but far from the historical growth of the previous year and after being stable at TND16 million (US$5.13 million) in 2020 and TND15 million (US$4.81 million) in 2019.

In a growth rate of 17%, Zitouna Bank's net profit continued its increase to TND70.4 million (US$22.57 million), against TND60.1 million (US$19.27 million) in 2021 and the bank's net banking revenue grew by 10.8% to TND322.3 million (US$103.32 million) against 15.2% a year earlier, reaching twice and half as much as Al Baraka Bank. The bank's quantified achievements confirm the effectiveness of its 2020–24 strategic plan.

Finally, Wifak International Bank (WIB) realized its second net profit of TND5.3 million (US$1.7 million) after the cumulated losses of TND7.8 million (US$2.5 million), TND23 million (US$7.37 million) and TND3.8 million (US$1.22 million) incurred respectively in 2020, 2019 and 2018. This performance was reflected by the upgrade of Wifak Bank's rating by Fitch to 'BB' caused by the improvement in the bank's fundamentals, particularly its asset quality, earnings power and the consolidation of the bank's liquidity cushion. The bank confirmed the signal of recovery thanks to a steady increase of its net banking revenue by 22.7% which stood at TND61 million (US$19.55 million). However, its improved performance in H1 2023 and Q3 2023 (an increase of net banking revenue by 22.7% compared with the 30th September 2022) is threatened by a financial penalty after a review conducted by the National Social Security Fund.

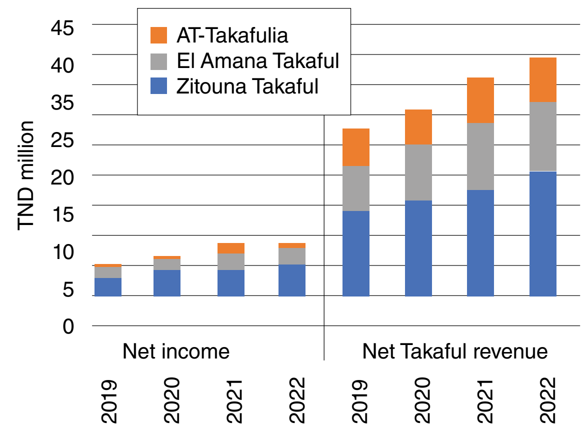
Compared to the sector, Islamic banks which accumulated a net profit of TND125.7 million (US$40.29 million) outperformed their listed peers, recording an improvement of 23.5% compared with 2021, as the peers raised 17.6% of profits generated in 2021.
On another note, the Takaful sector continued a stable but steady expansion and performance, even if AT-Takafulia, acquired last year by WIB, realized a slight decrease.

Moving to the Takaful sector, Zitouna Takaful's net profit grew by 12.3% to TND6.3 million (US$2.02 million) after being stable at TND5.6 million (US$1.8 million) in 2021 and TND5.4 million (US$1.73 million) in 2020 after an increase by more than half, while the net Takaful revenue continued its increase by 16.3% to TND21.8 million (US$6.99 million) against TND18.8 million (US$6.03 million) in 2020. El Amana Takaful's net profit continued its growth by 12.6% to TND2.6 million (US$833,466) after 22% in 2021 and the bank's net Takaful revenue increased by 9.7% to TND11.8 million (US$3.78 million) against TND10.8 million (US$3.46 million) a year earlier. AT-Takafulia realized a second net profit of TND1 million (US$320,564) after TND2 million (US$641,128) of 2021 and a decrease of net Takaful revenue by 9.9% to TND7.3 million (US$2.34 million) against TND8.1 million (US$2.6 million) in 2021.

Preview of 2024

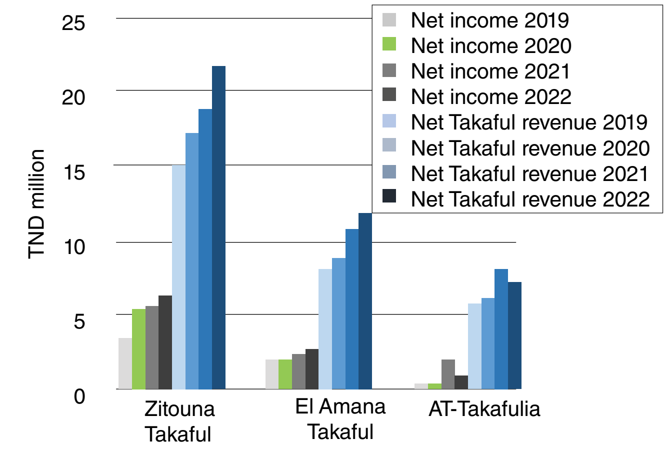
The dynamic changes in the structure of Islamic finance are expected to move forward, after the acquisition by WIB of 95.9% of the capital of AT-Takafulia in 2022, and after the acquisition by Al Baraka Bank Group of 87.2% of the capital of El Amana Takaful (80.83% in concert with Al Baraka SICAR, created in 2021, and 6.38% indirectly through the BEST Lease company) in August 2023. In a different way, WIB is supposed to continue the changes related to the ownership structure, as shown by the acquisition in February 2022 and after becoming the reference shareholder, by acquiring more than 30% in the capital of the said bank, while Hedi Ben Ayed Group became a majority shareholder in August 2023 and is now holding 40.5% of the capital.

Chart 3: Takaful sector's performance



Source: Financial Market Council

Chart 4: Takaful companies' individual performance



Source: Financial Market Council

Conclusion

There is much to do to rebuild the Islamic finance ecosystem in Tunisia:

The Takaful sector, following the acquisition of the three companies by the three banks and the establishment of the conditions related to their Shariah supervision committees (Order of the Minister of Finance and the Minister of Religious Affairs of the 12th February 2023, establishing the conditions of exercise, the responsibilities and the operating procedures), should be integrated into the Islamic finance ecosystem and reinforced by a long-awaited Sukuk market.

Also, non-traditional channels including crowdfunding platforms and Zakat funds, after the launch of a national crowdfunding platform in October 2023 and the publication in November of the central bank's Circular No 2023-06 related to the list of requirements for approval for the exercise of crowdfunding activity in loans, should be followed by other concrete steps to allow private platforms and the other components of the crowdfunding decrees of the 21st October 2022 organizing the self-collection crowdfunding component (solidarity loan and donation) and the savings crowdfunding component (private equity and commercial loan) related to Law No 2020-37 of the 6th August 2020.

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Solid steps moving toward 2025 sector targets

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Although Islamic banking has a very modest size compared with conventional banking, it is developing both nationally and internationally with continuous momentum by revealing its potential. In the field of participation banking in Turkiye, it is important to understand services shaped in line with customer expectations and needs in the financial services sector. In the light of technological developments, it provides the opportunity to improve the operational efficiency of banks, increase service quality and improve the customer experience.

Developments in regulatory issues and new-generation technologies are increasing the effectiveness of new ecosystem players such as neobanks and fintechs (financial technologies) in the market. It is important for banks to be accessible to provide end-to-end service to their customers in order to meet customer expectations. With the COVID-19 pandemic, the issues of sustainability and access to financial opportunities have come to the fore. In line with these developments in the banking sector, institutions continue to closely follow new-generation technologies and changing trends.

Review of 2023

Considering human-centric business models in the participation finance system, our inclusiveness expands even more with the awareness of our social responsibilities. For the healthy and sustainable growth of the economy, all the efforts continue to provide resources to the real sector with a focus on production, employment and exports. The market share of participation banks (PBs) in the Turkish banking sector, which was 5% in 2017, increased to 8.5% in 2023, and the asset size increased by 50.6% compared with the previous year to TRY1.79 trillion (US$61.97 billion). The net profit of PBs increased by 82.6% in 2023 and was recorded as TRY38.17 billion (US$1.4 billion). Total shareholders' equity increased by 48.4% to TRY125.17 billion (US$4.5 billion).

While developing the digital channels without lagging behind technology, Turkish PBs also continue to invest in the traditional distribution channels. The number of branches has reached 1,438 and the number of employees has reached 19,261. When we look at their development in recent years, it is seen that the PBs have achieved an outstanding growth performance above the sector rate in 2023.

Important steps in the sector

While ensuring institutional, functional and multidimensional development of the participation finance industry in Turkiye, important steps have been taken to implement the legislation and institutions needed by the ecosystem. With the regulation made by the Banking Regulation and Supevision Authority (BRSA) for digital and service banking, two new digital PBs, Hayat Finans and T.O.M, started their operations in 2023. It is anticipated that digital PBs will make a significant contribution to the growth and product diversity of the sector with their new banking approach.

Due to its direct funding of trade, service and production, the real sector has always been the most important stakeholder of PBs. In this context, it was decided to establish Islamic Credit Guarantee Fund-Katilim Finans Kefalet (KFK), which will support the real sector, especially SMEs, to access the financing needed. KFK was established in partnership with the Ministry of Treasury and Finance and Turkish PBs. KFK is expected to make a significant contribution to the growth of the participation finance sector while meeting the collateral needs of the real sector.

On the other hand, Turkiye, which is positioned to become a hub of regional interest, will have a crucial impact in augmenting the proportion of participation finance in the sector with the inauguration of the Istanbul Finance Centre (IFC). The growth of participation finance in Turkiye, particularly in the Turkic Republics and Africa, and the International Finance Corporation's aim to become a global financial center have led Istanbul to emerge as an international hub of attraction for participation finance.

The Participation Banks Associaton of Turkiye (TKBB), as the facilitator institution of PBs, collaborates extensively with public authorities, bank associations, financial institutions and academic institutions that require assistance in the areas of training, certification and technical services for the development of capacity for the participation finance industry in different jurisdictions. Participation finance and fintech, key focus areas in the IFC project, are rapidly expanding in Turkiye which has the potential to be a strategic partner for other countries, thereby providing opportunities for capacity-building activities.

Borsa Istanbul and Participation Indices

Borsa Istanbul and the TKBB unveiled the Participation Indices after assessing firms listed on Borsa Istanbul in line with participation principles. The goal is to assist retail investors, who base their investment strategies on participation principles, in selecting companies that comply with such principles. This initiative aims to raise awareness on participation principles and facilitate more funding opportunities for companies committed to interest-free finance principles.

In determining the companies to be included in the indices, the TKBB and Borsa Istanbul base decisions on the 'Standard for Issuance and Trading of Equity Securities' and the 'Guidelines for Determining Companies Operating in Compliance with Participation Finance Principles' prepared by the TKBB Advisory (Shariah) Board. These guidelines form the technical groundwork for evaluating and selecting eligible companies.

Sukuk

Today, Sukuk have become the foremost capital market product of the global Islamic finance sector. Turkiye has secured its position among the top five jurisdictions in the global Sukuk issuance league, alongside Malaysia, Saudi Arabia, the UAE and Kuwait as of 2023.

The initial Sukuk issuance by PBs was conducted by Kuveyt Turk Participation Bank in 2010 with a three-year Sukuk issuance of TRY100 million (US$3.46 million) that was welcomed and appreciated by international investors. While a Sukuk issuance volume of TRY359 billion (US$12.43 billion) was accomplished between 2010 and 2023, approximately TRY50 billion (US$1.73 billion)-worth of Sukuk were issued in the first nine months of 2023. The Turkish Treasury and the finance ministry issued Sukuk worth TRY1.6 billion (US$55.39 million) for the first time during 2012–23. In the same period, the total issuance of Turkish lira-denominated Sukuk reached around TRY286 billion (US$9.9 billion).

Furthermore, the issuances of gold-based Sukuk amounted to approximately 233 tons between 2017 and 2022. The issuance of Sukuk by the public sector is highly significant in guiding the private sector, while being regarded as a crucial financing instrument for achieving necessary funding for the growth of the economy.

The issuance of green Sukuk, a vital capital market product where Islamic finance meets green finance in the global arena, is also surging rapidly. The significant expansion of conventional green finance globally led to the orientation of Islamic finance in this industry, resulting in the establishment Islamic green finance field. This field saw remarkable growth, particularly after 2017. The quantity of green Sukuk, the principal financial instrument of Islamic finance in the realm of green finance, has burgeoned rapidly over the past five years.

In accordance with participation finance principles, Kuveyt Turk issued the Global Sustainable Tier 2 Subordinated Sukuk facility, marking the first time this innovative Sukuk model was utilized in Turkiye and worldwide. Emlak Katilim, another participation bank, followed suit by issuing Turkiye's first green Sukuk based on a labor-capital partnership through the Private Fund Pool Participation Account, leading the way in the development of innovative Sukuk models in accordance with participation finance principles.

Albaraka Turk was awarded the 'Best Sukuk Issuance of the Year Award' on a sector basis at the Islamic Finance news Awards for its innovative green Sukuk based on a labor-capital partnership, a first in Turkiye. The inclusion of Albaraka Turk in the Borsa Istanbul Sustainability Index as the first participation bank is a testament to its commitment to sustainability. Its efforts within the scope of the Carbon Disclosure Project have earned it one of the highest ratings in the banking sector.

While the Development and Investment Bank of Turkiye issued Turkiye's first social Sukuk amounting to TRY50 million (US$1.73 million) to be used in the agricultural sector, Ziraat Katılım Participation bank accomplished its first international Sukuk issuance, raising US$500 million, which piqued the interest of 135 investors from 24 countries.

Steady progress of sector toward its 2025 targets

The IFC project has set a goal to establish Turkiye as the foremost global financial hub. Achieving this objective necessitates adopting the proper measures and structuring institutions soundly. Consequently, Istanbul is anticipated to serve as a financial hub and become a center for interest-free finance. The Participation Finance Strategy Document, Turkiye's inaugural national strategy document within the field of participation finance, serves as a blueprint for establishing Turkiye as a preeminent player in participation finance.

Furthermore, considering the changes in customer expectations and the dynamic business environment in the industry during the post-pandemic period, the TKBB revised the strategic roadmap of the participation banking sector for the period 2021–25. Six vital strategic targets, namely communication; ecosystem; product diversity; standards and governance; digital; and competence-building will be enlightening the roadmap of the sector for advancing mutual collaborations and tapping a 15% market share by 2025.

Development of standardization

The Central Advisory (Shariah) Board was founded in 2018 by the BRSA under the TKBB as a standard-setting institution. The board aims to improve practices in Islamic finance in Turkiye with regards to Shariah compliance. Its objectives include reducing regulatory and implementation differences, as well as enhancing positive perception among society. The board has been active for five years and consists of seven board members and six experts.

To date, the Central Advisory (Shariah) Board has made 78 Shariah rulings and issued five Shariah regulations. These standards are available online, in Turkish, English and Arabic on the board's website. The regulations include share certificate issuance and trade, Murabahah, Tawarruq, suretyship and Mudarabah.

Moreover, an additional standard named 'Non-Compliant Incomes with the Participation Finance Principles and their Elimination Standard' is currently undergoing the process for publication. Furthermore, two standards, the 'Musharakah Standard' and the 'Wakalah Standard', are being drafted.

Convergence of sustainable finance with participation finance

When considering principles such as 'Islamic Finance Principle', 'Social Benefit Principle', 'Mutualization/Solidarity Principle', 'Full-Service Principle' and 'Trade Principle', which are among the essential banking principles published by the TKBB, the current values of PBs can exactly comply with social and environmental development.

PBs are taking an active agenda of expanding their product range through sustainable finance activities, appealing to a broader customer base and increasing their reliability, awareness and reputation within society.

In this regard, among Turkish PBs, steps are being taken to internalize sustainability and transform it into a management and finance approach. The published strategic plan by the BRSA for sustainable banking covering the period of 2022–25 with the vision of effectively managing the environmental and social risks and opportunities including climate change, and providing the financing needed for the transition to a low-carbon economy on favorable terms; and also the 'Draft Guidelines on Effective Management of Climate-related Financial Risks by Banks and Draft Communiqué on Green Asset Ratio' also by the BRSA are pioneering initiatives which will shape the adaptation of the banking industry for the sustainable finance transformation.

Preview of 2024

In 2023, two digital Islamic banks, TOM Digital Participation Bank and Hayat Finans, entered the participation banking sector. The inclusion of these digital PBs in the system is aimed at increasing the market share of PBs in the Turkish banking sector and also to improve financial inclusion from the perspective of customers and distribution channels, as well as product and service diversity.

The effective usage of increasing digital opportunities by PBs and the spread of open banking applications with the support of the fintech ecosystem are important leverage for development.

A separate law for participation finance institutions, which is expected to come into force by Q1 2024 in the Turkish participation finance industry, will be an important catalyst in terms of holistic governance of the ecosystem and ensuring both financial development and customer penetration.

The participation finance sector, which aims to increase its market share with the inclusion of new PBs in the sector, is expected to continue that growth momentum with the engagement and development of insurance, capital markets and non-banking financial institutions.

Conclusion

In order to achieve the targeted development of Islamic banking worldwide, political and economic stability in certain markets; elimination of regulatory gaps; capacity and competence development through growth; transition to scaled economies; increasing technological investments; adaptation for sustainable finance requirements; and improving the quality of operations are important.

Today, the digitalization processes that develop with advancing technologies will make significant contributions to the sector and customers, contributing to the continuous rotation of the wheels of the economy and growth targets.

COP28: Sustainable Islamic finance and economy in the UAE

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The year 2023 is a historic year for the UAE and the year of sustainability. The country is hosting the 28th session of the Conference of the Parties of the United Nations Climate Change Conference (COP28). The conference is primarily focused on sustainability and the economic case for inclusive climate action. It reflects the UAE government's efforts to transform the economy into one that is led by clean and renewable energy sources along with technological advances and climate-smart solutions. The Islamic finance industry is considered as the driver of the sustainability agenda based on Maqasid Shariah. Sustainable Islamic finance is broadly defined as any form of financial product/service that promotes a positive impact for individual customers or Islamic financial institutions, and environmental and/or social purposes while contributing to the achievement of the Paris Agreement goals and the SDGs. COP28 in the UAE is a powerful platform for the Islamic financial ecosystem and financial inclusion.

Review of 2023

Islamic banks in the UAE have been fervent in implementing sustainable finance frameworks; this was mentioned and discussed in the Global Sustainability Forum which was organized by the IFSB on the 27th November 2023, and hosted by the Central Bank of the UAE (CBUAE). The Islamic banks in the UAE are committed to building robust green finance infrastructure to support green projects and initiatives. According to published data from six major banks, a majority of these banks have committed green financing for various projects, and allocated Qard facilities and investment funds amounting to US$51.8 billion.

The Takaful insurance business in the UAE is one sector considered to be growing in the Islamic finance industry. The need for prioritizing sustainable finance has only become more pronounced during the global COVID-19 pandemic which has had a profound impact across all aspects of the global economy including Islamic finance. It is very important to have awareness plans which are needed to better understand and manage ESG risks in addition to climate risks to fend off future disruptions of this magnitude. In Takaful undertakings, sustainable finance is more significant in order to mitigate transition risks and climate risks.

In the Islamic capital markets related to Sukuk issuance, there are a number of Islamic banks in the UAE which have issued sustainable Sukuk. Abu Dhabi Islamic Bank has put in motion a new three-year ESG strategy that prioritizes accelerating its green financing and investing initiatives, having already made significant strides in this area with the allocation of US$1.7 billion toward sustainable project financing. In addition, ESG funding during the year booked new green financing of approximately US$367 million. Over the past several years, the bank has participated in more than US$7 billion-worth of green Islamic capital market transactions globally.

On the 1st November 2023, the UAE's Standard Chartered Bank organized a forum on titled 'Faith and Sustainability in the Islamic

Financial Institutions'. The forum featured thought-provoking panel discussions with topics of 'Sustainability: Greater than the sum of parts?', 'Islamic Finance 2.0: Is Sustainability the missing piece?', 'Embedding Sustainability into the Islamic Financial Institutions' and 'Accelerating the Paradigm Shift through Innovation'.

On the 27th–28th November 2023, the CBUAE hosted a series of forums and discussions, with attendance from Islamic finance stakeholders, market players and key Islamic finance infrastructure organizations including the IFSB, the General Council for Islamic Banks and Financial Institutions and AAOIFI, on sustainable Islamic finance frameworks.

Preview of 2024

In previewing 2024, to foster sustainable Islamic finance globally, a clear strategy and objectives must be put in place to support the global Islamic finance industry to integrate further sustainability considerations into their businesses and activities based on the following:

- The UAE's commitment to lead by example together with the CBUAE to develop holistic sustainable Islamic finance frameworks with active participation from all financial sectors, including the Islamic finance industry.
- Ensuring that sustainability is an integral part of all financial strategies is crucial to tackling climate change and COP28 is a welcome contribution to our call for stakeholders to develop solutions that fix climate finance.
- Promoting advance sustainability in Islamic finance, including prudential standards, disclosure guidelines, market development initiatives and capacity-building programs, with smart implementation in place.

Conclusion

In conclusion, the UAE government, by hosting COP28, shows that it is committed to make sustainable Islamic finance among the resolutions in the COP28 events. Therefore, the CBUAE is obliged to support the success and implementation of these strategies as part of its commitment to promoting global sustainability and in keeping with the UAE's vision of becoming an Islamic finance hub.

Trends and recent developments in Islamic financing in Uganda

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Islamic financial business connotes financial institution business which conforms to Shariah and includes receiving property into profit-sharing investment accounts or managing such accounts, the entry into one or more contracts under Shariah or otherwise carried out or purported to be carried out in accordance with Shariah, among others.

The development of Islamic finance in Uganda is an evolving process which has gained traction over the years. Most recently, Uganda has witnessed a significant transformation in its financial landscape with the increasing acceptance and adoption of Islamic financing principles in various sectors such as banking, insurance and capital markets.

This remarkable shift is attributed to several factors including the legislative changes, the appeal of risk-sharing mechanisms, economic stability and the promotion of financial justice through inclusive practices.

In 2016, the parliament of Uganda amended the Financial Institutions Act, 2004 to make provision for Islamic banking. Financial institutions have since embarked on strengthening both their technical and operational capacities to roll out this initiative within the sector.

Review of 2023

2023 has been a pivotal year as Uganda has made tremendous progress in its financial landscape which is marked by the significant legislative milestones and regulatory approval in Islamic financing. Notable regulatory developments include:

(i) The Financial Institutions (Amendment) Act, 2023, which eliminated the Central Shari'ah Advisory Council in the Bank of Uganda. This council previously advised the bank on Islamic banking regulations and supervision. The amendment resolved issues related to personnel expertise, product approval and potential conflicts between the council and the Bank of Uganda

(ii) The enactment of the Financial Institutions (Islamic Banking) Regulations, 2018, which facilitated the adoption of Shariah principles in the banking and insurance sectors

(iii) The Micro-Finance Deposit-Taking Institutions (Amendment) Act, 2023, introduced the licensing regime applicable to Islamic microfinance business

(iv) Amendments to tax laws, including the Income Tax (Amendment) (No.2) Act, 2023, Excise Duty (Amendment) Act, 2023, and the Stamp Duty (Amendment) Act, 2023. These changes have ensured equitable tax treatment for Islamic financial and Takaful business in comparison to conventional financial and insurance services. The amendment of the Stamp Duty Act has dealt with concerns of double taxation on Islamic banking agreements, and

(v) The Bank of Uganda has also taken a positive step in licensing Salaam Bank Uganda as the first Islamic bank. This underscores Uganda's commitment to embracing a parallel banking system that has one system adhering to the Shariah principles as well as a conventional system and its promotion for diversification and inclusion.

Preview of 2024

The future of Islamic finance in Uganda looks promising due to the current regulatory framework. This presents an opportunity for significant growth in sectors like agriculture and tourism. With Islamic banking, Uganda's market is expected to expand, driven by unique, interest-free financial products.

Notably, on account of the absence of interest-rate caps, commercial banks in Uganda still have an average lending rate of 20%, which poses a higher default risk. As of March 2023, the banking sector's non-performing loan ratio stands at 5.8%. The introduction of interest-free loans by licensed Islamic financial institutions may prove to be an intriguing proposition, and it remains to be seen if this will encourage more Ugandans to embrace Islamic banking.

Given the budgetary deficit, it is now open to the government to consider domestic borrowing from financial institutions that provide Islamic banking services and perhaps even consider complex products such as Sukuk issuances to close this deficit. Additionally, conventional banks have expressed interest in establishing Islamic banking windows to offer these products to their customers. An example is Tropical Bank, which rolled out its interest-free Tropi-Hijja Account.

Despite its promising potential, the development of Islamic banking in Uganda may encounter ongoing obstacles. To illustrate, although the problem of double taxation has been resolved, there are concerns regarding the implications for past transactions, due to the non- retrospective nature of the law.

Conclusion

Uganda has a promising future for Islamic financing especially in the banking and insurance sectors given that currently, there is a strengthened legal and regulatory framework and this will create more opportunities for economic growth and investment.

Whereas these sectors are still susceptible to various challenges, there is a willingness from the government and the responsible authorities to harmonize the standards for regulation of the Islamic banking sector with the already existing conventional banking practices. Once the challenges are mitigated, Uganda will become a progressive and inclusive financial hub.

2024 will continue to show that the UK is a polarized market

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We end 2023 with the reassurance that the UK remains the world leader for the knowledge economy motivated by the continued push for the global discussion around the connection between Islamic finance and the UN SDGs. An election looms and it is no surprise that the view that Islamic finance is of marginal importance continues to mitigate against any policy consumers. This is of course not an official view but the lack of initiative is painfully obvious. So bad for consumers and good for consultants was 2023. Will 2024 be any different?

2023 showed few initiatives which have promises but overall has not seen any significant progress in so many areas – not helped by inflation.

The outlook for 2024 remains challenging for the domestic market despite the fact that the UK remains firmly embedded as a 'go to' destination for Islamic finance thought leadership.

Review of 2023

As we approach the end of the year, what have been the key themes for the year which have kept Islamic finance professionals busy?

The government

Although the government has stabilized (relatively), policy has been distracted by macro-factors and no clear mandate to do anything around Islamic finance or more broadly ethical and social impact investing. Still no changes to the Finance Act to level the playing field despite specific points being raised to HM Treasury around unequal treatment for refinancing of Islamic mortgages.

The All Party Parliamentary Group (APPG) on Islamic finance was renamed the Islamic and Ethical Finance APPG; a downgrade in importance or a recognition of alignment. We will see. No improvement in consumer choice and a general shortage of financial education continues to be on the political agenda but very few little actual signs of change.

COP28 in the UAE has little or no representation directly from the UK Islamic finance community which is a missed opportunity if ever there was one. Yes, there are activities around COP like the Global Ethical Finance Initiative (GEFI) but no government backing is a continued indication of the lack of interest in Islamic finance at the highest levels.

ESG and SDGs

Regulators continue to circle on companies which are abusing the ESG or SDG label and rightly so. What is being missed is the well-publicized and increasingly publicized positive alignment (and easily understand) between social impact and Islamic finance. Initiatives from entities like Funding for Housing to corral conventional investors in to an Islamic finance structure have seen some small successes.

The overall success of conventional investors in high impact Sukuk has been hampered by inflation and the difficulty in the risk return profile; if UK gilts are the benchmark at or around 5%, the return to investors is hard to justify on a purely social impact basis. The market mitigates against social impact investing and returns are well below conventional assets. The business case for Islamic finance has suffered despite the overall positive uptick in publicity around Islamic finance and impact.

Consumers continue to suffer

From a retail perspective, very little has changed. Wahed opened a high-street branch in London and launched an ETP that showed positive signs in the first half of the year but the much-expected Shariah compliant discretionary fund management product for high-net worth has little to show for it and there are no more options in the market than there were in previous years.

Pension options continue to be discussed at various levels in the industry but tax disadvantages remain and there are no appropriate products in the market. HSBC launched three new UCITs in 2023 but with AUM of all estimated to be below US$50 million combined their attraction (or the promotion by HSBC) has been weak.

Choice is a good thing but they need a proper marketing effort behind them but with this low level of asset under management, the business case for HSBC does not look good to go after more UK retail investors. The Halal industry continues to grow however and perhaps it is only through the provision of basic consumer goods and services that Islamic consumers will benefit.

Investment opportunities

Focusing on institutional and private investors, the UK real estate market continues to attract capital from all over the world. Yields continue below benchmark rates and asset prices have not changed much in London. There is a distinct bias towards London assets (which is no surprise) and prices for trophy assets continue to rise.

London real estate remains a gold standard asset class but with inflation and cost of funds rising for development opportunities, the concentration of interest in London has not been good for those regional property investments which might have successfully raised capital in the past.

Preview of 2024

Government distraction

An election in 2024 is unlikely to include any significant changes to Islamic finance provision (including the Finance Act) because of other macro factors and the potential for a very close election forcing the parties to stick to the big issues. There is much to hope for that someone in Labour (I would guess) would recognize the imbalance for millions of the electorate which do not have the same choices as conventional savers. A cynical view for sure and not certain to deliver results but if Islamic finance does make it in to a manifesto of one of the main parties, the publicity cannot be a bad thing to help mitigate change. Maybe?

Social impact and green vs. ESG

Regulation will continue to pressure ESG labelling to become clearer. This creates an opportunity for Islamic finance practitioners to draw attention to the value of the principles of Shariah compliance for the wider investment community. Energy transition, social housing decarbonization, net zero. All on the social agenda and there are opportunities but who will take advantage of this in the UK? Someone inspired by the work of GEFI and XTCC at COP28? There will not be a UK government green Sukuk in 2024 (will there ever be one) which is another missed opportunity but there are opportunities for UK asset manager to deliver solutions to the market. The Financial Conduct Authority review on "non-equity securities" may provide an open door for domestic Sukuk issuance; corporate or project-based, 2024 may just see a first for the market.

Consumer financial choice remains limited

No improvement in 2024 is expected without both inflation quieting down and a financial institution (asset manager, life company or bank) taking a new step forward to attracting disenfranchised consumers. There are plenty of them. As unlikely as it sounds, there are a number of young entrepreneurs in the UK acutely aware of the gaps (as highlighted at the UK Mansion House meeting).

Fintechs should continue to push for market share targeted to high-net-worth individuals; there are decent pools of capital which are available for the right business case. Maybe a more private equity approach might appear which combines a Mudarabah structure with a UK tax efficient investment wrapper. Pure retail? It would be too early to suggest this based on the recent history but motivating high-net worth capital might prove to be a small but profitable segment of domestic market.

Investment opportunities

Research put out by Himaya earlier in the year showed that Shariah compliant, debt-free companies fared better in the first nine months of 2023. Does this mean an actively managed sukuk equity fund is on the horizon? Such a product would offer much needed choice for retail consumers.

Irrespective, investors may find companies which can deliver social impact in an ethical and sustainable way may see higher valuations relative to their market competitors. This would mean that 2024 could see an increase in private equity structures (including both IIFM ISDA compliant total return investing and potentially more liquidity solutions while benchmark rates remain high and the need to invest cash (short term) can deliver benefits.

Conclusion

The UK remains strong for the knowledge economy but bad for consumers. Government initiatives which started strong back in 2021 show little positive forward momentum. Global initiatives at standardization may help reduce the barriers to entry for new product initiatives, issuers and structures.

Investors (other than retail) may see more interesting options emerging as the weight of global capital continues to look deeper in to ethics and the link to investment performance. In terms of asset classes, the reality is that London will remain popular with Islamic investors; billions of pounds will continue to flow into real estate deals high-profile or high-impact.

Uncertainty remains the most difficult to deal with and this impacts on both initiatives to improve financial inclusion in the UK as well as hesitation of foreign cash-rich investors from straying in to new asset classes.

Consultants will continue to thrive while practitioners will most likely look to the wider market for their impact and revenue opportunities. In many respects, 2024 will continue to show that the UK is a polarized market and there are still too few successful business cases in the UK to influence an overall positive direction in the UK market.

The state of the US Islamic financing industry

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In 2023, the US Islamic financing industry can best be described as a clean house in an ugly neighborhood. The US Muslim consumer who is typically better educated and considered financially 'more responsible' was able to withstand a sharp increase in mortgage rates as the US monetary policy leaders continued fighting inflation on all fronts. Post COVID-19, the US regulators have printed over US$10 trillion and this money has made its way into the housing markets and also created bubbles in almost every other asset class. To put this into perspective, the US had printed US$10 trillion in its 200-plus year financial history prior to COVID-19. Troubling signs of the Fed's easy monetary policy and excessive money printing are clearly visible, and resulted in a massive sell-off in the bond markets and the collapse of several banks that were overly invested in long-term bonds. How this will all end is anyone's guess.

Review of 2023

The housing industry was particularly hard hit in 2023. This was the year most experts predicted the bubble in the housing market to pop as the government initiated a series of short-term rate hikes to fight inflation. However, what was predicted by most experts did not come to fruition as US homeowners had already financed homes at lower rates (in 2020 and 2021) at very low mortgage rates and saw no reason to sell existing homes and finance new homes at higher rates.

The rapid rate of inflation also raised overall price levels and put a level of further support under home prices. This has led to a shortage in the existing home sales inventory with home prices holding firm or even increasing in some US cities. Even with higher mortgage rates and a tight housing market, US Muslims continued to buy homes at a faster pace than most Americans. Whether this trend will continue in 2024 is a topic of debate. Sooner or later, all Americans will be impacted if mortgage rates continue to increase.

UIF Corp is one of the originators of new home Islamic financing contracts in the US by managing costs, providing services and introducing new products like vehicle financing and Time Deposit Accounts (similar to a bank certificate of deposit).

By introducing new products, the idea is to balance out revenue and profits from multiple product lines. Reliance on only one product (home financing) can be disastrous if the US economy goes into a recession in 2024 as most economists expect it to. With seasonality coming into play, Q4 2023 and Q1 2024 look especially concerning for the entire housing industry.

In my humble opinion, many small banks will fail, many independent mortgage companies will close or merge with larger players and a quarter of all realtors and loan officers will leave the business. The outlook is dire for the next two to three quarters, but eventually well-run businesses will survive and thrive in 2025 and beyond. For now, the words to a famous 1980s rap song come to mind: "That's why we pray."

Preview of 2024

While 2024 will start poorly for the housing markets, all industry participants are hoping that the US Federal Open Market Committee

changes its current stance on interest rates and start lowering short-term rates, or maybe even embark on another round of quantitative easing strategy that worked well for the housing markets in the past. By buying treasury and mortgage agency bonds in the open market, the Fed can provide much-needed liquidity to the housing industry.

While this strategy eases short-term pain and boosts refinancing activity, it will add more to the US national debt. With the US national debt at over US$33 trillion and rising, there are no positive outcomes to this story line. Future generations will pay for it and never enjoy the living standards of their parents' and grandparents' generation. If the national debt is reduced via inflation, home prices will continue to rise and prove to be an excellent long-term investment.

The Islamic financing industry after having invested heavily in technology and marketing over the years is poised to be the beneficiary of any improvement in the housing sector. Many first-generation Muslims have good jobs or work in fast-growing sectors like medicine and technology. Any slowdown in the US economy should be less impactful to the US Muslim consumer vis-à-vis the typical American.

Conclusion

The creation of new banking products like Time Deposit Accounts will move money from conventional banks to deposit institutions like University Bank that hold deposits for Muslim customers for Islamic financing use. With multiple products launched like construction financing, vehicle finance and savings and investment accounts, the position of Islamic financing as one of the fastest-growing sectors in the US banking industry will be solidified.

The affluent and tech-savvy US Muslim community demands more in terms of service, product offerings and community giveback efforts.

Uzbekistan's fintech frontier: A year of breakthroughs and eyeing a future of digital prosperity

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As 2023 draws to a close, I find myself both reflecting on the key achievements of Uzbekistan's fintech and Islamic financial services sectors, and perhaps more excitingly, thinking about the new opportunities we are likely to see emerge in 2024.

There is no denying that the last 12 months have been pivotal for Uzbekistan's fintech landscape. Rapid innovation, regulatory advancements and a burgeoning appetite for digital financial solutions have been some of the standout themes. Importantly, a new generation of businesses is driving new innovations, exploring new boundaries and fueling the broader social and economic transformation of the country.

Through my role as CEO at Alif Uzbekistan, I have witnessed first-hand how Uzbekistan is reacting to the rise of fintech and Islamic finance, particularly when it comes to the e-commerce sector. Below, I detail some of my main observations from this past year and my expectations for the coming 12 months.

Review of 2023

In short, 2023 was a pivotal year for Uzbekistan's fintech sector. The national government has played a significant role in creating an environment that caters to new businesses, creating a network and ecosystem that gives them the freedom to scale up.

The general shift to privatization has been one of the standout trends. The World Bank has been supporting the government of Uzbekistan's move to reform its financial sector, with the aim of making it globally competitive and attracting new sources of foreign capital. Part of this restructuring involves the commercialization and privatization of the country's state-owned commercial banks.

In 2023, the controlling stake of Uzbekistan's fifth-largest bank, Ipoteka, was sold to the Hungarian OTP Bank. This was a significant announcement and something we are likely to see continue in the new year. We have also seen major company announcements from fintechs.

The TBC Bank Group — owning the 51% of Payme, the major payment service provider in Uzbekistan — has announced the takeover of the remaining 49% for US$55.7 million. The purchase is a significant milestone for the country's fintech industry and is likely to open up new investment opportunities. Speaking on the deal, Vakhtang Butskhrikidze, CEO of TBC Bank, acknowledged that the acquisition is part of its planned expansion into Uzbekistan.

Uzum and Click also announced that they were one step closer to a prospective merger. The merger of the country's largest digital services provider and a renowned payments company would result in the new company having a user base of over 13 million people.

Announcements like these are positive. They demonstrate the promising paths for scaling business in Uzbekistan, as well as the desire of investors to become involved in this sector.

Last but not least, the past 2023 has revealed the potential of the e-commerce market. A report published by KPMG in August 2023 showed that over the last five years, Uzbekistan's e-commerce market has grown fivefold, totaling approximately US$311 million at the close of 2022. It is an impressive figure and makes the country the fastest-growing e-commerce market in Central Asia.

On top of this, investment is being made to fuel the digitalization of the economy. In October, Uzum led a US$300 million investment to promote its presence in Uzbekistan, invest in digital infrastructure and expand its e-commerce offerings.

These positive experiences have certainly been experienced at Alif Uzbekistan. In July, we successfully ran the Alif Juma campaign to create Uzbekistan's first leading online shopping day. The reception was overwhelmingly positive and demonstrated the demand there is for e-commerce offerings.

Preview of 2024

One of the main trends that will influence the fintech industry in Uzbekistan in 2024 is the emergence and growth of digital banks and super apps. These are platforms that offer a range of financial and non-financial services to users, including payments and e-commerce, that address local and regional demands. Examples in Uzbekistan include Alif, Humans, Uzum, Paynet and Payme. These platforms should continue to gain popularity among users, fueled by the ongoing mobile penetration and digital adoption.

Another trend is the expansion of fintech services to rural areas. According to the World Bank, only 44% of adults in Uzbekistan have a bank account, and only 18% have access to formal credit. Financial inclusion is key to the growth of fintech, which means addressing the unbanked and underbanked population. It is here where we are likely to see new innovations unfold.

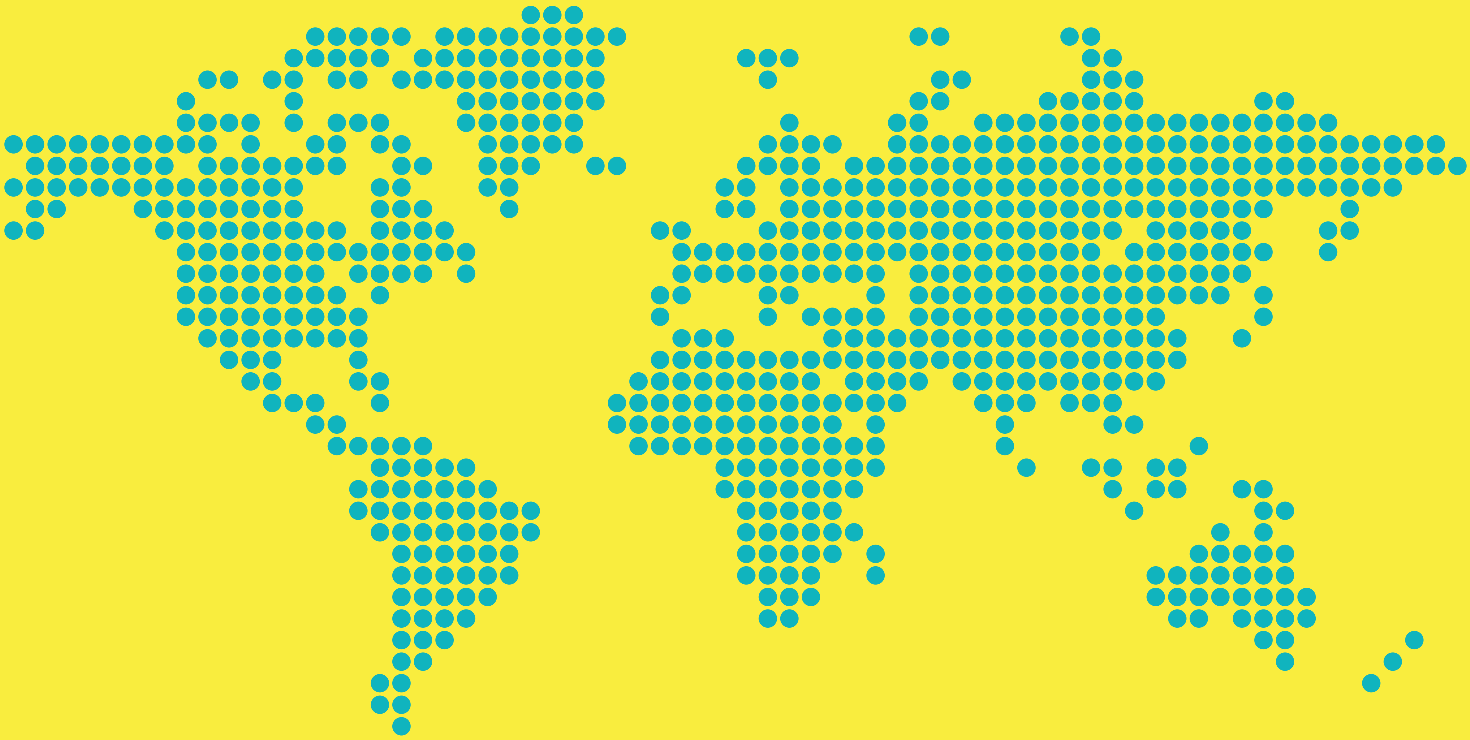
For example, some fintech start-ups are using mobile phones, biometric identification, blockchain technology and agent networks to provide access to payments, savings, loans, insurance and remittances to rural customers.

Finally, 2024 will continue to see regulatory changes designed to encourage the growth of the fintech and Islamic finance sectors. There is a clear need for a supportive regulatory framework that can balance innovation and risk management.

The government in Uzbekistan has been making important progress in these areas, with the IT Park offering a place for companies to collaborate. In the coming 12 months, we are likely to see more dialogue and cooperation between the regulators, banks, fintech companies and other stakeholders to create a harmonized and effective regulatory system.

Conclusion

As with an industry, opportunities and progress will be met with challenges. However, the long-term view looks positive. We are only scratching the surface when it comes to Uzbekistan's fintech potential, and should we remain on the current trajectory, I see no reason why the country cannot become a regional hub for fintech and innovations in Islamic finance.



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