COMPLIMENTARY COPY

IFN Islamic Finance *news*

The World's Leading Islamic Finance News Provider

2023

ANNUAL GUIDE

Injecting sustainability,
shaping a better tomorrow

Driving sustainability through value-based intermediation has always been at the core of what we do at CIMB Islamic Bank in becoming a purpose-driven organisation.

FORWARD Sustainability

For more information, log on to **www.cimb.com.my**, call **+603 6204 7788** or visit any CIMB Islamic Bank branch, co-located at CIMB Bank branches nationwide.

Connect with us on: **CIMBMalaysia** **CIMBMalaysia** **CIMB_Assists**

Alpha Southeast Asia 15th ANNUAL BEST DEAL & SOLUTION AWARDS 2021

BEST SOCIAL IMPACT ISLAMIC FINANCE HOUSE 2021

PERBANKAN ISLAM

CIMB ISLAMIC BANK BERHAD 200401032872 (671380-H)

CIMB ISLAMIC

IFN Islamic Finance news
The World's Leading Islamic Finance News Provider

EDITORIAL

Vineeta Tan – *Managing Editor & Director*
Vineeta.Tan@REDmoneygroup.com

Lauren McAughtry – *Contributing Editor*
Lauren.Mcaughtry@REDmoneygroup.com

Sasikala Thiagaraja – *Senior Contributions Editor*
Sasikala.Thiagaraja@REDmoneygroup.com

Kenny Ng – *Senior Copy Editor*
Kenny.Ng@REDmoneygroup.com

Nessreen Tamano – *News Editor*
Nessreen.Tamano@REDmoneygroup.com

Marlena Kareem – *ISFI Editor*
Marlena.Kareem@REDmoneygroup.com

Emir Hatim Zainul – *Senior Journalist*
Emir.Zainul@REDmoneygroup.com

Shaun Chang – *Publishing manager*
Shaun.Chang@REDmoneygroup.com

PRODUCTION

Hasnani Aspari – *Head of Production*
Hasnani.Aspari@REDmoneygroup.com

Norzabidi Abdullah – *Senior Production Manager*
Zabidi.Abdullah@REDmoneygroup.com

Eumir Shazwan Kamal Bahrin – *Senior Graphic Designer*
Eumir.Shazwan@REDmoneygroup.com

MARKETING

Ammar Ali – *CRM Lead & Marketing Executive*
Ammar.Ali@REDmoneygroup.com

Rhydil Fouzee – *Publishing Multimedia Designer & Social Media Executive*
Rhydil.Fouzee@REDmoneygroup.com

SALES

Jaya Chitra Kunchiraman – *Subscriptions Development Manager, Head of Legal (Global)*
Chitra.Kunchiraman@REDmoneygroup.com

Karthik Thivan – *Subscriptions Manager*
Karthik.Thivan@REDmoneygroup.com

Sandra Spencer – *Associate Publisher*
Sandra.Spencer@REDmoneygroup.com

Sunitapreet Kaur – *Subscriptions Development Manager*
Sunita.Kaur@REDmoneygroup.com

Eliza Jane – *Business Development Manager*
Eliza.Jane@REDmoneygroup.com

ADMINISTRATION

Haja Najubudeen – *Operations and HR Manager*
Haja.Najubudeen@REDmoneygroup.com

Aidiazrul Idrus – *Finance & Accounts Manager*
Aidiazrul.Idrus@REDmoneygroup.com

Nur Mas Ayu Mohamad Ali – *Finance Executive*
Mas.Ayu@REDmoneygroup.com

MANAGEMENT

Andrew Tebbutt – *Managing Director*
Andrew.Tebbutt@REDmoneygroup.com

Andrew Morgan – *Managing Director & Publisher*
Andrew.Morgan@REDmoneygroup.com

Published By: REDmoney Sdn Bhd

MALAYSIA
Unit E-12B-2.1, Level 12B,
The Icon (East Wing), No.1, Jalan
1/68F off Jalan Tun Razak, 50400,
Kuala Lumpur, Malaysia
Tel: +603 2162 7800
Fax: +603 2162 7810

UK
16-19,
East Castle Street,
London, W1W 8DY,
United Kingdom,
Tel: +44 20 7097 9206

Printed by:
United Mission Press Sdn Bhd (755329-x)
25, Jalan PBS 14-14, Taman Perindustrian Bukit Serdang,
43300, Selangor, Malaysia

www.IslamicFinanceNews.com

When it rains, it pours

Last year, I prefaced the 2022 Annual Guide on a rather optimistic note, albeit with careful caution. The world was getting used to COVID-19 — it was getting better at adapting to a new normal, thanks to vaccines — and there was a collective frustration over debilitating restrictions which spanned two years. Just as we thought 2022 would offer a respite from the harsh hand COVID-19 has dealt since 2020, Russia invaded Ukraine, and that triggered another crushing domino effect.

Not only has the war caused one of the biggest human displacement crises since World War II, global supply chain and trade, which were already strained due to the pandemic, took further paralyzing hits. Energy and food prices spiraled out of control. Global inflation almost doubled to 8.8% from 4.7% according to IMF figures. Central banks from around the world scrambled to hike rates to tame inflation. A cost-of-living crisis was declared. Investor confidence plummeted.

Unsurprisingly, global economic growth is expected to falter from 6% in 2021 to 3.2% in 2022 and 2.7% in 2023, the IMF projected. This is the worst growth profile since 2001, except for the 2008 global financial crisis and the acute phase of the COVID-19 pandemic.

The Islamic debt capital market (DCM) was a casualty of market uncertainty and high interest rates. Moody's Investors Service is expecting global Sukuk volume to shrink to US$160–170 billion in 2022, down from US$181 billion in 2021. But while DCM activities were muted, bank financing and syndication thrived, keeping Islamic banks busy.

So, what can we expect in 2023? Is it really all doom and gloom?

Market participants are surprisingly bullish. As you read through the 2023 IFN Annual Guide, you will note how market experts have identified growth hot spots and new opportunities amid such tumultuous times. For the past 19 years, the IFN Annual Guide — the industry's longest-running annual publication on the global Islamic finance sector — has been the leading report for the industry, by the industry, tracing the most important market developments and discussing the upcoming year's outlook, as told by market leaders.

As always, IFN is deeply grateful and honored to have the world's best contribute to this seminal publication.

Vineeta Tan
Managing Editor
IFN

CONTENTS

Leader In Shariah-Compliant Profit Distribution Management Systems Since 1992

Automate Profit Distribution Management
To Mitigate Risks And Create Value

Intelligent profit distribution management holds the key to maximising shareholders' equity. The differentiator here is a profit distribution system that has inherent flexibility to respond to volatility and risks arising from varying market scenarios.

Azentio **ONE**Banking Islamic Profit Calculation System offers the much-needed flexibility to make profit distribution highly efficient. This comprehensive solution designed by a team of domain experts allows Islamic financial institutions to compete in rates and customer satisfaction, reducing time-to-market both for new products and the distribution of profits. The solution's automated tools reduce operational errors and risks. Profit rate adjustments are made within the confines of Shariah compliance and handled automatically by the system.

Azentio **ONE**Banking Islamic Profit Calculation System is AAOIFI-certified and can be integrated with any core banking system. It provides key benefits including but not limited to:

- Catering to multiple Shariah contracts such as Mudarabah, Musharakah and Wakalah
- Reducing operational risk due to high automation level of calculation and distribution of profit
- Efficiently performing complex pool profit calculations in a matter of seconds
- Methodically managing funds through an exhaustive set of configuration parameters and business rules
- Effectively managing restricted & unrestricted investment accounts and equities
- Monitoring performance with in-built reports for reconciliations

Used by more than 100 clients across multiple geographies, Azentio **ONE**Banking Islamic Profit Calculation System brings immediate benefits of industry best practices and know-how. It is available as a standalone, on-premise or web-based solution.

Asia Pacific | South Asia | Middle East | Africa | Europe | United States

contactus@azentio.com www.azentio.com

The year to rebuild

The Islamic Corporation for the Development of the Private Sector (ICD) is the multilateral strategic partner of IFN and REDmoney Group, the leading Islamic finance news provider and producer of market-leading conferences.

The IFN 2023 Annual Guide highlights the numerous opportunities and initiatives emerging from the past year along with an appealing theme of investing into infrastructure to rebuild more resilient economies after the COVID-19 pandemic.

In this context, we would like to emphasize that the ICD is keen to support its member countries and stands ready to partner with a wide range of developers to assure a strong and sustainable economic recovery.

In fact, the ICD selects projects (including infrastructure and public–private partnership projects) based on their contribution to the economic development of its member countries taking into consideration factors such as job creation, Islamic finance development and overall contribution to the SDGs.

The ICD extends lines of finance to financial institutions to support the SMEs in their development path. In addition, the ICD provides advisory solutions to governments and private sector entities to encourage the establishment, expansion and modernization of enterprises, development of capital markets and best management practices.

As 2023 is approaching, we will partner with multilaterals, Islamic financial institutions and governments to further drive the Islamic finance agenda for development purposes.

معهد البنك الإسلامي للتنمية

Islamic Development Bank Institute

Enabling Sustainable Development through Knowledge Solutions Guided by the Principles of Islamic Economics and Finance

At the Islamic Development Bank Institute (IsDBI), we turn insights into actions.

We work collaboratively with our partners to develop those insights into tangible solutions.

We are the recognised beacon of knowledge for the Islamic Development Bank Group.

We create solutions that enable and accelerate sustainable social and economic progress of our communities around the world.

Download our pioneering IsDBI E-Book Reader app

Download on the App Store

GET IT ON Google Play

isdbinstitute@isdb.org

www.isdbinstitute.org

Updates on AAOIFI's achievements in 2022 and plans for 2023

Dr Rizwan Malik *is the head of standards implementation and strategic developments at the Accounting & Auditing Organization of the Islamic Financial Institutions (AAOIFI). He can be contacted at rmalik@aaoifi.com.*

As the world recovers from the after-effects of COVID-19, the growth of Islamic banking and finance continues in different parts of the world. It was certainly a productive year for AAOIFI as a number of standards were finalized while a number of other initiatives progressed well. The capacity-building and awareness and advocacy initiatives were conducted successfully during the year. It is expected that the efforts of developing important standards shall continue during the year 2023 together with other capacity-building and awareness and advocacy programs.

Review of 2022

As we concluded the annual Islamic banking and finance conference jointly organized by AAOIFI and IsDB toward the end of November 2022, it was pleasing to see the quality and quantity of stakeholders that attended the two-day conference in Bahrain. More than 700 people attended the conference from no fewer than 30 countries while more than 500 joined on virtual media platforms including Zoom and YouTube. Additionally, the deputy prime minister of Bahrain, Sheikh Khalid Abdulla Al Khalifa graced the conference with his presence. In addition, three governors of the central banks, various diplomats and senior leaders within the global Islamic banking and finance industry attended the conference and shared their knowledge and expertise with the stakeholders.

This is also a gauge to assess the return to normalcy for market activities during the year 2022 to almost pre-COVID-19 times. This is true for AAOIFI as well, where several technical board meetings and other committee meetings, which were earlier only being conducted virtually, have returned to the normal course. However, it is believed that the hybrid nature of events and meetings shall continue for the foreseeable future.

During the year 2022, AAOIFI conducted 19 meetings of its AAOIFI Shariah Board, AAOIFI Accounting Board (AAB) and AAOIFI Governance and Ethics Board (AGEB), as well as more than 100 subcommittee meetings and short working group meetings. These meetings resulted in the issuance of three standards by AAB (FAS 1 (Revised 2021) 'General Presentation and Disclosures in the Financial Statements', FAS 39 'Financial Reporting for Zakah', FAS 40 'Financial Reporting for Islamic Financial Windows') and two standards by AGEB ('Islamic crowdfunding' and 'Syndicated financing') and various exposure drafts of the standards.

Additionally, there are more than 40 projects under these three boards that are at different stages of standards development. To discuss some of these standards and to finalize others, AAOIFI conducted more than 22 public hearings in different parts of the world including two physical events.

On capacity-building, more than 29 and 355 individuals took the Certified Islamic Professional Accountant (CIPA) and Certified Shariah Advisor and Auditor (CSAA) qualifications respectively. This increased the total number of AAOIFI fellows to 2,648. Additionally, AAOIFI had three meetings of the AAOIFI Education Board, more than 50 meetings of the subcommittees and conducted more than 25 workshops during the year.

AAOIFI also inducted 19 new institutional members during the year 2022; this included four regulatory and supervisory institutions and 15 banks and financial institutions. To enhance collaboration with important stakeholders, AAOIFI continued to engage with the regulators, banking associations and directly with banks and financial institutions to enhance understanding of AAOIFI standards and their adoption.

AAOIFI also launched two issues of its Journal of Islamic Finance Accountancy, as well as finalized the AAOIFI Footprint Report 2022. Additionally, AAOIFI organized a number of conferences and events including two flagship conferences and supported and participated in a number of other events organized by various industry stakeholders.

AAOIFI is pleased to note that the increased engagements with the right stakeholders have resulted in the gradual increase in the adoption of AAOIFI standards. As such, AAOIFI standards are at present adopted at various levels by more than 45 countries and more than 50 regulatory jurisdictions as reported in the AAOIFI Footprint Report 2022.

Preview of 2023

With the increased effort and engagement, it is expected that the year 2023 will be an equally productive year for AAOIFI. The technical boards plan to have 16 board meetings and issue 10 standards and issue 13 exposure drafts during the year. Additionally, AAOIFI plans to conduct more than 50 public hearings, workshops and roundtables for various standards.

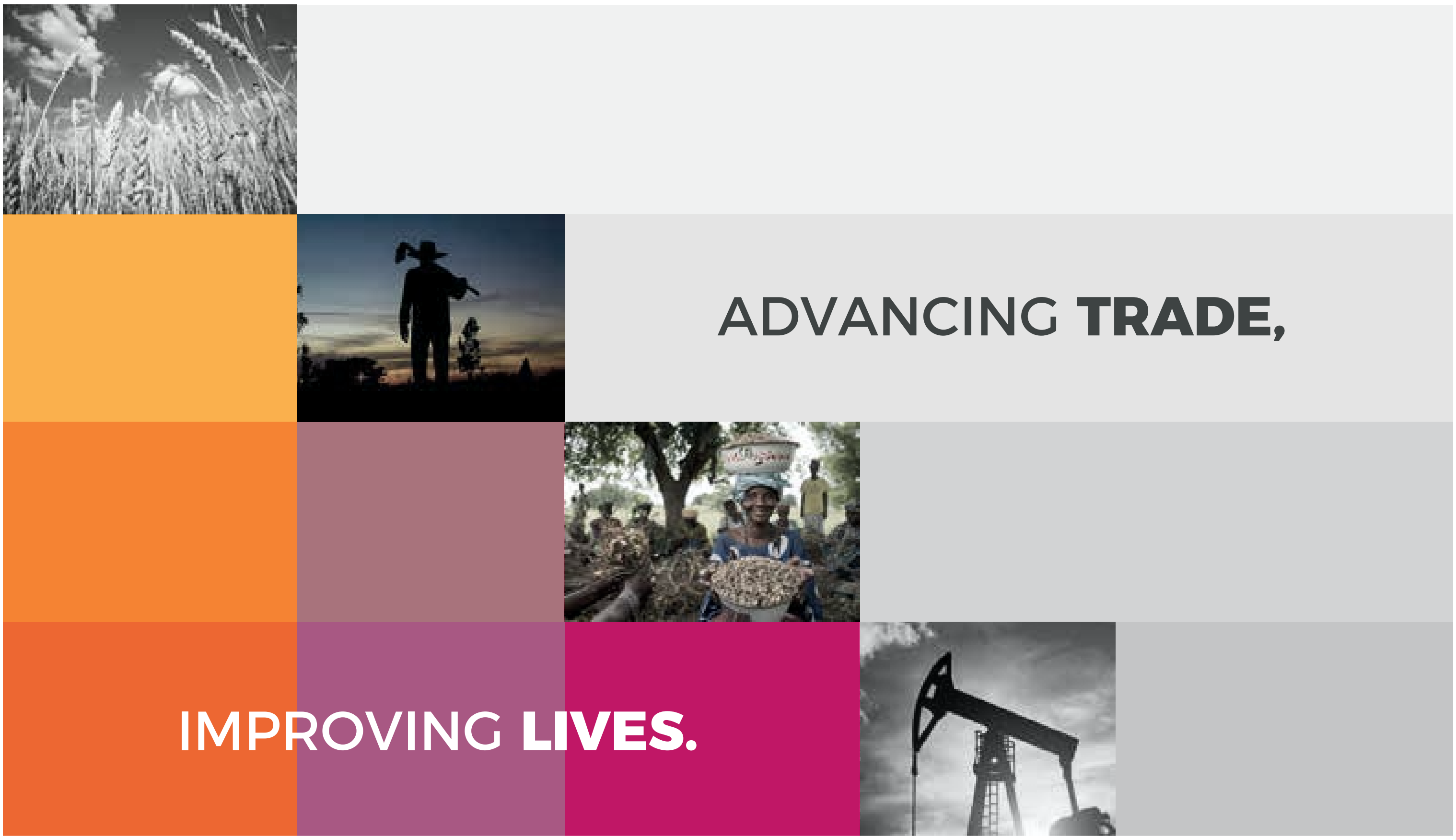
On capacity-building, in addition to the usual intake of AAOIFI fellows, the aim is to launch CIPA in the Russian language, as well as have it translated into other languages including Turkish, Bahasa Indonesia and French. Additionally, the aim is to launch the revamped CSAA qualification in the form of CSAd and CSAu fellowship programs. AAOIFI shall also issue the calendar for AAOIFI workshops organized throughout the year on various important topics.

On awareness and advocacy, AAOIFI shall continue to organize its two flagship conferences, as well as other advocacy and awareness initiatives to enhance the understanding and awareness of AAOIFI standards and facilitate their adoption.

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.

itfc

International Islamic Trade Finance Corporation



VISION

ITFC is the leading provider of trade solutions for OIC Member Countries' needs

MISSION

ITFC is a catalyst for trade development among OIC Member Countries and beyond

The International Islamic Trade Finance Corporation (ITFC) is a member of the Islamic Development Bank (IsDB) Group. It was established with the primary objective of advancing trade among Organization of Islamic Cooperation (OIC) member countries, which would ultimately contribute to the overarching goal of improving the socio-economic conditions of the people across the world. Commencing operations in January 2008, ITFC has provided more than US$62 billion of financing to OIC member countries, making it the leading provider of trade solutions for these member countries' needs. With a mission to become a catalyst for trade development for OIC member countries and beyond, the Corporation helps entities in member countries gain better access to trade finance and provides them with trade-related technical assistance Programs, which would enable them to have the necessary tools to successfully compete in the global market.

Member of Islamic Development Bank Group

P.O. Box 55335, Jeddah 21534,
Kingdom of Saudi Arabia.
T +966 12 646 8337 **F** +966 12 637 1064

itfccorp

Update on IIFM activities in 2022 - 2023

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

During 2022, the International Islamic Financial Market (IIFM) focused on carrying out extensive industry consultations to assess and plan out its standardization initiatives in line with industry developments and requirements in a robust manner with strict adherence to Shariah rules and principles.

The following is a brief overview of IIFM activities during 2022.

Risk-free rates (RFRs) implementation solutions for Islamic hedging segment

The year 2021 closed with the publication of the 'ISDA–IIFM Inter-Bank Offered Rates (IBORs) Fallback Definitions Booklet for Islamic Hedging Transactions', to enable financial institutions to transact under relevant alternative benchmark rates to be used as fallbacks for certain key IBORs.

The 'ISDA–IIFM Shariah Compliant Bilateral Amendment Agreement' was also published to enable institutions to agree with their counterparties to incorporate the fallbacks for existing Islamic hedges.

The fallback provisions contained in the IBORs Fallback Definitions lay out the process through which a replacement RFR can be determined if a benchmark (eg US dollar LIBOR [London Inter-Bank Offered Rate]) ceases to be available or becomes non-representative.

As well as being necessary to comply with regulatory requirements, these fallbacks are required in order to enable a smooth transition to a new RFR. It should be noted that the fallbacks only apply to the benchmark rate to be used and do not otherwise amend the terms of any transaction or the overall structure.

Review of Islamic hedging segment documentation and guidelines

In order to assess the impact of certain global regulatory developments on the Islamic hedging segment and to assess the requirement for any additional risk mitigation-related documentation or confirmation standards as well as to obtain feedback on existing Islamic hedging standards which were published several years ago, IIFM organized a virtual meeting of its working group in October 2022.

The meeting focused on information-gathering on experiences with the use of the Tahawwut Master Agreement (TMA) and possible inclusion of certain clauses as well as aligning the Islamic Profit Rate Swap and the Islamic Cross Currency Swap documentation architecture with the Islamic Foreign Exchange Forward standard confirmations.

New TMA legal opinion for Malaysia

The new 'Malaysian Law Memorandum on Enforceability of Close-Out Netting of the 2010 ISDA/IIFM Tahawwut Master Agreement' was published in November 2022 to ensure the enforceability of the TMA under Malaysian law in case of an early termination event such as default by the counterparty.

ICIEC, the Green Economy Enabler

ICIEC THE ISLAMIC CORPORATION FOR THE INSURANCE OF INVESTMENT AND EXPORT CREDIT

iciec-communication@isdb.org iciec.isdb.org

IsDB مجموعة البنك الإسلامي للتنمية Islamic Development Bank Group

Islamic syndication documentation standardization

In early 2022, IIFM reconvened its Syndication Core Working Group (CWG) after an interruption due to the COVID-19 pandemic and held its first virtual meeting in March. A steering committee consisting of key members of the CWG was formed to support IIFM in the finalization of a consultation paper identifying key issues to be tackled as well as prioritizing the areas for standardization.

The consultation paper will be the basis of deliberations to take place at the industry-wide virtual consultation meeting to be held during the first quarter of 2023 to form a consensus in the approach and consequently commence the actual development phase of the Islamic Syndication Documentation standards.

> **IIFM continues to explore new segments of the industry where its standards will add value and benefit all stakeholders**

Shariah compliant alternative liquidity management product and related master agreement

The development of a standardized Master Agreement based on a Shariah compliant sell–buy product structure is one of the long-standing requirements of the industry.

Although the IIFM Master Collateralized Murabahah Agreement published a few years back is widely used in the market, however, market participants continue to explore additional Shariah compliant liquidity management tools which could be economically better with enhanced capital preservation features to assist the Islamic financial market's development and progression.

Based on recommendations from member institutions, IIFM has been exploring the standardization of a Shariah compliant Waad-based repo product structure which is now being used by institutions in the GCC as well as the development of a Master Agreement.

IIFM has formed a working group consisting of leading institutions to carry out further assessment and its first virtual meeting will take place in November to deliberate on the product structure and related Master Agreement requirements.

Training on IIFM standards

After the successful launch of virtual training workshops on IIFM standards in 2021, IIFM and Dar Al Sharia held two in-person workshops in 2022 in Dubai covering IIFM Hedging and Liquidity Management Standards. The participants included representatives from international and Islamic banks, regulatory bodies and multilateral development institutions.

The practical and application-oriented workshops equip finance professionals with the knowledge of underlying Shariah structures, core documentation and execution process for transactions relating to IIFM standards and also share practical experience in negotiation and adoption of IIFM standards in banking operations.

IIFM and Dar Al Sharia will continue to offer the workshops in 2023 which will also include IIFM Documentation Standards on Sukuk and Trade Finance.

International cooperation

IIFM and the Participation Banks Association of Turkiye signed an MoU to collaborate on areas of common interests for the development of the participation banking sector in Turkiye and globally. The joint initiatives under the MoU will further promote the use of IIFM standards as well as facilitate translation of IIFM standard agreements into the Turkish language. The two bodies will work together in increasing awareness by way of joint events, workshops and other capacity-building initiatives.

Annual Sukuk Report

The Annual IIFM Sukuk Report has been published for over a decade and the 11th edition of the report was launched in September 2022 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. Over 2,000 digital copies of the report have so far been downloaded from the IIFM website while the number of downloads by readers exceeds 5,000 copies yearly.

The flagship report is one of the main sources of reference on the Sukuk market and provides a detailed analysis of the 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 early 2022, IIFM organized a virtual industry awareness seminar in collaboration with the Oman Banks Association titled 'Latest Global Developments Impacting Islamic Finance', covering pressing topics such as the impact of 'global climate change-related initiatives' and 'global benchmark rate reforms' on Islamic finance.

IIFM also jointly with AAOIFI and the IFSB organized a virtual roundtable titled 'Issues and challenges for Islamic finance in adopting alternative benchmark rates and finding an Islamic benchmark rate'.

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

Conclusion

As part of its mandate to standardize financial documentation to support the development of the Islamic finance industry, IIFM in consultation with its members and the market continues to explore new segments of the industry where its standards will add value and benefit all stakeholders, particularly financial institutions.

IIFM is also evaluating the impact of ESG-related global initiatives as well as digitization and fintech-related smart contract requirements.


ICD
Islamic Corporation for the Development of the Private Sector
Leading Together
We offer a variety of different products, to effectively serve your business' needs. We provide both term financing and equity contribution to private sector Greenfield projects, or to businesses undergoing expansion or modernization.
www.icd-ps.org
icd_ps

Catalyst for shared prosperity: Krish Narayanaswami on Islamic finance digital transformation

The ongoing digital transformation is shaping the Islamic financial services industry and the impact on the faith-based financial model has been multifaceted. This has raised a host of existential questions. IFN speaks to Krish Narayanaswami, the managing director of banking, financial services, and insurance at Azentio Software, to examine the impact of financial technology on Islamic finance, and help clarify our concerns.

What is the degree of penetration of Islamic finance in the fintech industry?

Till date, Islamic finance has not grown significantly in the fintech industry when compared to the actual size of the market. In fact, out of the worldwide 2 billion Muslim population, we still notice a high percentage of unbanked individuals. The real obstacle for fintechs to flourish in Islamic finance remains the low financial literacy and sometimes, the lack of local legal frameworks or their weaknesses, in the event they ever existed.

How far have Islamic financial institutions progressed in embracing fintech?

Muslims make up around 25% of the world population – with an outlook for increase, and as a young population with a median age not exceeding 25 years old, the target customers of Islamic financial institutions are mainly millennials succeeded by Generation Z. This situation augurs the great potential ahead for the Islamic finance sector, but it also highlights the challenges it imposes as this generation expects to be digitally served. As a result, we have seen the number of Shariah compliant fintechs on the rise over the last decade and this new model is poised to expand rapidly in the future.

The technological revolution is disrupting Islamic finance's operating framework. What are the available opportunities for Islamic financial institutions to enhance their market advantage?

In a constantly dynamic technological environment and the disruption fintechs bring to the business model, operation model and the focus on customer experience, it is mandatory for Islamic banks to adapt quickly and benefit from new technologies like cloud, mobility, artificial intelligence, blockchain, etc and to use the data strategically to unlock innovation and create a better customer experience by empowering individuals.

How do practices of a faith-based financial ecosystem cater to the community's interests and digital needs in implementing competitive and inclusive finance?

A faith-based financial ecosystem like Islamic finance by design generates economic activities be it sale, purchase, production or renting of goods and services. It is considered a catalyst for shared prosperity. The system brings transparency, enables stakeholders to make informed decisions, and mainly promotes the principle of equity and wealth distribution in the society. One of the benefits of digital finance is that it gives low-income groups, who may not be considered 'bankable' by financial institutions due to their risk or regulatory policies, a chance to build savings and get access to financing.

The prohibition of interest payments on deposits in Islamic finance requires Islamic banks to ensure profit payouts are conducted in accordance with Shariah principles. This process of calculating actual profits generated and efficiently managing the distribution still poses several challenges to Islamic banks. Can technology manage the entire profit calculation and distribution cycle to ensure compliance?

This process still poses several challenges to Islamic banks which impacts their reputation and market share. It requires complex calculations and financial postings which, if not automated, becomes a stressful and error-prone activity. Azentio understands the current business challenges faced by Islamic banks and has conceptualized a best-fit technology solution that effectively addresses the complex profit sharing and distribution requirements of Islamic banking. Our Islamic Profit Calculation System makes profit distribution highly efficient. Islamic financial institutions will be able to compete with both their counterparts and conventional banks in interest pay-outs.

Will technology and innovation narrow the gap between Islamic and conventional finance in the future?

Technology and innovation will serve both Islamic and conventional finance and will pave the way for growth and expansion. While assessing the gap between conventional and Islamic practices, it is pertinent to note that it is firmly impossible for Islamic finance to deviate from the norms, the Shariah principles that govern it. On the other hand, it is more probable to see conventional finance slightly shift to more conservative finance practices that are sustainable in nature and in full compliance with the UN SDGs, thereby, narrowing the gap between the two currents of finance.

AZENTIO™

Sukuk issuance to remain under pressure

Moody's Investors Service expects global Sukuk issuance to slide further in 2022 after a large decline in 2021, which followed several years of consecutive growth. The decline will mostly reflect lower sovereign issuance as major Sukuk-issuing sovereigns' improved fiscal positions and higher interest rates pressure issuance activity.

We expect total gross short- and long-term Sukuk issuance of US$160-170 billion in 2022, down from US$181 billion in 2021 and a record US$205 billion in 2020. Issuance reached US$92 billion in the first six months of 2022, down from US$102 billion in the same period of 2021.

Stronger than expected issuance activity from the GCC sovereigns offset a drop in issuance in Southeast Asia and Turkiye. We expect gross Sukuk issuance of US$70-80 billion in the second half of the year. While issuance in Southeast Asia is likely to improve, we do not expect the GCC's strong performance in the first half of the year to continue into the second half.

Sukuk issuance moderated in the first half of 2022 despite surprisingly strong activity in the GCC

Issuance volumes declined by 10% year-over-year to US$92 billion as strong issuance activity in the GCC on the back of one-off issuances by Saudi Arabia ('A1/Stable') could not compensate for a drop in issuances by Southeast Asian issuers. Sovereigns' contribution to overall issuance activity further increased as higher interest rates weighed on the issuance activity of corporates and financial institutions.

We expect issuance activity to moderate further in the second half of the year

While we expect issuance to slightly recover in Southeast Asia, we do not expect the GCC's strong performance in the first half of 2022 (H1 2022) to continue into the second half. High oil prices will support fiscal surpluses across the region, which will limit new sovereign issuances to refinancing maturing Sukuk. Moreover, Saudi Arabia, the region's largest sovereign issuer, has indicated that it has completed its issuance program for the year.

New entrants and rising demand for green and sustainable Sukuk support the long-term positive trend

New issuers seeking to diversify their funding sources are joining the market as Sukuk becomes widely accepted. Green Sukuk issuance will also accelerate as governments promote sustainable policy agendas and demand for sustainable investments encourages new issuers to consider green Sukuk as an alternative financing tool.

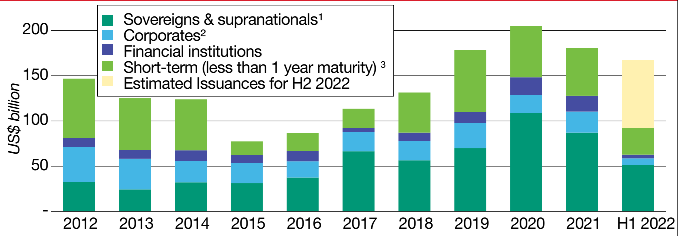
Growth opportunities

The low penetration rate of Islamic products in several Muslim-majority countries also offers additional growth opportunities for Sukuk. This potential has been identified by several governments across the MENA and Southeast Asia regions, who have accordingly implemented favorable regulations and issued sovereign Sukuk to support market growth.

This is particularly true in the case of Turkiye, where the authorities have played a prominent role in the creation of Islamic banks and taken on issuing Sukuk on a regular basis. It is also the case in Saudi Arabia, where the government used its debt refinancing in the first half of the year as an opportunity to further increase the share of Sukuk in its debt mix.

Finally, it is important to note that most Muslim-majority countries benefit from strong demographic and economic growth potential that will provide Islamic debt markets with a growing economic base to continue to expand in the coming years. The global Muslim population is projected to rise from 25% of the world's population currently to 30% in 2050.

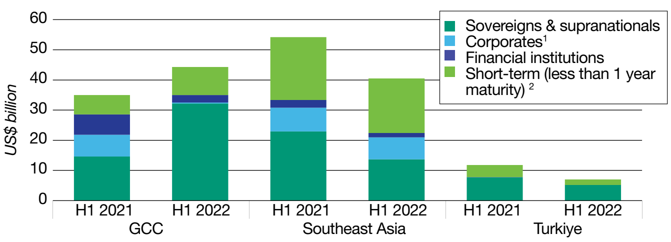
Diagram 1: Gross Sukuk issuance in US$ dollar



Notes: (¹) Corporates are nonfinancial companies; (²) Short-term issuances have less than one year maturity at the time of origination. This also includes issuances from central banks for liquidity management purposes; (³) Includes issuances by multilateral development banks

Sources: Thomson Reuters Eikon, Bloomberg, IFIS and Moody's Investors Service

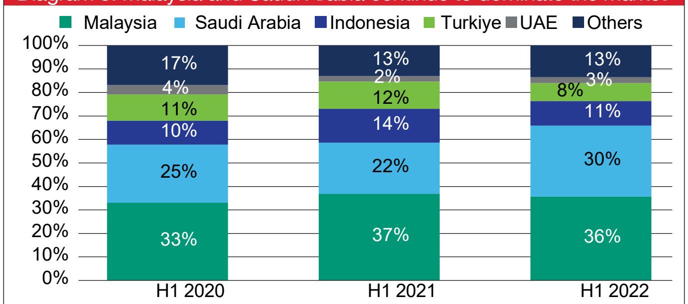
Diagram 2: Sukuk issuance in H1 2022 vs H1 2021



Notes: (¹) Corporates are nonfinancial companies; (²) Short-term issuances have less than one year maturity at the time of origination. This also includes issuances from central banks for liquidity management purposes; (³) Includes issuances by multilateral development banks

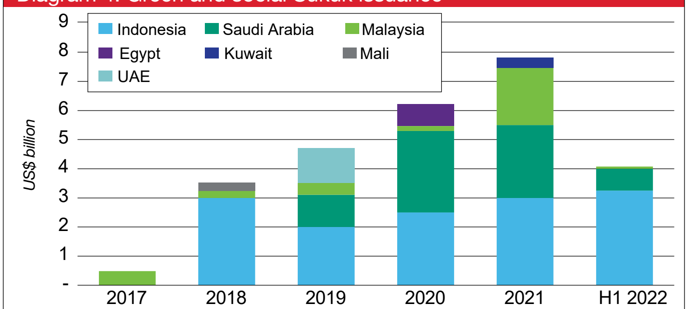
Source: Thomson Reuters Eikon and Moody's Investors Service

Diagram 3: Malaysia and Saudi Arabia continue to dominate the market



Sources: Thomson Reuters Eikon and Moody's Investors Service

Diagram 4: Green and social Sukuk issuance

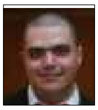


Sources: Moody's Investors Service and Dealogic

MOODY'S
INVESTORS SERVICE

SECTOR REPORTS

Market outlook of Islamic accounting



Mohammad Majd Bakir *is the director of standards development at the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). He can be contacted at mbakir@aaoifi.com.*

As part of the comprehensive project for the revision and review of Financial Accounting Standards (FASs) initiated by AAOIFI in 2016, multiple standards were considered liable for a revisit. This included a number of key standards that had been in issue for almost two decades during which significant developments in the area of accounting have taken place, particularly in relation to insurance accounting and other specific-purpose reporting. In 2018, AAOIFI embarked on a project for Takaful standards aiming to cover accounting and financial reporting matters relating to the Takaful arrangements and to improve relevant financial reporting in accordance with enhance market practices and regulatory requirements. Another important area that witnessed new developments was the need to reconsider the AAOIFI conceptual framework (AAOIFI Conceptual Framework for Financial Reporting) and core standard (FAS 1) (FAS 1 General Presentation and Disclosures in the Financial Statements).

Other key developments that are expected to impact Islamic accounting relate to improved financial reporting for Zakat and Islamic finance windows and interim financial reporting as well as significant matters such as control, off-balance-sheet assets under management and quasi-equity that are essential to Islamic accounting and distinguish it from its conventional counterpart.

Review of 2022

In 2021, AAOIFI issued FAS 1 which followed a comprehensive revision of the AAOIFI Conceptual Framework for Financial Reporting issued in 2020 (applicable with immediate effect). The conceptual framework better defines and improves upon the existing accounting policies and treatments in line with global good practices. It also introduces the concepts and core principles underlying financial accounting and reporting by institutions and explains the relationship between these concepts, core principles and the objectives of financial reporting.

The new framework aims to help the users to obtain a better understanding of the information included in general-purpose financial statements, and consequently enhances their confidence. Overall, the revised framework promotes harmonization by providing a basis for selecting the most appropriate accounting treatment permitted by AAOIFI FASs. It also serves as a guide for the development of future AAOIFI FASs and assists in dealing with similar transactions, other events or conditions not dealt with under existing FASs. Furthermore, it serves as a guide to subjective judgments made by management while preparing financial statements and other financial reports.

This framework forms an integral part of the AAOIFI FASs, though by its own is not a standard and cannot override any specific requirement of other standards. It introduces a set of broader concepts related to quasi-equity including 'unrestricted investment accounts' and other transactions under similar structures and those related to 'off-balance-sheet assets under management' (rather than 'restricted investment accounts'). Moreover, the concept of comprehensive income has been introduced, with the option to prepare one statement that is a combination of the statement of income and the statement of other comprehensive income, or to prepare the two statements separately.

In terms of classification, the new framework allows the use of the current and non-current distinction for assets and liabilities to make the financial statements of Islamic financial institutions comparable with similar institutions. In a nutshell, it sets out the overall requirements for the presentation of financial statements, the minimum requirements for the contents of the financial statements and a recommended structure of financial statements that facilitate faithful representation in line with Shariah principles and rules and comparability with the institution's financial statements of previous periods and the financial statements of other institutions.

Other developments included the issuance of FAS 40 Financial Reporting for Islamic Windows, which requires that an Islamic finance window shall primarily present a complete set of financial statements in line with the requirements of the relevant AAOIFI FASs, unless otherwise required by regulators. It also excludes summarized accounting guidance for Islamic financial services offered by a conventional financial institution without having an Islamic finance window.

Preview of 2023

In 2022, AAOIFI issued a number of final standards and exposure drafts on key areas including accounting for Takaful and interim reporting. The need for an improved set of Takaful standards was highlighted by the developments in international best practices, globally accepted accounting principles and regulatory requirements with regard to conventional insurance accounting.

In consideration of the fact that such factors included developments in international best practices, globally accepted accounting principles and regulatory requirements with regard to conventional insurance accounting, gaps were identified in accounting treatments in respect of Takaful arrangements, the need to standardize the structural relationship between a Takaful institution and the different funds from the financial reporting perspective and providing accounting treatments for different transactions, balances and contracts; the different accounting requirements that were scattered in different FASs were, at times, not easy to comprehend. There is also fact that existing FASs on Takaful accounting did not address certain ancillary issues, particularly with regard to accounting for transactions and balances between different stakeholders of a Takaful institution and accounting for the investment component.

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 a Takaful institution (operator) is distinct from the participants' funds (including participants' Takaful fund (PTF) and participants' investment fund (PIF), and the PTF and PIF are considered to be off-balance-sheet assets under management, therefore separate from the Takaful institution; statements for the managed PTF and PIF have been introduced, including a separate statement of financial position for the managed PTF.

Conclusion

Islamic accounting has its value proposition, particularly in terms of serving the information needs of a specific group of stakeholders driven by Shariah compliance. The new developments in the arena of Islamic accounting constitute the ever-changing reality and state of affairs at the level of the industry, and also the exhaustive efforts being exerted by AAOIFI as a standard-setter for the Islamic finance industry in the area of accounting, in reaction to market needs and especially the need to harmonize the accounting treatment, classification and measurement for multiple transactions and structures for which specific accounting treatment is always needed.

Specialized
in Shariah Investments

Sidra Capital is a shariah compliant asset manager, that provides investment solutions focusing on alternative asset classes such as income generating real estate and private finance.

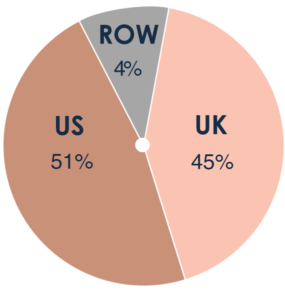
Having launched its first office from Jeddah, Saudi Arabia in 2009, the company has now expanded its offices to Riyadh, London, Dubai and Singapore.

US $3,5 Bn

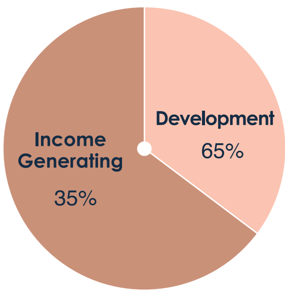
Total Assets Under Management

Real Estate

Sidra Capital's real estate strategy is focused on income generating assets in mature global markets. We offer our clients and investors access to shariah compliant strategies with a focus on core and core-plus opportunities.



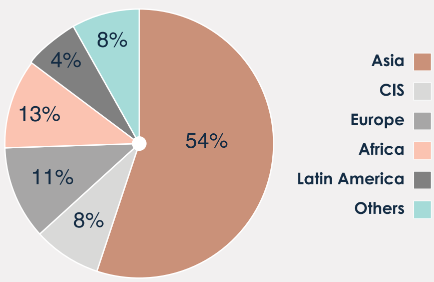
Geographical Breakdown



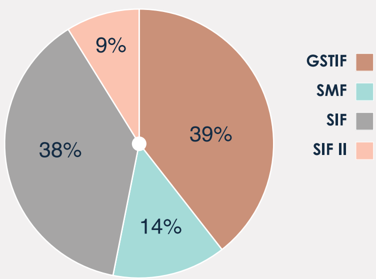
Investment Type

Private Finance

Our transactions are structured around the supply chain and commercial terms of customers, involving not only large bilateral strategic relationships but also small and medium enterprises.



Investments by Geography



Private Finance Funds

Islamic financing in agriculture: A globally expanding opportunity

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

In today's world, the ever-growing globalization has contributed to the economic development of countries around the world, which unfortunately also leads to income inequality. More than half of the global income is concentrated in the hands of the top 10% of the world's population.

This opens up the scope of developing financial instruments that can address such challenges. Currently, agriculture-related Islamic financing has been gaining popularity in agriculture-rich countries such as Indonesia, Pakistan and Bangladesh.

In recent years, several Islamic microfinance experiments have been conducted in Muslim-majority nations. By concentrating on the agricultural and livestock sectors, these poverty-alleviation initiatives aim to reduce poverty in rural areas, combat food insecurity and generate livelihoods.

Islamic microfinance institutions have employed a variety of Islamic microfinance methods and instruments in their efforts to serve farming communities both financially and non-financially. Through a survey done in Indonesia's Java Island, it was found that the Islamic profit-sharing financial model helped farmers to expand their cultivation more sustainably.

As Islamic financial schemes prevent the use of interest and debt-based instruments, this system encourages risk-sharing, promotes entrepreneurship, discourages speculative behavior and emphasizes the significance of contracts. The factors of entrepreneurship and risk-sharing can be an effective tool for development in the agricultural sector, which is characterized by various kinds of fluctuation, especially in terms of crop yield and commodity price.

Review of 2022

As of 2022, unfortunately, only 4% of the global Islamic banks' financing is channeled to the agricultural sector, compared with 27% for households and 26% for the wholesale and retail trade sectors. In relation to ensuring the food supply, the percentage of a Salam contract is at a negligible level in Islamic banks, reaching merely 4.1%.

In contrast, the markup facilities of Murabahah and commodity Murabahah or Tawaruq are dominantly utilized at 47.4% and 25.7% respectively. As a result, although Islamic financing in agriculture has been growing lately, it has yet to promote just socioeconomic development in the agricultural sector.

Preview of 2023

Through its contribution in the agricultural sector, Islamic financing provides a large opportunity to reduce food shortage, and thus, food insecurity. Food insecurity has become a significant problem following the COVID-19 pandemic and the conflict between Russia and Ukraine. The Global Report Food Crisis 2022 shows that it is the OIC countries that are the most food-insecure regions.

Therefore, these regions could largely benefit from an expansion in agricultural cultivation resulting from the implementation of Islamic financing, especially the Islamic financing method of Salam which specifically aims to ensure food security.

Among the main issues with the agricultural sector in Muslim-majority nations is the absence of a safety net for farmers. This discourages potentially skilled labor from entering the industry. In order to mitigate the risks of crop failure resulting from crises such as climate change, an insurance scheme is required. This is where the use of **blended** Islamic finance can contribute the most.

As per the deputy head of an Islamic boarding school, Ali Chamani Al Anshory, Islamic finance should best combine Waqf and Salam financing to ensure the most efficient operation of the agricultural sector. The Waqf fund would insure the agricultural project, financed by the Islamic bank employing a Salam contract. As the project is insured by the Waqf fund, the bank has a lower risk, and hence, can offer the product at a competitive **rate**.

In addition, Islamic microfinance institutions frequently take a 'project' approach and offer assistance in a variety of non-financial areas, such as technology, procurement, production, marketing, business development and capacity-building, thereby guiding the project toward success. However, going ahead, the microfinance institutions may have to limit their outreach significantly in order to tackle the challenges faced by the farming communities.

While in the case of credit-based finance, the size of financing per beneficiary is very small, perhaps in the range of US$100, the same is very high in the case of project-based approaches that seek to finance the entire value chain. Such partnership-based agri-finance may necessitate significant upstream investments, thereby classifying them as social impact investments rather than microfinance.

One unexplored possibility in Islamic finance is the establishment of Waqf or endowments to take care of the upstream investments that create permanent or long-lasting facilities for use by farmers. Such investments need not be funded with bank finance. In that case, the quantum of financing per beneficiary will significantly go down and the outreach of Islamic microfinance institutions may be significantly increased.

Conclusion

Overall, with the global Islamic finance market expected to reach a valuation of **US$3.02 billion** by 2027, we can predict that the scope of Islamic financing in agriculture will also see significant growth, paving the way for greater financial inclusion across the world.

Islamic financing for aviation: Maintaining a holding pattern

***Antony Single** is a partner at Pillsbury Winthrop Shaw Pittman. He can be contacted at antony.single@pillsburylaw.com.*

The global aviation industry had been recovering from the lows of 2020 and 2021 with a surge of pent-up consumer demand for travel with most countries now 'living' with the COVID-19 coronavirus, albeit with some (notably China) remaining committed to its eradication. This recovery has started to come up against headwinds with up to US$15 billion of aircraft stuck in Russia, a very strong dollar, high oil prices and increasing inflation.

Despite this, there has remained strong liquidity in the aviation finance sector, and even with some players retreating (notably the capital markets), we have seen some major new aircraft lessor entrants (such as PIMCO-backed High Ridge Aviation and Saudi Arabia's AviLease), banks remain keen to grow their book and a continued growth in private equity and non-bank alternative funding vehicles investing in the aviation funding and leasing space.

Review of 2022

The number of new deliveries of aircraft in 2022 has improved as compared with 2020/21 but still remains far below pre-pandemic levels. While Boeing is now delivering its 737-Max aircraft to the Middle East, the global deliveries remain significantly below its peak delivery years. This has resulted in a shortage of a number of newer aircraft types.

This production cut, coupled with deferrals, has resulted in a lower number of new deliveries in 2022 in general, but Shariah compliant banks have continued to play their part with the new delivery market with a number of new portfolio facilities.

While every airline restructuring and bankruptcy is different, we have continued to see airlines use the US formal restructuring process such as US Chapter 11 in conjuncture with (or often instead of) their domestic bankruptcy processes. 2022 saw airlines like Philippine Airlines and LATAM exit the US Chapter 11 bankruptcy protection processes, but Garuda and SAS entered into US Chapter 15 and Chapter 11 procedures respectively. That said, the number of airlines seeking bankruptcy protection or going into liquidation remains lower than average.

The long-threatened exodus from LIBOR [London Inter-Bank Offered Rate] to SOFR [Secured Overnight Financing Rate] has started in the aviation finance and leasing market. In the context of Shariah compliance financings, there has been a clear preference for the certainty and simplicity permitted by Term SOFR (as a forward-looking rate) with key commercial discussions being over the calculation of the relevant CAS [credit adjustment spread] adjustment methodology on existing deals and the fallback options.

We also saw operating lease transactions (whether Shariah compliant or not) follow the Term SOFR route, which is helpful for Shariah compliant financings that are ultimately supported by underlying floating operating lease cash flows.

Preview of 2023

The International Air Transport Association (IATA) air passenger market analysis shows the improving recovery in demand despite geopolitical issues in Europe and the ongoing zero-COVID-19 strategy in China restricting travel. International revenue passenger kilometers (RPKs) in July 2022 were down only 32.1% versus 2019 levels whereas it was 58.4% down versus 2019 levels at the end of 2021 — this may be a question of whether you see the glass as half-full or half-empty. The latest forecast from IATA estimates 2022 traffic demand in RPKs to still be around 17.6% below pre-COVID-19 levels but it is possible the industry could finally see positive growth in 2023.

With the June 2023 deadline to switch out of US LIBOR, we would expect a big push in early 2023 in order to finalize the switching process ahead of the inevitable last-minute scramble.

Even though aviation makes up roughly 2.5% of total CO2 emissions (with roughly 4% of global GDP), it has still ended up with a high profile compared with some other much larger emitters. 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.

2023 is expected to see the delayed adoption of the the EU's Taxonomy which will seek to regulate options that can be marketed as green or energy transition financing transactions for aviation; while this is an EU regulation, given the makeup of the aviation market it is likely to have a large impact in general.

We are also seeing a series of joint ventures and offtake agreements relating to sustainable aviation fuels and other technologically-driven solutions, and would expect to see a greater use of the tax credits available for sustainable aviation fuels in the US.

Conclusion

As we look toward the future, we would expect to see increased opportunities for Shariah compliant banks and funds as the aviation industry looks to grow out of its current position back toward pre-pandemic levels. Despite the considerable headwinds, there is reason to believe that the overall outlook for the global aviation industry is positive, and that the innovations on ESG and energy transition will start making a difference to our transactions.

For Professional Investors Only

Al Waseelah

IFN Awards
DEALS OF THE YEAR
2020

GIFA
GLOBAL ISLAMIC FINANCE AWARDS
IMMC™ - BEST EMERGING ISLAMIC LIQUIDITY MANAGEMENT PRODUCT

SUKUK ISSUANCE PLATFORM

Democratising Sukuk Investing

Award-winning Sukuk issuance platform for a wide range of assets including green and renewable projects, real estate and liquidity management.

Al Waseelah is at the forefront of ESG and SDG integration to Sukuk through active global dialogue. A fully Shariah-compliant issuance and securitisation platform, providing a comprehensive and cost-effective solution for structuring, arranging and originating of Shariah-compliant listed securities.

Hydrogen Opportunities

Al Waseelah has developed a Shariah-Compliant actively managed portfolio of high-impact companies, that provides SPAC-like returns investing in green and turquoise hydrogen.

To find out more about this unique investment opportunity in the future of renewable energy, contact us at **hydrogen@alwaseelah.co**

Innovation in Sukuk Issuance

Reducing Barriers to Fundraising

Hydrogen Hybrid Opportunities

info@alwaseelah.co

www.alwaseelah.co

PRI

السوق المالية الإسلامية الدولية
International Islamic Financial Market

Islamic Finance Council

Islamic cross-border financing: Growth amid uncertainties


Salman Ahmed *is a partner and* ***Sylvia Sze*** *is an associate at Trowers & Hamlins. They can be contacted at sahmed@trowers.com and ssze@trowers.com respectively.*

The global economy remains deeply depressed going into 2023 and is suffering another blow from the ongoing Russia–Ukraine war, exploding inflation and interest rate hikes while recovering from the setback caused by the COVID-19 pandemic. While the extent of the impact of this confluence of factors on the global economy is not predictable at this juncture, there is a rise in the news reporting on Sukuk issuance, fintech, cross-countries partnership to streamline the trade and remittance system and multinational organizations committing to fund and aid the growth and development of a country, indicating growth and dynamics in the finance market.

Review of 2022

In 2022, Malaysia, Saudi Arabia and Indonesia remained the largest Sukuk issuers. With even more uncertainty in 2022, the global Sukuk market was still surprisingly optimistic and registered a strong though slightly lower issuance of US$100.9 billion in the first half of 2022 (H1 2022) compared with the US$104.2 billion of H1 2021. The slowdown in H2 2022 was mainly due to smaller issuances by the Saudi Arabian government, whose funding requirements were reduced amid soaring oil revenues.

The issuance momentum during H2 2022 slowed down as a result of the Russia–Ukraine conflict which led to a surge in oil prices and a subsequent global monetary tightening cycle by the US Federal Reserve and other central banks (Jinan AlTaitoon, Refinitiv IFG-Sukuk Perceptions and Forecast Study 2022).

As with the conventional fintech start-up industry, the Islamic fintech start-up industry suffered a drop in funding to a nine-quarter low in the second quarter of 2022 due to the global political and macroeconomic shocks. Notwithstanding that the business failure rate of the fintech start-up is as high as 90%, the industry continues to attract new players into the market. As of the 15th October 2022, there is a growth in the number of players to 338 globally, which is an increase of 29% from last year.

In the last 12 months, we have seen governments of the key Islamic financial jurisdictions establishing a robust regulatory framework to cater for the emerging fintech industry (IFN Monthly Review: July — New Islamic banks in the market).

There was also an increase in the number of cross-border collaborations between financial institutions and non-financial institutions, particularly in light of geopolitical and macroeconomic events. These initiatives are aimed at, among others, supporting economic recovery after the COVID-19 pandemic, establishing and implementing a non-exclusive framework for the cooperation of market participants in economic development and financial inclusiveness and working on a framework aimed at enhancing international trade and intra-Arab trade.

Preview of 2023

According to market researchers, the Global Islamic Finance Market was worth US$2.2 billion in 2021 and is anticipated to reach a valuation of US$3.02 billion by 2027 (Global Islamic Finance Market Research Report — Segmentation By Financial Sector (Islamic Banking, Islamic Insurance – Takaful, Islamic Bonds ‘Sukuk’, Other Islamic Financial Institutions (OIFI’s) and Islamic Funds) and Region – Industry Forecast 2022–2027). GCC banks’ earnings are expected to recover almost to the pre-pandemic level in 2022, due to stronger economic activity and higher **interest rates.**

Despite slower growth, market researchers predict that compounded annual growth rate over the next five years may be over 6.8%, reaching US$257 billion in 2027 (Jinan AlTaitoon, Refinitiv IFG-Sukuk Perceptions and Forecast Study 2022.)

The banking industry is expected to face tougher conditions in 2023 but market researchers believe that incumbents have increased their resilience over the past decade by improving capital and liquidity positions, as well as exiting non-core activities and markets.

New fintech players will unfortunately face difficulties in securing funding as investors are more careful with how they spend their dollars. Notwithstanding, market surveys suggest that most Islamic fintech CEOs and founders are surprisingly optimistic about the growth projection of the industry.

The International Finance Corporation suggests that 40% of the micro SMEs in developing nations face an annual financing gap of US$5.2 trillion. The emerging Shariah compliant P2P platform in the fintech market may potentially narrow the financing gap. Given that SMEs account for some 90% of businesses and over half of the employment worldwide, the funding demand will fuel the growth of Islamic fintech (‘SMEs and entrepreneurship: Technology to narrow finance gap’, 16th Aug 2022). We hope to see governments continue to take initiatives to support fintech innovation and enhance the relevant regulatory frameworks.

Conclusion

In light of the COVID-19 pandemic, rampant inflation and now the Russia–Ukraine war, predicting the market outlook during a period of uncertainty is always a challenge. If the war continues, it may push oil prices even higher and thereby lead to a slowdown in economic growth. With the US Federal Reserve and other central banks hiking interest rates further in 2023, this could possibly raise the risk of stagflation. We will only know the true extent of the effect as we move through the year.

Blue skies with merciful rain ahead

***Sanjeev Dutta** is the executive director of commodities and financial services at the DMCC. He can be contacted at sanjeev.dutta@dmcc.ae.*

Financial inclusion and digitalization have been key features of the Islamic finance sector in 2022 and could continue into 2023, underpinned by strong asset prices. Conflict in Europe, geopolitical rivalry and soaring inflation have taken their toll on global economic growth in 2022, but multiple underlying factors have supported cross-border trade and finance this year and will continue to do so in 2023 and beyond, as mentioned in the latest edition of the Future of Trade report.

Indeed, the weather report for next year might well read: Partly cloudy.

Forecasts going into 2023 indicate that global growth could slow to 2.7% in 2023, down from 6% in 2021 and 3.2% in 2022. Those projections from the IMF presage the weakest growth profile since 2001, except for the global financial crisis and COVID-19-linked lockdowns.

In the Islamic world, the picture is more optimistic overall. While open economies could reflect global trends, commodity prices will brighten the picture, underpinning higher-than-average growth. The World Bank expects Malaysia to clock a growth of 4.2% in 2023, down from the 4.5% forecast earlier. The MENA region will grow by 5.5% in 2022 (its fastest rate since 2016) and by 3.5% in 2023.

Elsewhere, bright spots for the Islamic financial world come from digital solutions, which will continue their drive toward inclusion and innovation. Furthermore, the shift toward sustainability could benefit Shariah instruments — perhaps even as, in the most blue-sky scenario, former safe havens turn volatile.

Review of 2022

Strong economics, better inclusion in 2022

Islamic finance assets were expected to post double-digit growth in 2022, following on from an aggregate 10.2% expansion in 2021. Contributing factors included a resilience to macroeconomic shocks from the Ukraine–Russia conflict, a rapid bounceback from the pandemic and fiscal measures by central banks in Islamic markets. Against that larger picture, three major trends stood out.

• **Digitalization brought financial inclusion**: The challenges of the pandemic increased the adoption of digital technologies across every sector. In finance, the pandemic served as a catalyst to drive financial inclusion. As the World Bank notes, 71% of people in developing countries have an account today, up from 42% 10 years ago. Globally, the figure stands at 76% of all adults, as compared with 51% a decade ago. With financial inclusion seen as a cornerstone for development, both conventional and Islamic markets will post value and sustainability gains as a result.

• **Global Sukuk issuance dropped**: Data shows that Sukuk totaling US$100.9 billion were issued in the first half of 2022, according to Refinitiv. However, as a global monetary tightening cycle and elevated oil prices reduce government borrowing, issuance is likely to have slowed over the last six months of the year. Moody's Investors Service estimates aggregate volumes were likely to have fallen to between US$160 billion and US$170 billion in 2022, from US$181 billion in 2021.

• **Fintech showed its potential**: Alongside financial inclusion, digital adoption has seen technology making further socioeconomic inroads, driven by the demographics of the Islamic community. From investment apps to Shariah cryptocurrencies, fintechs are providing innovative new ways to reach customers. When expanded to areas such as business and trade, the market could expand to US$128 billion by 2025, according to **projections** by Dinar Standard and Elipses. This represents a 21% compound annual growth rate (CAGR), as compared with a projected 15% CAGR for non-Islamic fintechs over the same period.

Preview of 2023

Commodity support, sustainable values in 2023

Strong fundamentals and a continued recovery are expected to continue the upward trajectory for Islamic markets in 2023, despite the unwinding of regulatory forbearance and the impact of global events.

• **Commodity prices will shore up Islamic banking: DMCC research** indicates that higher commodity values could underpin banking growth in Islamic-majority countries over 2023. In the GCC, hydrocarbon prices and the easing of pandemic restrictions will continue to support strong economic recovery through to the end of 2023, boosting the asset quality of Islamic banking entities in the region, Moody's said in a September **report**. Malaysia could likewise see its Islamic banking market post double-digit growth, the rating agency **said**.

• **Double-digit growth for Takaful:** Commodities could also boost the Takaful sector, where earnings have been weighed down by competition and an increase in claims frequency over 2021. However, a modest recovery on the back of anticipated rate adjustments in loss-making lines and higher interest rates could boost investment returns for business and personal Takaful, S&P **forecasts**. Gross written premiums/contributions could expand about 10% in 2022 and 5–10% in 2023, it said.

• **Sustainable action feeds Islamic finance:** Shariah investments typically provide better protection than conventional products, given their exclusion of speculative activities. These values accord with pandemic-linked attention on ESG factors. Accordingly, green and sustainability Sukuk could see higher volumes, while investors look for funds aligned with sustainability themes. The uncertainty in traditional bond markets could also contribute. Since the first green Sukuk facility was launched in 2017, the subsector has reached US$15 billion in valuation. And despite the recent fall in overall issuance, demand for green Sukuk could continue to climb. ESG-related Sukuk were up 2.8% in the third quarter of 2022, as compared with the second quarter, Fitch Ratings **data** shows. Innovative solutions that capitalize on this newfound appetite could attract greater traction.

• **Zakat increase could be a sweet spot:** Returning to the digitalization story, fintechs could potentially grow the annual financial value of Zakat, Sadaqah donations and Waqf endowments, according to a survey by IslamicMarkets.com. Some 33% of Islamic fintech professionals forecast a dramatic increase in charitable giving over the next five years, as the digitalization of financial services contributes to increased sectoral transparency. Experts believe the three components could together **provide a pathway** to mobilizing funds in service of the UN SDGs.

Conclusion

Black swan events may yet return anew to test us — and the impact of global events and trade patterns could cloud economic growth. However, the rollercoaster performance of asset classes over the past three years has weighted sentiments toward safe, ethical and inclusionary investments. In many ways, the trend provides opportunities aplenty for Islamic finance.

The potential of Islamic crowdfunding is much higher than that of the conventional system

Muhammed Karakulah *is a researcher in Islamic capital markets and crowdfunding. He can be contacted at muhammed_karakulah@hotmail.com.*

The COVID-19 pandemic harmed all areas of life. What is worse is that the unnecessary restrictions taken during the pandemic destroyed macro economies. This pandemic, defined as the 'Black Swan' in conventional economics, has accelerated all countries' search for alternative financial resources. In addition, the occurrence of the Russia–Ukraine war at the end of the six-month recovery period brought the macro economies of the countries to a state of war. The biggest weapon of this position is the '0 Risk' policy. The gap between national and international banks and the central bank policy interest rate has increased and the funding sources of the markets have been narrowed regardless of the credibility premium. SMEs and start-ups, which need these resources the most, were less affected by this contraction than expected between 2020 and 2022. The main reason for this was the value produced by the crowdfunding product as an alternative source of financing.

In addition, it has become increasingly difficult for Generations Y and Z, who have no experience of a global war/pandemic, to use traditional investment instruments. With the rise in global inflation and the expectation of recession, property and gold prices have reached historic highs. At this point, Generations Y and Z, which constitute 53% of the world's population, have a high-risk appeal, adopt the principle of 'high risk + high return' and have been channeled to the crowdfunding sector.

Although there is no definitive data for the entirety of 2022, it is expected that the global crowdfunding industry, which had a market size of US$13.35 billion in 2021, will reach US$15.5 billion by the end of 2022, with a growth of approximately 11.7%. According to similar calculations, the global crowdfunding market size is estimated to reach US$25.93 billion by 2027.

Review of 2022

Since the global Islamic crowdfunding sector is an emerging market, there is no precise information on the market size. However, there is a numerical increase in the number of companies. According to IFN Fintech data, the number of Islamic crowdfunding companies increased by approximately 30% from 37 as of September 2021 to 48 as of November 2022.

These platforms are generally based in Malaysia, Indonesia and Singapore and operate as international service providers. Their primary activities are centerd on two crowdfunding methods: donation and equity crowdfunding. After analyzing the 48 companies with Islamic crowdfunding platforms, the total market size is estimated to be around US$100 million.

The global Islamic fintech industry will reach an estimated value of US$79 billion in 2022 and is rapidly increasing. At this point, Southeast Asia is the most promising market for Islamic fintech, with a highly concentrated Muslim population and a growing middle class.

However, the internet-based nature of crowdfunding has expanded the promotion and investment hinterland and has shown a successful development in the field of international micro investments in 2022. Micro investments ranging from US$10 to US$5,000 from South Asia and Europe were mobilized in the campaigns launched in Turkiye. This beginning could be a new idea for developing a global Shariah investment guide.

In 2022, AAOIFI organized public sessions on Islamic crowdfunding governance standards, which was a significant development in global Islamic crowdfunding development. Regarding legal infrastructure, the central bank of Saudi Arabia's regulation updating the crowdfunding rules is also an important development on the public side.

In addition, the issuance of a license by the Capital Market Authority in Oman to the first Islamic crowdfunding platform in the country is noteworthy in terms of the expansion of Islamic crowdfunding.

Preview of 2023

The most crucial capital market mechanism is the secondary market. When micro investors are analyzed, it is observed that their investment periods are not longer than a few months. In particular, the need for a secondary market becomes crucial due to the large volume of crowdfunding by Generations Y and Z and their fast and variable decisions. In 2023, Turkiye aims to establish a secondary market for crowdfunding and Sukuk products to spread capital to the grassroots.

The publication of the AAOIFI Islamic crowdfunding governance standard in 2023 will be an important development. Supporting the sector in terms of the basic principles of Islamic finance while public regulations continue will enable the sector to establish a more selective and secure platform.

The upper limit set by public authorities for campaigns is the main factor hindering the sector's development. Although crowdfunding is initially seen as an alternative financing tool for SMEs and start-ups, it can increase participation in high-cost but calculable and predictable safe public projects. Particularly at this point, interest costs and the high fixed investment capital requirement in social housing projects developed for low-income people make the housing market increasingly inaccessible.

In Turkiye, the state has launched a project of 500,000 social housing units, 250,000 residential land plots and 50,000 workplaces with an investment of TRY170 billion (US$9.12 billion). The state has committed to a 40% subsidy on housing sales in the project. Part of the project financing will be provided by the TOKI crowdfunding platform, which was established by the state to produce social housing.

Conclusion

The Islamic crowdfunding sector is estimated to be below 1% of conventional crowdfunding, with an expected market size of US$100 million as of 2022, with 48 platforms. The lack of public regulation of Islamic crowdfunding platforms and Shariah governance legislation are the main reasons for this situation. The potential of Islamic crowdfunding is much higher than that of the conventional system.

In particular, when considering calculable and predictable public projects, renewable energy plants and many initiatives and projects with green status, two main factors emerge: high social impact and high profitability. In this context, with the completion of the Shariah governance standard and legal regulations of the countries, the production of macro projects and initiatives with micro investors will be facilitated.

Exploring opportunities of quantum computing for Islamic finance

Prof Dr Abderrazak Belabes *is a senior researcher and professor at the Islamic Economics Institute, King Abdulaziz University, Saudi Arabia. He can be contacted at abelabes@kau.edu.sa.*

As quantum computing becomes a reality, opportunities for Islamic finance are emerging. At present, two uses seem very real for the changing banking sector: risk anticipation and financial product valuation. This article sheds light on the opportunities that quantum computing offers in solving these problems and sensitizes Islamic finance stakeholders and players to intelligently elaborate a long-term future vision for the use of technology and not run blindly behind technology bubbles such as the digital one.

Review 2022

Traditional computers operate on a binary system of 1s and 0s and store information in bits. Quantum computing is based on the principles of quantum physics. It involves processing information stored in the form of quantum bits or qubits that can be either 0, 1 or both 0 and 1 simultaneously (according to the quantum concepts of matter duality and the uncertainty principle). This superposition eliminates the binary constraints and opens up the field of possibilities in terms of calculation.

Quantum computing, which was born in the 1970s, is beginning to show promise in the areas of financial markets and risk management. Islamic banks could exploit this opportunity to introduce quantum computing into everyday financial applications. Quantum computing is attracting interest as its capabilities are infinite and open up a field of possibilities, particularly in terms of enormous computing capacities. The key advantages of quantum computing in terms of data processing speed, accuracy and predictive analysis could offer unimaginable opportunities for stakeholders and players of Islamic banks and financial service providers.

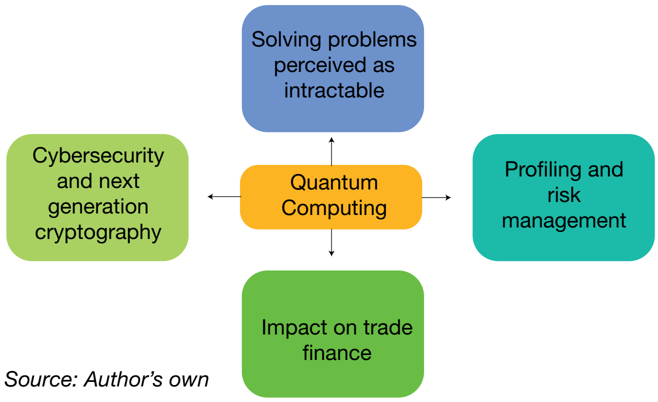
To broaden their solution set through an open dynamic system that does not depend on a single technology, no matter how promising, Islamic banks should partner to develop new approaches that combine traditional and quantum computing in the areas of capital markets and risk management, including Shariah risk and reputation risk.

One way forward is for Islamic banking to partner with technology companies to introduce quantum computing into everyday financial applications. This partnership will be with, for example, a company that develops cutting-edge technology for the manufacture of industrial quantum computers and a company specializing in quantum algorithms that can be run on both quantum and conventional computers. This partnership would offer a competitive advantage based on improved algorithms in the areas of capital markets and risk management. A great advantage is in terms of reduced implementation time for use in the Islamic financial industry.

While quantum computing is likely to have a major impact on Islamic finance if harnessed wisely, the aforementioned partnership aims to introduce quantum computing into everyday Islamic finance applications. It would bring together many different skills from people such as bankers, physicists, mathematicians, computer scientists, computer designers, and also researchers specializing in the history of technology and the ethics of technology so as not to fall into the thorny trap of realization of entropic closed systems doomed to self-destruction.
Quantum computing could be used for the Islamic financial services sector, where quantum algorithms could be applied to computationally dense models that use a large number of variables. Islamic financial services institutions can thus use quantum computing for calculations that are not feasible with traditional computing, resulting in greater accuracy, faster decision-making and redesign of business processes.

Among the applications of quantum computing that could give a competitive advantage to the Islamic financial industry (Figure 1) which includes financial markets, banks, insurance companies and investment firms, the following should be noted:

Figure 1: Potential applications of quantum computing in Islamic finance



Source: Author's own

1. Solving problems perceived as intractable in the sense that many complex financial procedures involve lengthy mathematical calculations that become more tedious and time-consuming as the number of variables increases. By leveraging machine learning and quantum algorithms that can decode patterns in large amounts of data, quantum computing can make highly complex predictions and forecasts.
2. Profiling and risk management as Islamic financial institutions need to constantly manage risk and assess compliance. While traditional information technologies can minimize risk to a certain extent, some areas such as liquidity management, product pricing and risk measurement require complex computing. Quantum computing can help these companies create advanced economic models with more variables and variances to best fit the risk profile.
3. The impact on trade finance in the sense that quantum computing could contribute significantly to trade finance. By leveraging technologies such as blockchain and cryptography, quantum computers will significantly speed up verification processes and trade finance and benefit trade finance by using a more resilient form of security than existing encryption algorithms.
4. Cybersecurity and next-generation cryptography in the sense that the Islamic financial sector will need to proactively design a post-quantum cryptography strategy. Deterring quantum cybercriminals will need encryption.

Preview 2023 and conclusion

Despite being very sophisticated, the commercial application of quantum computing technology is still some years away. However, major banks have already started experimenting with it to reap its benefits.

While there are many avenues to explore, three of them seem promising: Monte Carlo simulation, optimization, and finally artificial intelligence and machine learning. As regards simulation, a quantum approach could reduce the complexity of pricing. The idea is the same for portfolio optimization in particular, made difficult by the multiplication of assets and constraints. For its part, current machine learning has limitations in terms of speed and efficiency, which could be erased by quantum computing, thus providing a major time saving for the deployment of artificial intelligence in Islamic finance.

The promise of rapidly improving quantum technology continues to drive investment. And the ecosystem of quantum start-ups is thriving. One study estimates that the quantum computing market will grow at an average annual rate of 56%, reaching nearly US$65 billion by 2030.

Buoyant 2023 Sukuk outlook despite slow activity in 2022

Mayamine Al Saadi *is the vice-president of Islamic Finance at Natixis. She can be contacted at mayamine.alsaadi@natixis.com.*

We have seen a substantial reduction in capital market activity in 2022 — particularly with regard to Sukuk issuance— despite 2021 forecasts. This has been underpinned by several factors, including the Ukraine–Russia conflict, high oil prices and the rebound from COVID-19 economic implications. The increased market uncertainty instigated by the Ukraine–Russia war has affected investors' appetite worldwide. Furthermore, the subsequent increase in oil prices has boosted the majority of the GCC's economies and their respective balance sheets.

With higher vaccination rates and less stringent COVID-19 restrictions, the region has substantially emerged from pandemic pressures, regained consumer confidence and business sentiment.

With regards to Sukuk issuance, while progress has been made in terms of document standardization in the GCC, stronger efforts to integrate Shariah considerations into the IBOR [interbank offered rates] transition are required.

Review of 2022

On the back of the GCC economic boom, rating agencies have upgraded several regional issuers. Although this would have had a large impact on issuers' risk premia, inflationary burdens and the consequential investors' risk aversion have offset somehow Sukuk activity at least in the short term.

Throughout 2021 and 2022, an interesting progress on the documentation has been achieved. Although the adoption of AAOIFI standards as per the directive of the UAE's Higher Shariah Authority has presented some challenges for issuers and other stakeholders for a relatively short period of time, we can further witness the intended standardization in the documentation.

Moreover, other GCC countries are now replicating templates being used in the UAE to capture a wider spectrum of investors. As a result, we foresee less uncertainty with regards to documentation and wider acceptability among Islamic scholars. In 2022, Boubyan Bank updated its existing program documentation by introducing the essential amendments to align with AAOIFI standards, catering to UAE investors and, in turn, ensuring adequate secondary market performance.

New GCC Sukuk entrants in 2022 include Arada, Riyad Bank, Infracorp and the Private Department (after initially withdrawing from a transaction in July 2021).

Fixed benchmarks have been a key common feature in 2022. While the bulk of Sukuk issuances historically has been on a fixed basis, the additional layer of IBOR transition and resulting Shariah implications have made the fixed route the more straightforward choice. We believe that it is only a matter of time before the market reaches a wider consensus regarding the transition on the syndicated financing front and applies these solutions to Sukuk structuring.

The region has not yet seen an extensive number of green/sustainable Sukuk issuances despite the strong conceptual linkages between both avenues. Islamic GCC anchor investors are mostly banks which are still in the process of implementing their own framework and thus remain neutral between investing in sustainable vs. non-sustainable Sukuk.

However, we anticipate that this will change as soon as we see more sovereign sustainable Sukuk issuances in the region driving the whole market toward that direction and mimicking the Indonesian experience. Since 2018, Indonesia has been leading the market with green Sukuk gauging investors' interest around the world with comfortably oversubscribed deals including the last one issued in 2022 which was the largest-ever green Sukuk printed globally. It is also worth noting that the IsDB has raised EUR1 billion (US$987.51 million) and US$4 billion in the green/sustainable Sukuk format over the past three years.

Preview of 2023

In 2022, numerous issuers shied away from entering the capital markets in an uncertain environment with fears of establishing wider than expected pricing benchmarks; however, they would eventually need to tap the market to refinance their upcoming maturities and to manage their capital expenditures.

African and Central Asian new entrants could be seen in the near future exploring global Sukuk markets. To date, African issuers have been mostly active in domestic markets, achieving comfortable levels of oversubscription. However, in the past few years, there have been discussions about entering the international Sukuk market, following South Africa's sovereign issuance in 2014 and, more recently, the Maldives's sovereign issuance in 2021.

This has been bolstered by the efforts of the IsDB and related subsidiaries to support African credits of their member states and this, in turn, has increased investor confidence. Meanwhile, on the back of various planned projects and a number of MoUs signed between Central Asian republics and the GCC, we anticipate further cooperation between the two through accessing the GCC's Islamic liquidity: legal and regulatory framework preparation for Sukuk issuances is currently taking place in various parts of these jurisdictions.

We anticipate more sustainability-linked Islamic transactions taking advantage of larger investor pockets, supported by identified sustainable projects that serve as structuring assets, and reinforcing links between sustainable and Islamic fronts. Furthermore, exploring green/sustainable project Sukuk could be another avenue that is yet to be tested.

Conclusion

Despite the current market circumstances, we believe that issuers will eventually enter the Sukuk market, driven by their objectives to diversify funding sources and tap into Islamic investors' liquidity. We anticipate seeing more standardized templates and further endorsement from Islamic scholars globally.

In turn, this would encourage more traditional conventional issuers to explore the Sukuk market, following the lead of key past sovereign issuances, including UK, Hong Kong and South African Sukuk. The further green/sustainable agendas are pushed by GCC governments, the more expansion in green/sustainable Sukuk would be witnessed, absorbing the consequential Islamic investor demand.

Development of Islamic finance education: Challenges and opportunities

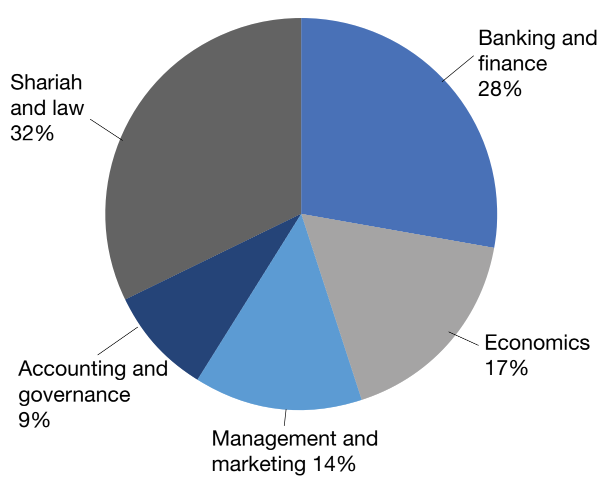
***Dr Kamola Bayram** is an associate professor at KTO Karatay University, Turkiye as well as a project consultant and advisor for project management at the International Council of Islamic Finance Educators. She can be contacted at kamolaiium@gmail.com.*

To increase the number of finance and thus qualified professionals in the field, education providers have attempted to introduce Islamic finance programs and courses, particularly over the last two decades. According to a recent report, there are currently 1,008 institutions worldwide that offer degrees and courses in Islamic finance. Malaysia and Indonesia are leaders in the education sector.

Upon analyzing the historical development of Islamic finance in these countries, we find different approaches. The common feature of the emergence of Islamic finance education is that it follows the introduction of Islamic banks. For example, in Indonesia, the first Islamic bank was founded in 1992 as a private initiative, and only after 10 years it was realized that the main obstacle in front of the development of the Islamic financial system is the lack of human resources. In Malaysia, on the other hand, the first Islamic bank was established in 1983 as a government initiative.

However, it is noteworthy to see that these two countries adopted two different approaches when it comes to the inception Islamic finance education. In the case of Indonesia, for example, Universitas Airlangga started Islamic finance education at the PhD level and followed up with undergraduate and Master's programs. Meanwhile, in Malaysia, the inception of Islamic finance started with the introduction of the course in 1991 with the same objective — to address the lack of human resources and followed up with the introduction of undergraduate programs.

Figure 1: Specialization of academics according to ICIFE domains



Source: ICIFE MIFER Report

Review of 2022

A number of conferences, online and face to face, were conducted in 2022 to address the importance of Islamic finance education, particularly at the undergraduate level. To the question of 'Why do we need Islamic finance education at the undergraduate level?', firstly we need to look at the nature of Islamic finance as a discipline. Islamic finance is a multidisciplinary phenomenon therefore it is difficult to focus solely on economics or finance or Shariah law, hence the introduction of the program depends on the objective of the industry.

It is argued that Master's programs are designed to produce graduates with good operational skills while undergraduate programs are designed to produce thinkers, hence game changers in this field, because only Islamic finance education at the undergraduate level can develop basic theories in economics, Islamic economics, finance, Islamic finance, accounting, Islamic accounting and Fiqh Muamalat.

For instance, if we examine a standard Islamic banking and finance curriculum with the nomenclature of 'Banking and Finance' at the Bachelor's level, we can expect the four-year program to produce graduates who have been exposed to various aspects of banking and finance.

After analyzing the structure of various curricula, for the purposes of this study, any program that aims to provide Islamic banking and finance education must include courses in at least six of the following domains:

1. Banking and finance
2. Economics
3. Management and marketing
4. Accounting and governance
5. Shariah and law, and
6. Others including Islamic truth.

There are also some advantages for students who graduated from Islamic finance at the undergraduate level. Firstly, when the students continue their education at the postgraduate level, they are not required to take prerequisite courses unlike students with other backgrounds.

Preview of 2023

Public universities in Malaysia have more than 30 academics in Islamic finance education, accounting for approximately 55% of all academics in Islamic finance. Private universities are smaller and less at the forefront of Islamic finance education.
In terms of areas of specialization, this study collected data from the academics themselves, where academics stated their areas of expertise or specialization based on the ICIFE domains (Figure 1).

Conclusion

To date, there are a total of 89 Islamic finance programs offered by all public universities in Malaysia and three selected private higher education institutions in Malaysia. Most of the programs (75 programs) are offered by 11 public universities while three selected private higher education institutions offer 14 of the programs. The private higher education institutions offer the highest number of programs (27 programs).

Based on the programs offered, the Islamic finance domain has the greatest number of programs (33) compared with other domains and accordingly, the student enrolment and graduation in this domain recorded the highest number within the Islamic finance program. These institutions offer Islamic finance programs at all education levels (diploma, Bachelor's, Master's and PhD). Master's degree programs are the most popular with 44.22% of the total programs offered in Malaysia. This is followed by Bachelor's degree programs (27.37%) and PhD programs (23.16%).

Most of the Islamic management and Islamic economics programs are offered at the Master's and PhD levels. A total of 196 Islamic finance graduates working in various sectors were asked about their skills and competencies. The Master of Islamic Finance (MIF) graduates include holders of PhD, Master's and Bachelor's degrees in the five domains, namely Muamalat, Islamic finance, Islamic economics, Islamic management and accounting.

The skills measured consist of interpersonal skills, computing skills, entrepreneurial skills, communication skills, thinking skills, managerial skills and language proficiency. The result reveals that overall, MIF respondents scored above average on all skills and competencies they have acquired upon their graduation with mean scores of 5.14 with the exception of low proficiency in the Arabic language.

In other words, on average, Islamic finance graduates are similar to other graduates in other disciplines, where they are equipped with employability skills and competencies that the job market requires.

Energy: Shariah and ESG finance slow and steady or just too slow?


Shibeer Ahmed *is a partner and* ***Luke Robinson*** *is an associate at Squire Patton Boggs. They can be contacted at shibeer.ahmed@squirepb.com and luke.robinson@squirepb.com respectively.*

The focus in 2021 on sustainable finance within the Islamic finance framework, in particular within the energy sector, continued into 2022. 2023 is expected to be another year of increased activity in this space; however the speed of growth in the sector is considered still too slow by many when compared against the issues it seeks to tackle.

A lot has changed in recent years, not least because of COVID-19, but it is against this backdrop that there has been a renewed emphasis on sustainable finance and a change in the way ESG and climate risks are being perceived globally despite the economy not yet having completely shaken off the effects of the pandemic. Islamic financing has huge potential to finance new and renewable energy.

Review of 2022

Islamic finance and sustainable finance are complementary, both covering values such as fairness, equality and morality, both impacting social good and both focusing on being ethical.

One of the key developments globally in 2022 in the Islamic finance sector was the increased focus on ESG lending, in particular 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 following the 2021 United Nations Climate Change Conference (COP26).

In the 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 Shariah and ESG products outperforming conventional asset classes in the energy sector.

Approximately US$4.3 billion-worth of ESG-linked Sukuk were issued in the first half of 2022 according to Fitch Ratings, with outstanding ESG-linked Sukuk growing by 11.2% in the second quarter, reaching US$19.3 billion.

Among notable Islamic sustainable transactions that took place were Bahraini state-owned Oil and Gas Holding Company's US$1.6 billion sustainability-linked Murabahah refinancing, GFH Financial Group's US$900 million Sukuk (closed by its sustainability arm Infracorp), sustainable infrastructure company ACCIONA's US$480 million green financing, Saudi National

Bank's US$750 million sustainability-linked Sukuk, Riyad Bank's Tier 1 capital sustainable US$750 million Sukuk facility (the first Sukuk to be listed on the London Stock Exchange's Sustainable Bond Market), Dubai Islamic Bank's US$750 million Sukuk facility listed on Euronext Dublin and NASDAQ Dubai, Malaysia Building Society's US$1.19 billion sustainability Sukuk Wakalah program and SME Bank's US$120 million sustainability Sukuk issuance.

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

Qatar's Masraf Al Rayan launched a Shariah compliant green deposit scheme following the launch of its Sustainable Financing Framework, and HSBC Amanah Malaysia partnered with Bursa Malaysia to develop sustainability-linked Islamic financial products and ESG solutions aligned with the FTSE4Good ratings model and datasets for public listed companies.

CIMB Islamic and Standard Chartered Saadiq introduced the market's first ESG Islamic repurchase agreement, and Abu Dhabi Islamic Bank and Bank Islam were among other Islamic banks issuing ESG frameworks in the second half of 2022.

Preview of 2023

According to S&P Global Ratings, the global Islamic finance industry is expected to see a 10% expansion in 2022–23 thanks to higher commodity prices and the relative resilience of many core Islamic finance countries to the macroeconomic shocks resulting from the Russia–Ukraine conflict.

As part of this growth, we expect to see the increased focus on ESG financings witnessed globally in 2022 in the energy sector to continue in 2023. We expect there to be several new projects in sustainable energy generation and to see similar projects that were conventionally financed being refinanced in a sustainable way, and predict a higher volume of green and sustainable, and more socially-aware, Sukuk.

The expected trend could have major implications in 2023 and beyond for Gulf states seeking to invest heavily in the renewable energy sector. Saudi Arabia aims to power half the country with renewable sources by 2030 under a green initiative.

Similarly, and following the launch of the UAE Sustainable Finance Framework 2021–31 and the government's announcement of its ambitious energy targets under the UAE Energy Strategy 2050, Abu Dhabi is planning to reduce its oil dependency and achieve a 65% contribution to GDP from non-oil sectors, and Dubai is aiming for clean energy to become 75% of its total generation mix by 2050.

Conclusion

The space should be a landscape where Islamic finance can thrive and distinguish itself due to its strong connection to an underlying ethical purpose — the Shariah principles uphold the earth's sustainability, and so Islamic financing has great potential to finance new and renewable energy. There is, however, still a long way to go before the convergences become mainstream and transpire to the wider world, not only at the policy level but in respect of shifting the mindset of those involved from one of maximizing profits to one of 'profit with purpose' — value-based language is therefore important for capturing the attention of the global population who may not follow Islamic principles.

Similarly, there is perhaps a need to rethink how products are labeled — it is likely that we will see a lot of new products develop in the coming years and, while we can state that certain products and/or structures are Shariah compliant, the best approach may be to focus on the ethical nature to attract the widest possible cohort.

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 in particular. We expect to see heightened activity in this space globally in the coming years and believe that with more success stories and market players, a much greater impact can be made.

Shariah–ESG finance is now an obligation and no longer just a requirement, and conventional financiers cannot continuously allow the complexity and expense of Shariah finance to be excuses to delay.

Global equity capital markets: Resetting expectations

Dr Mohammed Ishaq Ali *is the head of equity at ANB Invest, Saudi Arabia. He can be contacted at mohdishaqali@gmail.com.*

The financial year of 2022 was an extremely challenging year for capital markets. Geopolitics took center stage in the global capital markets in the outgoing year and not only rattled the global economy and capital markets but also disturbed international trade. This has implications for short-, medium- and long-term economic growth, and can potentially lead to reversals in monetary policies across the world.

The primary market also witnessed IPOs and subsequent listings are coming off their worst year this century. It has been nothing short of carnage for issuers, investors and underwriters. Volumes have collapsed around the world, and the 2020 and 2021 vintage of IPOs are mostly trading well below their initial offer price.

Review of 2022

The outgoing year has been extraordinary to mark the end of an era of the monetary easing phenomenon adopted by central banks across the world since the global financial crisis. A sharp and swift rise in real discount rates caused bruising losses across asset classes, ending the panacea that 'lower for longer' interest rates delivered for risky assets over many decades. Investors' preferences and liquidity shifted from equities to money market instruments.

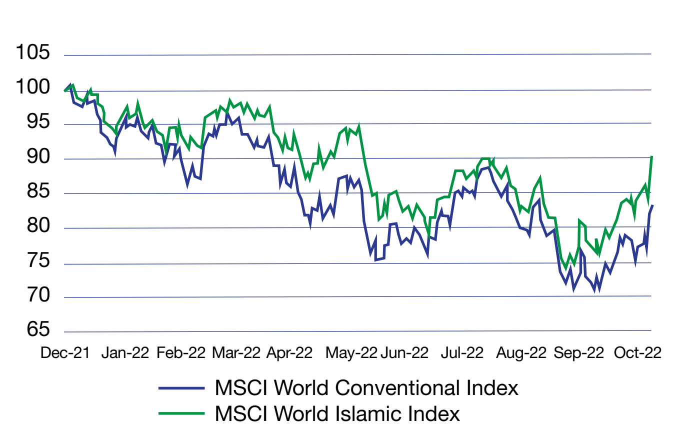
Mathematically, an investor with a portfolio of 60:40 in global equities and government bonds lost an eye-watering 17% during this year, which is an exception from the 9–10% investors would have grown accustomed to making over the last half century. Relatively, these losses were the steepest incurred in a generation, including 2008, which saw losses of 'just' 14%.

The first half of the outgoing year tested the nerves of investors when central banks around the world increase interest rates in their efforts to quench inflationary pressures. One of the biggest worries in the later half of the year was the timing of central banks to slow down, pause or even reverse their interest rate hikes. Certainly in 2022, the bulk of equity market movement can be explained by changes in the interest rate. As a result, the dividend yields generated by equities dwindled against corporate credit, particularly higher-grade investment bonds and Sukuk.

Interestingly, the Islamic equities outperformed their conventional counterparts in a period of aggressive interest rate hikes that tend to benefit banks which are heavily underweight in Shariah indices. The MSCI World Islamic Index declined by merely 11% relative to the decline of the MSCI World Conventional Index which declined by 17%, creating an outperformance of more than 6%.

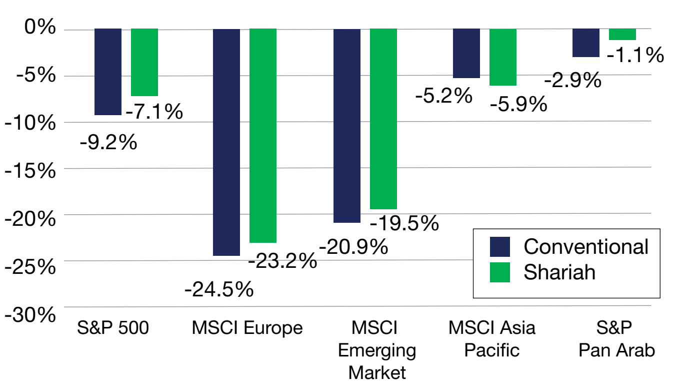
The Islamic equity markets continued to outperform their conventional counterparts across all major regions (See Chart 2) despite challenging market conditions, which can be attributed to Shariah compliant stocks from the energy sector that rallied strongly, benefiting from higher oil prices caused by OPEC+ staged production cuts and supply worries caused by the Russia–Ukraine conflict despite lower consumer demand during the year. However, the technology stocks which are relatively overweight in Islamic indices were the major drag, as they recorded the longest streak of declines, highlighting significant pressure on their earnings growth as a result of tightening policies of global central banks and rising bond yields.

Chart 1: Global equity market performance (conventional vs. Shariah)



Source: Bloomberg, year-to-date 2022, as of the 28th November 2022

Chart 2: Region-wise comparative performance: Shariah vs. conventional



Source: Bloomberg, Total Return year-to-date 2022, as of the 28th September 2022

The primary equity market also painted a gloomy picture during the year with significantly lower issuances and proceeds. This marks a trend wherein IPO companies and investors were faced with mounting macroeconomic challenges, market uncertainties, increasing volatility and falling global equity prices.

As indicated in Chart 3, the Americas and Europe delivered a subdued performance amid secondary market volatility during the year. However, Asia and the Middle East bucked the trend in terms of proceeds and number of offerings. The technology sector continued to lead by the number of IPOs, although the average deal size came down, the energy sector overtook by proceeds largely driven by three of the global top five deals during the year and the consumer products sector witnessed the biggest drop in average deal size.

Preview of 2023

The equity markets are expected to remain volatile in the upcoming year, as the corporate earnings are challenged by the weak macroeconomic backdrop and subsequent margin pressure. But for the market to reverse the bearish trend, at least one of two things will probably need to happen. The corporate earnings will have to rise leading to a re-rating of equities as an asset class in the backdrop of a possible drop in yields, or else there needs to be an interest rate hike trajectory to slow down, pause or reverse to boost investor optimism.

The corporate earnings growth for the next year is quite challenging for several reasons. Firstly, the companies have been constantly talking about margin pressures in their last quarterly earnings reports, particularly due to an anticipated rise in wage and energy costs. Secondly, the operating and net profit margins are coming off historical high levels. Another downside risk is attached to revenue growth that could be lower than current estimates, as global GDP growth is downgraded continuously. Finally, the higher interest rates will force up corporate financing costs. It is estimated that around 20% of the outstanding debt is getting refinanced over the next 12 months, impacting the bottom line substantially. Having said that, corporate earnings expectations will be adjusted, perhaps significantly in some cases.

Furthermore, the market expectations need to adjust to a world in which money has a cost again. Growth can no longer be funded with limitless debt, and the threshold for the return on capital employed must rise. Ultimately, this development is healthy and may promote the survival of the fittest, favor quality companies and balance sheets and boost income for some.

Against all odds, the new year could be an opportunity to buy stocks and position portfolios for the long term. Investors need to look out for a potential equity market turnaround when the bad news for the economy become good news for equity markets as weakening economic activity will start to lean on inflation. This could bring a slower pace of rate increases — and eventually a peak in rates in 2023.

Furthermore, investors have to treat volatility as a potential opportunity during regime shifts which tend to bring volatility and disruption, but create an environment for active stock pickers rather than passive investments. First, consider anchoring portfolios with low-volatility strategies that blend defensive names. Second, explore quality value and growth stocks at reasonable price levels. Finally, consider high-conviction themes around key pillars such as national security (eg food, energy, water, cybersecurity), climate resilience and innovation (eg artificial intelligence) and sustainability.

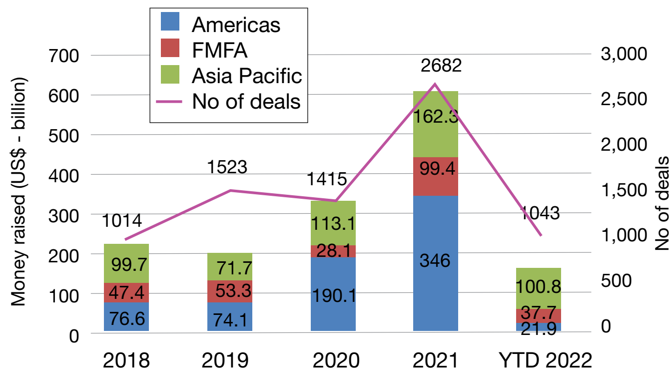
The negativity of the secondary equity market, coupled with squeezed liquidity and higher levels of volatility, points to a tough ground to raise capital in the coming year. Entrepreneurs may continue to wait for more stable and positive stock market sentiments before raising capital through public offerings.

One needs to understand that IPOs cannot be launched overnight. It is a strategic decision and requires months of preparations with substantial legal and administrative costs. It not only involves internal stakeholders but also requires the services of bankers, attorneys, auditors and other experts. The companies need to enter into legal contracts and agree on a time frame and resource allocations. Therefore, the bearish secondary market conditions may not be the deterrent for all IPO-aspiring companies for a longer period of time.

Current market conditions require offerings to be reasonably priced because when a company goes public, the investors latch on to the revenues and earnings figures which research analysts forecast, usually with management's guidance. The offer price will be roughly priced based on the valuation of relative listed peers on the basis of their forecasted earnings; then they have to offer shares to the public at a discount from the relative peers' earning multiples.

Higher interest rates will affect the IPO-aspiring companies in many ways. The companies in the early stage of their life cycle might have taken advantage of low interest rates in years past to

Chart 3: Global IPO activity



Source: Bloomberg, as of the 30th September 2022

pile leverage on to the assets in order to drive up returns. So, if a company with a higher leverage ratio goes public, it will have to issue a lot of new shares to reach a more market-acceptable 2.5–3 times of the leverage ratio. Such a large slug of new shares will crowd out the ability of the going-to-public company to sell a large quantity of shares. Moreover, any refinancing will come at much less favorable terms in the current environment. So, the inclination will be to defer any IPO until operational cash flows can organically reduce leverage.

Considering these headwinds, it is unrealistic to expect the IPO market to be robust in the coming year. However, the IPO pipelines are waiting for the market to soften next year as activity remains strong in the background in anticipation of more favorable market conditions. Around 70% of the current IPO backlog is said to be in technology, healthcare and consumer assets. If market uncertainties and volatility subside, the launch of much-awaited blockbuster IPOs together with improved post-listing returns may reverse the sentiments and attract more companies to follow.

Conclusion

In an environment of slow economic growth due to soaring inflation and rising interest rates, the new year is expected to have less appetite for risky asset classes such as equities. The corporate earnings are likely to face tough challenges in such an environment. Further, the geopolitical tensions and pandemic-related disturbances are likely to infuse more market uncertainty and volatility. However, the defensive stocks with stable earnings, low leverage, visible free cash flow and capacity to offer higher yields could offer a modest upside potential particularly from consumer staples, financials, healthcare and utilities sectors. It implies that listed Shariah compliant equities offer better prospects, as they thrive on stable business models which are less exposed to interest rate hikes and other uncertainties.

The primary market investor sentiments are largely going to be defined by global central banks' policies, rising interest rates, energy crises and the subsequent quantum of an economic slowdown. Therefore, the IPO market is likely to be sluggish in the upcoming year and candidates looking to go public for raising capital will need to be well prepared to re-price offerings at reasonable levels.

The views and opinions expressed in this article are those of the author's independent personal opinion and should not be construed to represent any institution with whom the author is affiliated. You should not treat any opinion expressed here as a specific inducement to make a particular investment or follow a particular strategy, but only as an expression of an opinion.

Global trends of ETFs in Islamic markets

Nafiseh Shahmoradi *is the expert of investment funds at Iran Fara Bourse. She can be contacted at shahmoradi@ifb.ir.*

Aref Aligholipour *is the head of financial institutions at Iran Fara Bourse. He can be contacted at Aligholipour@ifb.ir.*

All Islamic financial products are compatible with Shariah Islamic principles. These products include equity, Sukuk, investment funds and so on. It should be noted that the lion's share of this market belongs to Sukuk assets irrespective of banking (according to the IMF). Islamic finance assets have grown from US$1.95 trillion in 2014 to US$3.37 trillion in 2020. In 2020, Iran, Saudi Arabia and Malaysia have the largest value of these assets at 26%, 26% and 19% respectively (IFDI, 2021).

The first Shariah compliant fund was back in the 1960s in Malaysia and in the mid-1970s in the Middle Eastern region. These funds were launched by individuals, who were attracted by the idea of faith-based investments (PWC). In 2020, 5% of Islamic finance assets belong to funds with about US$178 billion in value. Assets under management (AuM) of Islamic funds saw an approximately 170% growth from 2014 to 2020 (about 18% per year) and exchange-traded funds (ETFs) account for about 11% of Islamic finance assets (IFDI,2021).

Review of 2022

On this note, let's take a look at ETF trends in some regions, such as Malaysia and Iran. These two countries were used as an analysis of Islamic markets for the period between November 2021 and October 2022.

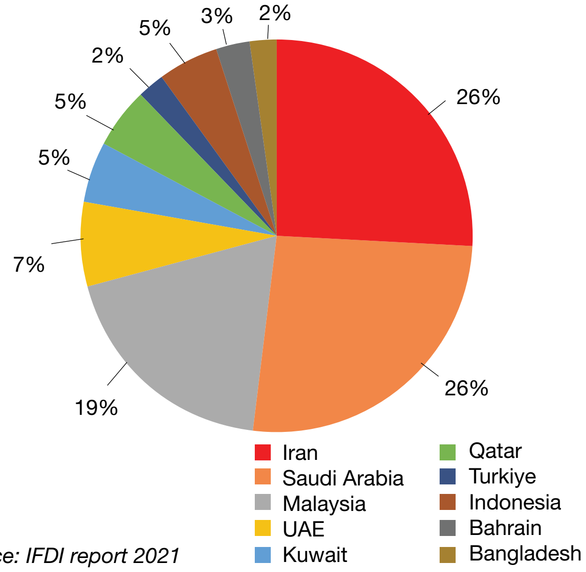
In Malaysia, AuM of ETFs saw a 0.8% increase month-over-month, a slight growth although it decreased from RM2.13 billion (US$482.56 million) to RM2.09 billion (US$473.5 million) during this period. Malaysia is known as an Islamic market but only some of the ETFs are Shariah compliant. ETFs in Malaysia are divided to 77.4% of fixed income ETFs, 17% of Shariah equity ETFs and other types of ETFs as of October 2022 (Bursa Malaysia, October 2022).

In Iran, ETFs' AuM increased about 67% between November 2021 and October 2022. About 90% of these ETFs are equity- and fixed income-based while others are energy- and commodity-based. The average growth of ETFs AuM in the Iranian capital market was approximately 4.5% each month during the year.

More than 45% of funds' portfolios belong to fixed income securities and about 20% of their investments are in equity. In the Iranian capital market, as an Islamic financial market, other types of ETFs are categorized under alternative investments such as exchange-traded venture capital (VC), private equity (PE) funds and REITs which are on the verge of evolution too. Last year, two VC ETFs, two PE ETFs and one REIT were listed on the Iran Fara Bourse. Saudi Arabia has now seven listed ETFs on the Tadawul Stock Exchange.

Many asset managers around the world, though not placed in the Islamic market, have launched Shariah compliant ETFs. Furthermore, many non-Islamic countries have listed Shariah compliant ETFs in their capital markets. In the London Stock Exchange, seven ETFs belonging to the Islamic category of the UK are listed. Singapore launched Islamic ETFs in the previous years and Jersey is known as an Islamic ETF hub, with about 13 funds.

Chart 1: Top countries in Islamic finance assets (2020, US$ billion)



Source: IFDI report 2021

Preview of 2023

The total market cap of all Islamic finance assets grew about 71% from 2014 to 2020; this amazing growth shows that this is an emerging market. The Islamic Finance Development Report forecasts an 8% growth in the next three years. Even in non-Islamic countries like in the European region, the Muslim population is increasing and the markets are looking for new sources such as Islamic finance products that will satisfy investors and other participants.

According to Fitch Ratings, the annual growth rate of Islamic funds is about 13%; however, the global mutual fund industry is growing 11% annually. The Islamic fund industry is growing rapidly because most countries are trying to acquire the largest share of this emerging market, even non-Islamic countries.

Apart from the different types of Islamic financial products, ETFs are growing globally in Islamic and non-Islamic markets. ETFs are an investment intermediary with high liquidity that will attract more investors globally.

Economic fluctuations and crises like wars or pandemics especially after the COVID-19 pandemic have increased investment risks for direct investment in capital markets, so it is predictable that indirect investment intermediaries like ETFs are raised all around the world and the significance of financial instruments can be more obvious.

About 30% of asset/fund managers invest 26–50% of their AuM in ETFs and 84% of ETF investors will increase their asset allocation to ETFs (2022 Global ETF Investor Survey).

Conclusion

By reviewing ETFs in Islamic and non-Islamic countries, it is notable that Shariah compliant ETFs and other funds are expanding globally. Each year, a new country is added to the Islamic ETF industry. In line with the advancement in technology, a new class of ETF can be seen in the Islamic finance ecosystem and each ETF has its own benefits and opportunities. For example, in recent years, the launching of fintech ETFs and digital economic ETFs are surely an attraction for the Islamic markets.

ESG and Islamic finance: Growth, enablement and nuance

Dr Aamir A Rehman *is a senior fellow at Columbia University's Richman Center for Business, Law, and Public Policy. He can be contacted at aamir.rehman@columbia.edu.*

The convergence between the broader ESG community and Islamic finance is a fundamental trend with strong momentum. The trend stems from the in-built ESG components of Islamic finance (for example, the exclusion of socially harmful sectors) and from the ongoing development of the broader ESG sector worldwide. Considering the conceptual affinity between ESG and Islamic finance, it is not surprising to see the convergence grow.

ESG has continued to thrive in 2022 despite overall challenges in the global economy and financial markets. This holds true for both the overall ESG sector and Islamic ESG initiatives. 2022 was marked not only by growth, but also by increased enablement and recognition from a wide range of stakeholders.

Review of 2022

Expansion and enablement

It is estimated that total global ESG assets may surpass US$41 trillion in 2022, representing one-third of all assets under management. Bloomberg Intelligence forecasts that the ESG sector may continue to grow at a rate of 15% per year, reaching US$50 trillion by **2025**.

Record volumes are similarly reported for Islamic ESG. After reaching US$6.1 billion in 2021, ESG Sukuk issuances were on track to exceed US$8 billion in 2022, with US$4.4 billion of issuances in the first half of 2022 alone. Green Sukuk represented US$2.4 billion of this figure, corresponding to 54% of the **total**.

In 2022, the High-Level Working Group on Green and Sustainable Sukuk, formed at COP26 [2021 United Nations Climate Change Conference], released a detailed report on the potential contribution of such Sukuk. The composition of the group — including the UKIFC, GEFI, London Stock Exchange, HM Treasury (UK), Indonesia's Ministry of Finance and IsDB — reflects the strength and diversity of stakeholders who have taken a deep interest in Islamic ESG finance. The report estimates a potential contribution of US$30–50 billion in green and sustainable Sukuk through **2025**.

In addition to governments issuing ESG Sukuk, regulators like Securities Commission Malaysia have called on the private sector to launch more **ESG funds**. Multilateral organizations have increasingly published reports and resources on Islamic finance and the SDGs. In May 2022, UNDP launched an **online course** titled 'Islamic Finance for the Sustainable Development Goals', developed in partnership with the IsDB, the IsDB Transform Fund and Durham University Business School.

These developments, as well as a plethora of other events and publications released by **global companies**, underscore the broad recognition of the convergence between ESG and Islamic finance.

Preview of 2023

Likely themes

As we enter 2023, five themes may likely emerge:

1. **ESG as a bridge**

   ESG-aligned offerings increasingly serve as a bridge between Islamic finance and the broader ESG community. As Sukuk issuers and asset managers seek to attract investors from Europe, the Americas and beyond, ESG is important.

2. **Increased nuance**

   A July 2022 cover story of the Economist magazine questioned whether ESG is broken, suggesting a narrow focus on **carbon emissions.** ESG offerings may likely become more nuanced over time, pursuing more specifically stated goals.

3. **'Sukuk plus'**

   In addition to Sukuk, funds in other asset classes (public equities, real estate, private equity, etc) will likely adopt ESG screens – reflecting investor demand and global trends.

4. **Fintech as an enabler**

   Fintech is a key enabler of ESG propositions. Fintech offers more comprehensive screening data and makes it possible to efficiently reach customers who seek ESG offerings.

5. **Ongoing stakeholder support**

   As the 2030 Agenda and other sustainable finance targets approach, we can expect a heightened sense of urgency for ESG. Governments, regulators, companies and investors may all likely continue to push for expanded ESG.

Conclusion

ESG is maturing, both globally and in the Islamic finance industry.

If fears of a global recession materialize, stakeholders' commitment to ESG may be tested. Sustained growth in ESG through the pandemic — including the uncertain times of 2020 and 2021 — suggests that jolts to the system may, in fact, lead stakeholders to increase their attention to ESG considerations.

In addition to benefiting from the global rise of ESG, Islamic finance has important elements to offer the broader ESG community. These include independent ethical supervisory boards (a protection against greenwashing), established international standards and clear mandates from shareholders to pursue more than only profit.

As ESG and Islamic finance converge, both have much to offer.

What the future may hold for family office management

***Moria Crowley** is a senior consultant at IsFin. She can be contacted at mc@isfin.net.*

With nearly two billion Muslims worldwide, it should come as no surprise that the Islamic economy is a huge market that includes different types of sectors such as logistics, finance and food which the conventional market cannot afford to ignore. The family office's objectives can be summarized as follows: as and when necessary, Shariah certifications for various capital and non-capital market investments and income production can be a requirement to make an investment and it is something that can be requested by some Muslims or Muslim investors.

Many subjects can be treated by a family office in a Shariah manner like succession, management of assets, value creation, buying and selling, investing in Shariah compliant bonds and such. Family offices have some services of a conventional family office with specificities to adapt depending on the needs of their clients. Family offices in the GCC under full self-direction are not common.

The management of wealth can be managed by a third party such as a bank or lawyer on behalf of the family. To manage this type of family office, the managing teams need to be specialized in Shariah law and work with Shariah scholars to offer the best quality of wealth products. The creation of structured Islamic estate instruments is specifically designed to meet family office needs, as well as reporting on global custody, specialized financial services, asset allocation, alternative investments and private equity in compliance with Shariah.

Review of 2022

The intricacies of family office operations continue to grow, and many organizations struggle with tools that are not built for them. According to a recent study by Family Wealth called 'Report/WealthBriefing', organizations that only serve one family typically have over 26 legal entities operating on their behalf. Family office professionals who took part in this year's poll assessed that only a fifth of the working hours were spent on manual processes, compared with their belief that 42% of the 40-hour work week was spent on manual processes overall. Family offices are investing heavily in digital assets, private equity or hedge funds, and direct investments, representing an overall increase of 5% for the fiscal year. The contributors have indicated that the difficulties associated with recording and reporting on non-traditional assets using unsuitable software for the job will significantly increase. Investment preferences are continuing to shift toward alternatives as investors look for strategies to increase diversification and returns.

The success and operational excellence in the Islamic world essentially depend on Shariah governance, risk and compliance. To improve Shariah compliance standards and instill confidence in industry stakeholders, Shariah governance has been made a requirement for organizations providing Islamic financial services. Islamic service providers now face a market that is rapidly evolving as a result of regulatory changes, increasing fintech breakthroughs and the adoption of more sophisticated techniques by regulators and central banks. Family offices' venture capital investments have decreased as a result of the deteriorating economic climate and market turbulence, but their interest in the asset class has not diminished.

According to a Preqin study, family offices in the Middle East are quite confident that China would be the emerging market with the most prospects over the next 12 months. China was regarded as the top market by 63% of the family offices questioned, compared with 30% of the region's total investor base. Managers might believe that concentrating fundraising efforts in the Middle Eastern family office sector is too specialized. However, many family-owned businesses in the supply chains for oil extraction stand to benefit from the recent price increases.

The Global Family Business & Private Wealth Centre, the first of its kind in the world and in the region, was launched on the 1st September 2022 by the Dubai International Financial Centre with an estimated US$1 trillion in wealth expected to be passed down to the next generation in the Middle East over the next decade. Advancements in industry standardization and integration; the increased issuance of green Sukuk and socially focused Islamic financial instruments; and more digitization and fintech industry collaborations are three significant areas of continuous change and evolution.

Preview of 2023

Overall, wealth and investment outcomes are quite differently prioritized by younger and older investors in the Middle East. Compared to elder investors, younger investors place more emphasis on maintaining their wealth and improving their lifestyle. Compared to younger respondents, a larger proportion of senior respondents think it is crucial to leave their successors a profitable business.

The global economy's impact on inflation and family office trends for 2023 will be significant, as it is in other regions. Strategic asset allocations would be a crucial area to reconsider. Holding cash and fixed income will not protect or produce the returns a family office anticipates in the inflationary climate. Due to their increased exposure to private debt, private equity and real estate, family offices have discovered that the private markets serve as an effective inflation hedge.

In comparison to elder investors, younger investors are also less likely to adopt their family's investment strategy, have a long-term plan and adhere to it. The vast majority of younger investors continue to hold their assets in the region, despite generational differences. Similar numbers predict that over the next three to five years, this will largely remain unchanged.

Conclusion

In conclusion, the year saw consistent improvements in the sector. There are several approaches to establish standardization and integration, as shown in the growth of state and regional authorities, as well as the rising issuance of green Sukuk and socially conscious Islamic financial instruments when coupled with increased digitization and industrial collaboration. These improvements could be adopted on a wider scale to enhance industry adaptability as well as Shariah compliance standards and industry stakeholders' confidence for offices. Third-party support will increase in demand as the industry develops and becomes more sophisticated, necessitating the onboarding of specialized skilled management.

Being discerning and proactive when making investment decisions in the upcoming year will guarantee quality assistance placement for optimal protection. Family offices have unquestionably benefited from the advancement of technology as this has allowed for more simplified and streamlined management strategies. As these technologies evolve, family offices must mirror technological shifts within the larger market. As younger investors seek to have more active and varied systems, family offices will begin to reflect the coming general changes.

Islamic finance and Sukuk industry: Reality and aspiration

Dr Nafith Alhersh Nazzal *is an Islamic banking specialist based in Jordan. He can be contacted at nafez1974@yahoo.com.*

According to recent studies, the spread of Islamic banking and finance is accelerating in the international financial markets as a result of the industry's development efforts and global competition with conventional banking. Total industry assets were estimated at US$3.6 trillion in 2021, with a cumulative annual rate of 7.88% and 1,553 fully-fledged Islamic financial institutions and windows. The Islamic finance industry is expected to contribute, with assets reaching US$5 trillion by 2025. Furthermore, the global Islamic finance assets are a major component of the Islamic economy and include five sectors, namely Islamic banking, Islamic capital markets and asset management, in addition to Islamic insurance and trust (Waqf). Indeed, Islamic finance represents 66.4% of the global Islamic economy, while other sectors include Halal food (15.5%), Halal pharmaceuticals (8.2%), media (5%) and travel (4.9%).

Review of 2022

Regarding the recent improvements in the industry, the Islamic economy has risen to the top of the agenda in several countries and is now regarded as a critical component of economic recovery policies following the COVID-19 pandemic. This followed the national Islamic economic policies implemented prior to the pandemic's arrival, most notably Indonesia's mandatory Halal law.

Saudi Arabia, the UAE, Malaysia and Nigeria have all thrown their support behind growing the Islamic economy, particularly in sectors such as Halal food, Islamic finance and fintech. Pakistan, Qatar and Kuwait announced their plans for the new centralized regulations in the Islamic finance sector to improve governance.

Islamic finance is the key driver of the overall ecosystem. Malaysia has retained the top spot in the Global Islamic Economy Indicator for the ninth consecutive year. Malaysia is followed by Saudi Arabia, Bahrain, Kuwait, the UAE and Indonesia, as well as Iran, Oman, Qatar and Jordan.

Malaysia's Islamic finance sector has expanded further, with a 9% increase in Islamic finance assets and a 20% increase in the value of Islamic funds. Saudi Arabia's strength in the Islamic finance sector continues to grow in all sectors. Moreover, new players have entered the race, such as Pakistan, the UK, Singapore, Nigeria, Sri Lanka and Kazakhstan.

Based on several notable investments and the funding of OIC start-ups, Islamic finance is slowly recovering from the effects of the pandemic, with Islamic banks' profitability rebounding after 2020 drops. Because of the pandemic's weak effect and expansions of activities and works in financial markets, the profitability of Islamic financial institutions increased in 2021 and 2022.

In fact, the past year has been a watershed moment for the Sukuk sector, with new benchmarks established. The global Sukuk market is expanding, and corporate Sukuk issuances have increased. For example, according to the latest study by Refinitiv, Sukuk supply reached US$726.8 billion in the first six months of 2022 and is projected to increase to US$742.3 billion by the end of the year.

Malaysia, Saudi Arabia and Indonesia remain the largest issuance hubs for Sukuk, together accounting for 75% of the Sukuk issued in 2021 and the first half of 2022. Sukuk that are environmentally friendly and sustainable are gaining popularity around the world, thanks to the increased support from the IsDB and commitment from OIC member countries such as Indonesia.

Furthermore, the total value of outstanding Sukuk and Islamic funds reached US$630 billion and US$174 billion respectively. The IsDB is a major player in the Sukuk market and issued a US$2.5 billion sustainability Sukuk facility, and Malaysia issued the world's first sovereign dollar-denominated Islamic finance sustainability-related commercial notes. The World Bank has acknowledged that Islamic finance supports the UN SDGs.

Preview of 2023

In 2023, the global Sukuk market and corporate Sukuk issuances are expected to grow. Islamic financing based on the Sukuk instrument also continues to bolster growth in real economy sectors such as construction, real estate and electricity, in addition to financing the government's deficit in some countries. The IsDB has issued a Sukuk facility linked to the Secured Financed Overnight Rate (SOFR), a significant development given that most Sukuk are currently linked to the London Interbank Offer Rate (LIBOR) or its variants.

LIBOR is set to be phased out by 2023, with SOFR taking its place as the new global benchmark rate. Furthermore, Sukuk issuances will be directed toward sustainable investments, or 'green' investments, in addition to the usual Sukuk sectors.

Conclusion

Green and sustainability Sukuk are gaining market traction, indicating growing investor interest in actively balancing social impact with financial returns. Therefore, it is vital for regulators to have a governance structure that will control the norms of Islamic finance and ensure the good compliance of Islamic financial institutions with the Shariah rules issued by the legislative institutions. In summary, the commitment to good governance in the Sukuk industry will lead to a flourishing Islamic finance and Sukuk sector operating in accordance with best practices and in a way that ensures its continuity and sustainability, as well as no deviation from the right path.

Escalating Halal industry growth to accelerate global economic recovery


Dr Sutan Emir Hidayat *is the director of the Islamic Economy Supporting Ecosystem at the National Committee for Islamic Economy and Finance (KNEKS), Indonesia.* ***Ardhini Jacinta*** *is the analyst at the Directorate of Islamic Supporting Ecosystem. They can be contacted at sutan.emir@kneks.go.id and ardhini.jacinda@kneks.go.id respectively.*

Muslims' spending increased 8.9% year-on-year (y-o-y) from 2020 to 2021 and is forecasted to grow by 9.1% in 2022, according to the State of the Global Islamic Economy Report (SGIER) 2022. At least 1.9 billion Muslims worldwide spent a total of US$2 trillion in 2021 for food, pharmaceuticals, cosmetics, fashion, travel and media/recreation. It shows that the Islamic economy is still flourishing amid the economic impact of the COVID-19 pandemic.

Moreover, some countries, including Indonesia, implemented Islamic economy policies before the COVID-19 pandemic which resulted in a huge contribution to the recovery of the Islamic economy. The positive trend of the growth of the Islamic economy and its tendency to be more resilient to economic shocks make it seem possible to reach its forecasted growth in 2025 of US$2.8 trillion of total Muslim spending globally.

The financial sector is one of the most affected sectors in the world during the COVID-19 pandemic. However, SGIER 2022 indicated that Islamic finance has bounced its total value to US$3.6 trillion in 2021 and is forecasted to reach US$4.9 trillion in 2045. This rebound was followed by Islamic fintech, which is forecasted to increase from US$49 billion in 2020 to US$128 billion in 2025.

The consistent growth of the Islamic finance sector, especially amid the economic shocks due to the pandemic, shows the resistance of Islamic finance to the economic crisis. Moreover, investment in the Islamic economic sectors grew from US$11.8 billion in 2019/2020 to US$25.7 billion in 2020/2021, reaching 118% of YoY growth, dominated by the UAE, Indonesia and Malaysia.

The Halal food sector, the highest Muslim spending besides the Islamic finance sector, has a total of US$1.19 trillion in 2021 and is forecasted to reach US$1.67 trillion in 2025. On the other hand, the lowest Muslim spending is Halal cosmetics, with a total value of US$70 billion in 2021 and forecasted to reach US$93 billion in 2025. As the second-highest sector for Muslim spending, modest fashion has a total of US$295 billion of spending globally and is forecasted to increase to US$375 billion in 2025.

Meanwhile, the media and recreation sector has a total of US$231 billion of Muslim spending globally in 2021 and is forecasted to grow to US$308 billion in 2025. The global Halal tourism sector reached a total value of US$102 billion in 2021 and is forecasted to reach US$189 billion in 2025. In pharmaceuticals, there was at least US$100 billion of Muslim spending globally in 2021 and forecasted to grow to US$129 billion by 2025.

Review of 2022

Looking back over the past 12 months, there were the improvement of technology and the expansion of investment in the Halal food sector by some OIC countries as their strategic ways of facing the disruption of the supply chain from the impact of the pandemic in 2020 and 2021. The Islamic Organization for Food Security has identified various programs to achieve food security and self-sufficiency.

For instance, Saudi Arabian food giant Almarai invested US$1.76 billion to double the poultry market share and there was a US$7.2 million investment from Brazilian meatpacker BRF for the new Saudi facility.

On the other side of the world, Malayan Flour Mills's received an investment of a total of US$104 million from US-based Tyson Foods. Regarding technological improvement in the Halal food sector, Nigeria has launched the first agricultural electronic center in Africa to develop climate-smart farming. Moreover, the first Halal blockchain network in the world has been developed by Malaysia's Malakat Ecosystem to trace the origins of imported beef.

Indonesia has made a considerable contribution to the Islamic finance recovery after an economic shock due to the pandemic since it has notable growth markets and is supported by a big merger of Islamic banks in Indonesia. Indonesia also invested a total of US$300 million from the Hajj Fund in the hotels in Saudi Arabia for its contribution to the expansion of Shariah compliant investment.

In terms of Islamic fintech, it is notable that Indonesia's BukuWarung fintech has received the most prominent Series A investment with a total of US$60 million. This fintech focuses on developing and digitalizing MSMEs in Indonesia. The total of 64.19 million MSMEs in Indonesia, which contributed to 61.97% of the GDP, will lead to the expansion of the real sector in Indonesia, especially in the Halal industry.

Preview of 2023

Apart from being the largest sector, the growth of Halal food and Islamic finance is forecasted to remain steady from 2022/2023 to 2023/2024 at 7.1% and 7.9% respectively. This constant growth will also be experienced by the media and recreation sector, with a 7.4% growth from 2022/2023 to 2023/2024. Nevertheless, Halal cosmetics and modest fashion are forecasted to be the sectors with the highest growth, which will increase from 7.2% in 2022/2023 to 7.4% in 2023/2024 and from 6% in 2022/2023 to 6.2% in 2023/2024 respectively. Simultaneously, Halal tourism and Halal pharmaceutical growth are expected to increase slightly from 6.9% in 2022/2023 to 7% in 2023/2024 and from 6.6% in 2022/2023 to 6.7 in 2023/2024 respectively.

Conclusion

The data from SGIER 2022 showed that there would be a positive trend of the Halal industry in almost every sector in the year ahead regarding the economic recovery process in each country. Aside from the massive growth of the Halal industry in the world, there is still a huge potential market that needs to be utilized effectively. Appropriate technology and policies will be two significant factors in the effort to enable a conducive environment for the Halal industry to expand extensively in each country. Meanwhile, improving the synergy of each country has become another critical thing to create an efficient and effective Halal industry ecosystem.

Rethinking Islamic financial sector talent for the future

***Dr Azura Othman** is CEO of the Chartered Institute of Islamic Finance Professionals. She can be contacted at azura.othman@ciif-global.org.*

Over the last few years, the demand for a sustainable pipeline of talent in Islamic finance has accelerated with the adoption of digital technology in financial services. It is no longer about having only the knowledge of Shariah and Islamic products but also its application to the current wave of technological innovations happening in the financial services industry.

There is an urgent need to fill in the digital skills gap for readily available talent around the world to harness the growth potential of new technologies. With greater push by authorities around the world toward climate change remediation, sustainability considerations have also taken center stage in the agenda of global financial institutions. For the Islamic finance industry, not only are talents required in these emerging areas but also talents who are conversant with the Shariah considerations therein.

To prepare the workforce of the future, upskilling of the human capital is key. For most institutions, bridging the skills gap is a challenge that cannot be solved in isolation. A dynamic and sustainable talent ecosystem is crucial to continuously enhance talent capabilities and support the transition of the financial sector workforce. This is an area where there is a continuous need for the industry and its stakeholders to come together to take collective action.

Review of 2022

Looking back over the past year, the world has generally accepted the new way of living amid the COVID-19 coronavirus. With the challenges faced during the pandemic and the widespread shift for people to work from home, the workforce was compelled to quickly adapt to the use of technologies to ensure business was carried as usual. With it came the demands of a reset of new skills and priorities. Institutions or organizations that fail to adapt will be affected and lose their ability to attract, retain talent and stay relevant in the industry which will indirectly affect their capacity to grow holistically and retain a competitive edge. This is true not only in terms of business operations but also in terms of human capital development.

In the context of Islamic finance talent development, the changing landscape of the industry in terms of technological innovation and sustainability focus had necessitated scholars and talents to be more conversant in solving complex and contemporary problems including geopolitical considerations faced by the financial world. This reinforces the need for talents who are able to learn, apply and deploy emerging business models as well as new technologies.

In other words, the Islamic finance industry workforce currently should no longer focus on having a comprehensive understanding of Shariah, economics, legal or accounting knowledge only, but also the agility to be more digitally-savvy, with the ability to innovate and integrate technology and data in business concepts. For a more holistic workforce, professional education that emphasizes on continuous personal development with contemporary skills while at the same time promoting professional and ethical Islamic financial practice must be encouraged.

Given the convergence between Islamic finance and sustainability and the similarity in the moral precepts of Islam and the goals of Islamic finance with the UN SDGs, Islamic finance education needs to refocus toward the philosophy behind Islamic finance which should be the foundation on which Islamic financial products are developed.

For instance, when Islamic products achieve the goal of social benefits in Islamic finance, it ties to the SDG objective of poverty alleviation and reduced inequality.

Preview of 2023

What's next for the Islamic finance talent ecosystem?
With widespread use of technology, the mode of learning has mostly changed to online and can be taken from anywhere in the world. Courses are now generally 'bite-sized' and 'on demand', and are no longer limited by subject, time, geographical location and cost.

Nevertheless, globally there is a lack of framework in the financial services sector, especially in Islamic finance that guides education and training, career development and skills upgrading toward a common skills language for individuals, employers and training providers.

As a result, benchmarking the quality of training and education as well as the competencies of workforce may be challenging. This is where employers, industry associations, education providers, professional bodies and the regulators can work together to co-create a skills framework for the industry that will provide the key information on the career pathway, and the existing and emerging skills required for the industry.

With a full suite of Islamic finance training and education being offered currently be it at the tertiary or professional level, the presence of a globally benchmarked standard in Islamic finance education can ensure talent pipelines are being built according to the needs of the industry.

In this respect, the relevant authorities must provide an enabling policy environment to support these efforts and developments. In addition, better coordination of the Islamic finance talent institutions can avoid duplication of roles and provide an ecosystem that is more focused on efficiency and maximum impact.

Conclusion

The growth of Islamic finance talent for the future therefore greatly depends on the opportunity, ability and willingness to gain knowledge and master technology and innovation on the part of the workforce. This needs to be supported by access to a comprehensive upskilling and learning infrastructure and globally benchmarked education.

Talents of the future need to be more versatile and have a global and macro perspective in order to bring value and innovation to the industry and its stakeholders. It is time for the role of professional bodies to be brought to the forefront as a platform for talents to advocate Islamic finance's revival to reap the new opportunities of the future.

Outlook on development of Islamic investments

***Pankaj Gupta** is the co-founder and co-CEO of Gulf Islamic Investments. He can be contacted at communications@gii.ae.*

Interest in the Islamic asset management industry's Shariah compliant financial instruments extends beyond the Muslim Ummah. Smart investors have grasped that the principles governing Islamic finance were attractive to other investor groups; the concepts of honesty, fairplay, trust and shared equity championed by Islam are also shared by non-Islamic societies. They call this new practice 'ethical investing', but the ethics of our Shariah compliant financial world are centuries-old.

Institutional asset managers seek to combine Shariah principles with a reliable, competitive return on investment and defined business practices — occasionally termed ESG principles. Although Islamic finance companies are ahead of this curve, the search for new ESG-related financial instruments has produced growth in Islamic managed assets.

That market (Islamic banks, Sukuk and Takaful) reached an estimated US$3 trillion of assets in **2021**. Assets under management (AuM) in Islamic funds increased substantially with an annualized rate of 13% over the five years to the end of the third quarter of 2021 (compared with 11% for non-Islamic mutual funds globally over the same period) (ibid) — 84% growth in Islamic funds in cumulative terms, compared with 68% for all mutual funds.

Saudi Arabia and Malaysia remain the preeminent Islamic fund domiciles worldwide, accounting for two-thirds of industry assets. Saudi Arabia-domiciled funds had US$41.5 billion AuM in **2021**, against US$35.5 billion in Malaysia. The UAE and Indonesia followed, the latter with a compound annual growth rate of 11.7% since **2017**.

Review of 2022

A challenging year

As the COVID-19 pandemic eased, financiers left established asset locations for emerging markets, though conflict in Ukraine has complicated this trend. The Islamic asset management sector demonstrated resilience and innovation, as Shariah compliant investment firms sought new ways of attracting capital and recovering forward momentum.

Leading examples include Qatar Insurance Company and QInvest bank combining in an Islamic asset management venture in **April**, and **Labuan FSA**'s new International Digital Asset Centre, leveraging its Islamic financial services legislation, trust law and digital delivery schemes to attract fintech companies and digital asset holders.

In western Asia, **Saudi Arabia** — the largest global incubator of Islamic financial assets at US$800 billion (28% of total global Islamic assets) — focused on open banking to enhance innovation and competitiveness, improve efficiency and develop its digital economy. Its Vision 2030 objectives encompass fintech and digital developments through its Financial Sector Development Program (FSDP), including a 'Global Award for Islamic Finance' to inspire advances in the Islamic finance industry, and open finance training programs at its academies.

In neighboring UAE, while bank assets rose to US$950 billion in July 2022, Islamic assets were broadly steady, increasing 2.3% during the first seven months of 2022 (US$3.65 billion). Total Islamic bank investments reached US$26.3 billion in July, a 14.4% rise during 2022, and a 17.1% leap **year-on-year**.

The use of Islamic financial products against conventional options narrowed to just 1% in 2022 (ibid) (61% of customers had conventional products, against 60% with Islamic products) — confirmation that consumers increasingly choose Shariah compliant solutions, reflecting the UAE's Islamic banks' reputation as reliable and trustworthy.

Preview of 2023

What we hope to see

We expect more innovation in Shariah compliant institutional asset management offerings, including non-Islamic fund managers offering tailored structures to permit Shariah compliant investors to access their funds as asset managers minimize risk in troubled times. Shariah–ESG strategies also offer advisory opportunities for Islamic fund managers.

The trend of non-Islamic institutions offering Shariah compliant options will continue. 'Offshore' jurisdictions such as Jersey (Channel Islands) have become Islamic exchange-traded fund (ETF) hubs. Luxembourg's multiple commodity ETFs (notably gold) claim Shariah compliant status; its Islamic mutual funds can be sold in the EU and third-world countries, tapping into global demand for Islamic investment **products**.

Positive movements on two perennial challenges to Islamic asset management — bankruptcy regulations and the standardization of Shariah compliance laws — would be widely beneficial. Some jurisdictions have updated their bankruptcy laws, but their practical application among secular legal systems is often untested.

The UK CFA asked (ibid): "How would bankruptcy courts treat Sukuk defaults compared to (regular) bond defaults, whether investors will have full recourse to the issuers, and if Sukuk certificate holders will be able to enforce their contractual rights in local courts?"

On regulation, Dr Mohamed Damak, the senior director and global head of Islamic finance at **S&P Global Ratings**, suggested that mandated regulatory compliance with AAOIFI standards in the GCC had slowed some Sukuk **issuances**. He considers standardization to be critical for the sustained growth of Islamic finance — not a new proposal, but an important and valid one.

Are AAOIFI and similar regulations too onerous, especially an institutional response to those seeking easier paths to attract funds to a Shariah compliant home? Regulators and boards of Islamic financial institutions will decide which interpretations to apply; having stricter regulations does not necessarily equate to funds seeking alternative locations, though it can increase operational costs.

Conclusion

Islamic institutional asset managers across the Ummah and beyond have an exciting future, with a flight to asset quality, reliability and an ethical investment basis. Discussions should continue between financial practitioners, experts in Shariah-related aspects of investment and asset managers on standardizing Islamic financial products. Ensuring a continued focus on risk, sharing, social equity and 'doing good' will demonstrate the ongoing value of our Shariah-guided practices across the globe, reinforcing the advantages of Islamic institutional asset management.

Fintech is growing fast: Here's what to expect in the next phase of its development

Lingxi Wang *is the managing associate at Foot Anstey. He can be contacted at lingxi.wang@footanstey.com.*

Just one year ago, we reported on how the world was charting a course out of the COVID-19 pandemic with a keen desire to get 'back to business as usual'. In 2022, we have seen the Islamic finance sector make good on that desire and witnessed the crucial role of fintech companies in facilitating digital access to financial products and services. With the global Muslim demographic getting younger and more tech-savvy, we can expect the pendulum to swing even more sharply toward digitization in 2023. But while the Islamic fintech sector is showing signs of maturing, in many ways it is still embryonic. Collaboration, capital and consumer education will be key to ensuring the sector thrives in the next phase of its development.

Review of 2022

The past year has seen the indomitable rise of Islamic fintech. There are currently 375 fintechs worldwide and more countries are seeing Islamic fintech activity or are well-placed to facilitate it. Some players have exited, but there are also new market entrants. Demand for Shariah compliant products is high and fintechs are positioned to offer more cost-effective models.

Leading the charge are Malaysia and Saudi Arabia, which top the Global Islamic Fintech (GIFT) index 2022. Bolstered by support from government and regulators, Malaysia has seen a dramatic increase in the digitization of banking services and earned a reputation for being a leading Islamic financial technology hub, **ready to captain the entire global Islamic fintech industry**.

Digital banking services have grown in sophistication. Unlike traditional banks, fintechs operate in an **'ecosystemic'** way, implementing and building on customer feedback to update and improve on their applications, add new features and remain responsive to cyberattacks.

We have also seen more active collaborations between fintechs and established banks. One of Kuwait's leading Islamic banks, Boubyan Bank Group, led the way back in 2021 when it launched Nomo, its **new fully-licensed UK digital bank**. Now **Simplifi has partnered with Abu Dhabi Islamic Bank (ADIB**) to bring Simplifi's cards-as-a-service model to Egypt and help companies issue scheme-enabled prepaid cards by reducing the cost to launch and time to market.

Fintechs and tech firms have embraced the spirit of collaboration. A joint venture between **Ethis and IBF DigiLabs** will see the development of 'Islamic Value Analytics', an artificial intelligence-driven data-powered technology to measure and monitor positive social and environmental impact against goals.

In line with our 2021 predictions, banks have taken action to address the heightened cybersecurity risks of the evolution of digital banking. ADIB has become an official member of **UAE Trade Connect**, which uses blockchain to detect suspicious transactions and prevent fraud.

Preview of 2023

Fintechs are thriving and the forecast is bright. The Islamic fintech market size is predicted to reach **US$179 billion by 2026** and it is

not just Muslim-majority countries that stand to gain as we can also expect the rise of Islamic platforms in non-Islamic jurisdictions.

Seven out of the top 10 countries for Islamic fintech activity are OIC Muslim-majority countries, but the list also includes the **UK, Singapore and Hong Kong**. The **UK has 27 Islamic fintechs**, outstripping the UAE's 15, and is listed in GIFT Index 2022 as **among the top five conducive ecosystems** to Islamic fintech in the world.

The coming year will see fintechs **unlock access to savings and financing products** for both retail and SMEs. SMEs have traditionally experienced difficulty obtaining access to financial services but industry participants predict the fund-raising sector **will see tremendous growth in 2022–3**. Islamic fintechs will offer Shariah compliant solutions such as Islamic crowdfunding platforms like **EthisX**, the first-of-its-kind cross-border ethical private capital marketplace.

Islamic fintech has a bright future, but it won't get there without the right conditions to nurture its growth. To ensure the sector reaches full maturity, banks, governments and regulators would do well to remember the following:

Collaboration — banks and fintechs need to continue to work hand in hand. Islamic banks need to participate in Islamic fintechs in order for subsectors like capital markets and insurance to flourish.

Capital — investment capital is scarce. We need to scale up investment in Islamic fintechs and develop Shariah compliant venture capital funds to provide early seed funding for innovative fintech start-ups to make the most of the opportunities available.

Consumer education — this is considered the **number one hurdle to growth**. Low financial literacy impedes the progress of financial inclusion and the 2030 Sustainable Development Goals. We need to ensure future generations are prepped to take advantage of fintech innovations and create a pipeline of talent by identifying and scaling up innovative fintech solutions via accelerator programs such as **FIKRA**.

Conclusion

The COVID-19 pandemic might seem like a distant memory but we are still seeing the after-effects through the rapid uptake of digital financial products and services. Demand for fintech is surging and with the right backing, fintech start-ups will be poised to meet it. But to make the most of these opportunities and foster sustainable growth, the sector still needs help to learn to walk before it can run.

The growth of Islamic index-based strategies

Eduardo Olazabal *is a senior analyst at S&P Dow Jones Indices. He can be contacted at eduardo.olazabal@spglobal.com.*

Islamic indices provide market participants with a comprehensive set of Shariah compliant benchmarks for equities and Sukuk, covering a wide variety of investment themes and strategies. These have been created to support the investment needs of the Islamic investment community and have gained considerable traction over the past years.

Review of 2022

Landscape of Islamic funds

Shariah compliant investment strategies have been offered for many years in an actively managed mutual fund wrapper, with predominance in traditional Islamic markets such as Malaysia and Saudi Arabia. However, index investing has made significant inroads in this category over the past five years. For example, more than one-half of currently available Islamic index funds were launched after 2017. Also, Islamic index funds, unlike their actively managed counterparts, are now available to most investors around the world — in North America, Europe and other Islamic markets in the MENA and Asia Pacific regions.

As of the 30th September 2022, there were over US$4.7 billion in assets tracking Shariah compliant indices in mutual funds and exchange-traded funds (ETFs). This represents an increase of US$425 million year-on-year and US$ 3.4 billion since 2017. While it is still a relatively small asset base compared with other major categories, this segment ranks among the fastest-growing, with an annualized growth of 30% since 2017. Islamic ETFs have been a key part of this trend, with a general proliferation of new products across investment themes and listing regions.

Growth of Islamic ETFs

This year has been exceptional for Islamic ETFs; there were US$1.5 billion-worth of assets under management (AuM) tracking Shariah compliant indices as of the 30th September 2022, representing 13% growth year-to-date, despite difficult market conditions. Islamic ETF AuM have been supported by the launch of eight new ETFs this year, along with all-time-high inflows of more than US$500 million.

These recent launches have raised the total number of Islamic ETFs to 24, covering a wide set of investment exposures from global, regional and country-specific cores to more specialized investment themes such as factors and real estate.

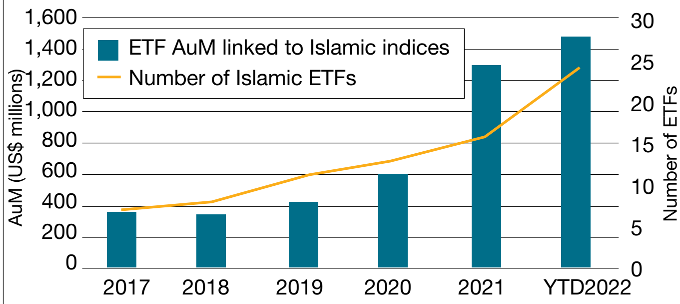
Another notable aspect of this growth is that demand seems to be global, as Islamic ETFs have become more readily available to investors outside of the MENA and Asia Pacific regions and have extended into North America and Europe.

Preview of 2023

Trends in Islamic index investing

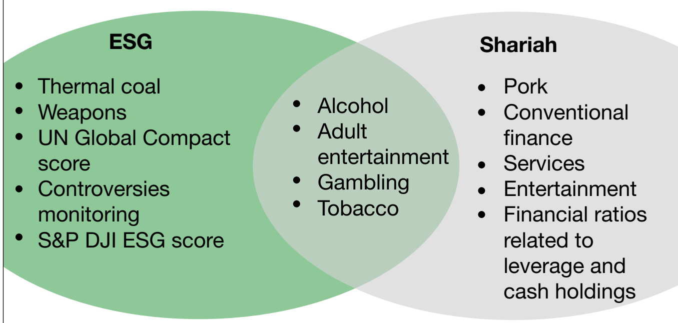
Trends in Islamic indexing tend to mirror what is happening in the broader market. A push toward ESG and climate indices continues to be a major theme around the world. This year, S&P Dow Jones Indices launched Shariah compliant versions of major headline ESG indices such as the **S&P 500® ESG Shariah Index**, **S&P Europe 350® ESG Shariah Index** and S&P Pan Arab Composite ESG Shariah Index, among others.

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



Source: FactSet. Data as of the 30th September 2022. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

Chart 2: ESG and Shariah screens for the S&P Global 1200 ESG Shariah Index



Source: S&P Dow Jones Indices. Chart is provided for illustrative purposes

The combination of ESG and Islamic finance principles in an index framework ensures applicable quantitative and qualitative screens are applied to identify and exclude companies violating specific ESG and Shariah compliance criteria. This approach seeks to more adequately satisfy investors looking to combine ESG and Shariah benchmarks.

Demand for more ESG versions of Shariah indices is likely to continue, particularly for indices that can be used to underlie tradeable products, following a broad market trend toward the issuance of more ESG and climate-aligned investment products.

Moreover, there has been a surge in listed funds for core and factor indices that cater to local market participants, particularly in GCC countries and Malaysia. As the local product ecosystem continues to grow, the interest of investors for more products with different exposures is likely to grow as well. Some of these exposures are not currently available offshore but can be found locally (eg ETFs tracking Shariah compliant indices with exposure to Saudi Arabia, Kuwait, the UAE, Turkey, China, etc).

Conclusion

Islamic indexing continues to experience accelerated growth in assets and product issuance, despite recent market volatility. Increased availability of new exposures across markets and education on the benefits of indexing could help sustain this trend in the near term. Also, as we experience greater adoption of more sustainability-focused investments, strategies combining ESG and Shariah may become one of the key drivers of growth in Islamic investments.

Fundamental economics: Replacing debt with real assets

Hudhaifah Zahid *is CEO of econommi. He can be contacted at hudhaifah@econommi.io.*

When speaking about Islamic finance, four terms stand out among others: (1) Musharakah (partnership) is the enterprising spirit. It is about discovery, equity, risk and reward; (2) Murabahah (value-added resale) is the supply chain, moving goods to and from economic centers; (3) Mudarabah (commission) is at the heart of all business sales — connecting people and resources; and (4) Ijarah (leasing) is the foundation upon which all else is built. It funds and returns yields on infrastructure and assets.

Review of 2022

Sovereign and corporate Sukuk

Unsurprisingly, the biggest news on Ijarah in 2022 came from sovereign Ijarah-based Sukuk issuances for the funding of major roadworks and national infrastructure projects:

1. **Pakistan** launched a seven-year Ijarah-based Sukuk worth US$1billion, returning 7.95% annually
2. **Nigeria** joined in July with a fund worth US$500 million yielding 13% a year for 10 years
3. **Bahrain** is no stranger to the space with a US$1 billion fund paying 5.6% for seven years
4. **Turkey** was also oversubscribed, despite risks, for an annual 7.25% on US$3 billion for five years
5. **Oman** joined the club too with a US$385 million offering of 4.85% per annum
6. **Bangladesh** is aiming for the sky with a Tranche 1 of US$500 million and 4.65% annual yield
7. **Senegal** returned after a six-year gap, also with a US$500 million Sukuk offering, and
8. **Saudi Arabia**, always a heavy-hitter, added a US$2.6 billion offer for a 5.5% annual return.

The concentration of Ijarah products has moved away from Saudi Arabia, Iran and Malaysia. Iran's participation has particularly dwindled, no doubt as a result of sanctions. Meanwhile, corporate Sukuk follow closely behind sovereign funds in size and maturity. The focus remains on construction, infrastructure and property development.

ZMI Holdings (UAE) worked closely with Goldman Sachs in its US$500 million Ijarah contract. **ACCIONA** (Saudi Arabia) is a property/construction with a climate-focus, raising US$480 million. **IndoSat** (Indonesia) went hybrid with 33% of US$15 billion in Sukuk Ijarah and the rest in bonds.

All the mentioned projects issued new offerings just this year. They are encouraged by past successes **previously covered by IFN**.

SME and retail impact

It is unclear whether smaller Ijarah investment opportunities exist or not. It is likely that the deals are close-knit and private, not gathering any media attention. Sukuk structures are of course expensive to bring together and reserved for very large projects. Still, Australia is making moves with a **US$5 million fund by Ijarah Finance**.

Beyond this, data remains patchy. The SME and retail space is mostly served by Islamic banks and there seems to be plenty of options in Muslim-majority nations.

However, the popularity of pure **Ijarah seems to be waning with banks in Saudi Arabia** and a similar experience can be expected in other nations.

Mudarabah and Tawarruq are preferred over Ijarah as they avoid ownership of the hard assets. Without debating the details, we can agree that consumers are frustrated when left with fewer options.

Nonetheless, there is a new pattern emerging, exemplified by Habib Metropolitan Bank. It is continuing with Ijarah and asset ownership, but resolving the frustration of dealing with lease operations, logistics and liabilities by **partnering up with local specialists**. This enables it to focus on the risk, capital and paperwork while outsourcing operations and relevant liabilities to partners. A similar model is employed by Vancouver car leasing and tokenization startup **econommi.io**.

Other North American companies offering Ijarah options worth mentioning are **Ijarah CDC** and **Devon Islamic Finance**.

Preview of 2023

Throughout 2022, we saw a rapid expansion in the adoption of Ijarah for sovereign and corporate infrastructure funding. This can be expected to continue into 2023 as more tranches are closed. A **Morocco–Nigeria pipeline deal** supported by the IsDB is worth keeping tabs on. Iraq is also making a comeback with a **deal signed with Jordan's ICSFS**.

Opinions on Ijarah are shifting too as Sukuk show signs of being **decent hedges against inflation**. The underlying assets for active deals have experienced slower depreciation and even appreciated with worldwide inflation rates after many years of low interest rates, post-COVID-19 spending and supply chain hiccups. This has definitely buoyed their performance.

Conclusion

As Ijarah continues to mature, we can look forward to bigger **opportunities for disruption by fintech**. In many ways, an ecosystem parallel to conventional lending should form. With banks preferring the management of securities over hard assets, they will seek more vendors to partner with for capital deployment. These vendors will take on asset ownership as well as the origination, underwriting and servicing of Ijarah contracts.

More media coverage and academic papers on these partnerships and their economic impacts would be wonderful to see. Innovations such as '**Service Ijarah for Travel**' or '**Medical Ijarah**' will spark controversy and healthy discussion.

New structures with **tokenization by Marhaba** or **REIFs [real estate investment funds] by Sohar International** should be similarly lauded and thoughtfully scrutinized.

Islamic liquidity management: Recent developments in the Islamic interbank market

Stella Cox *is the managing director of DDCAP Group. She can be contacted at ddgi@ddcap.co.uk*

Given the historical weighting of Islamic finance to Islamic banks and their requirements, efficient liquidity management has been a necessary focus. The primary objective of the Islamic interbank market (IIM) is to meet the short-term (typically from overnight to 12 months) liquidity requirements of banks and financial institutions by enabling banks with a cash deficit to take funds from banks with surplus liquidity. These are essential activities that enable banks to comply with the liquidity stipulations set by their regulator.

An increasing number of central banks now provide Shariah compliant 'lender of last resort' facilities to eligible banks and financial institutions under their supervision in their respective jurisdictions. A variety of Shariah compliant instruments are employed to facilitate these liquidity management transactions, with the most frequently utilized contracts being commodity Murabahah, Tawarruq and Wakalah.

Although the IIM has been expanding across borders for more than 40 years, the global financial crisis undoubtedly reinforced the importance of its position within the enabling infrastructure of the wider Islamic financial marketplace. During the unprecedented challenge of that crisis, it represented principal recourse to liquidity for most Islamic banks and the operational inefficiencies that became apparent during that period that caused regulators, industry infrastructure organizations and market participants to reflect upon them and prioritize delivery of solutions.

Since then, those collaborative efforts have enabled the IIM to experience exponential growth as confidence returned to the global financial services sector and our industry footprint has grown. Such rapid growth also led to an increased focus on the requirements of participants within the IIM's environment, culminating in the need for an increasing number of central banks to recognize the requirement to offer banks and financial institutions in their respective jurisdictions a Shariah compliant alternative to the conventional, short-term liquidity management facilities they typically extend to conventional sector banks. The Bank of England joined that group at the end of 2021, after a protracted development period, with the launch of its Alternative Liquidity Facility.

Review of 2022

Ensuring a diverse range of short-term liquidity products has, at times, been problematic for Islamic banks and, despite the development of various solutions, the sector lacked for some time the level of market organization and support that benefits the conventional global money market. The introduction of industry-targeted solutions by Islamic market industry infrastructure organizations has improved Islamic liquidity management and helped to boost capacity and scale.

Among them are the concerted efforts of the International Islamic Liquidity Management Corporation (IILM), an international organization that develops and issues short-term Shariah compliant financial instruments. The IILM is a regular issuer of short-term Ṣukuk across varying tenors and amounts to cater to the liquidity needs of institutions offering Islamic financial services.

Rated 'A-1' by S&P, the IILM has issued a total of US$84.19 billion across 181 short-term Sukuk issuances over the last eight years, reflecting the organization's ability to provide high-quality Shariah compliant instruments and reliable offerings to primary dealers and investors, as well as offering stability to the global Islamic liquidity market. In the nine months to the end of September 2022, the IILM achieved cumulative issuances totaling US$430 million through 28 Sukuk series, with the current outstanding issuance size amounting to US$3.51 billion.

One constant in driving forward the enablement of the IIM has been the pioneering work undertaken by the International Islamic Financial Market (IIFM). The IIFM has innovated a series of documented standards to assist Islamic financial institutions accommodate a broad range of treasury and banking products and has also supported the development Shariah compliant solutions to keep our industry abreast of global market developments resulting from the cessation of the London Inter-Bank Offered Rate (LIBOR) and the market transition to risk-free reference rates (RFRs).

These standards have established a pathway for Islamic financial institutions to navigate the transition from historical, forward-looking LIBOR benchmarks to the new, retrospective RFRs required within the core IIM, treasury, capital markets and banking products. The transition to RFRs has continued during 2022 across the world's major currencies, though further work remains to be done. For example, Sterling LIBOR is still in use for certain maturities that are due to roll off during the course of 2023.

Preview of 2023

Another positive and more recent development for the IIM, and one which has gathered great pace in the past 12 months and will continue to do so in response to globally adopted initiatives, is the ever-increasing focus on sustainable finance. ESG factors are of elevating importance within all areas of banking and finance, including the Islamic finance industry.

Banks and other financial institutions are looking at ways to embed these considerations across their culture, their operations and in their transactions and portfolios while regulators and central banks are beginning to codify ESG requirements to promote transparency and standardization.

While ESG factors are known to play a key role in generating long-term sustainable returns across all asset classes, the importance of ESG considerations in banking, including strategies for liquidity management and other treasury products, should not be precluded. The adoption of ESG considerations in IIM activity provides further opportunity to mitigate risk while effecting positive change.

For example, a significant percentage of contracts and instruments that support Islamic interbank and liquidity management requirements rely upon the purchase and sale of physical assets, particularly commodities. It is therefore of critical importance that the consideration of ESG-type factors is embodied within long-established approaches to Shariah review and validation of the contracts and the processes and procedures between parties that support their execution.

Review of such factors now will support the integration of sustainability-based values with our industry's more traditional Shariah stipulations, social impact priorities and financial governance protocols. Credit rating agencies are increasingly incorporating ESG considerations into their analysis and, during the summer of 2022, both Climate Bonds and the International Capital Markets Association, both of whose guidelines and standards for green and sustainable bonds are referenced as benchmarks by issuers of Sukuk, introduced revisions.

These amended guidelines are designed to ensure that any assets that underlie the issuance of capital market instruments, including bonds and Sukuk, are subjected to the independent, sustainability-focused scrutiny already given to the deployment of proceeds. This has potentially very significant implications for our industry given that most of our relevant financial contracts depend upon the purchase and sale of assets.

Conclusion

Undoubtedly, recent years have witnessed significant positive development in the IIM notwithstanding the challenges presented by the COVID-19 global pandemic and the crisis in Ukraine that have impacted liquidity flows across the financial markets during the past two years. These have served again to reinforce the importance of the IIM to our industry sector and participants, where cross-border expansion, the ongoing evolution of innovative liquidity management products, cutting-edge technology applications to support them and associated engagement by financial regulators and relevant standard-setters have ensured that its future is extremely positive.

M&A transactions among Islamic banks projected to continue growth

***Burak Gencoglu** is the co-founder of Gencoglu & Ergun Law Firm. He can be contacted at bgencoglu@gencogluergun.av.tr.*

The consolidation wave for the Islamic banking sector has started due to the effects of the COVID-19 pandemic on the Islamic finance markets. The pandemic's significant adverse effects on the sector and the excessive number of small banks in a number of countries, especially within the GCC region, prompted further mergers and acquisitions (M&A) moves. While slow economic growth, low oil prices and low profit margins have been the main indicators that pushed Islamic banks to be a part of M&A deals, the pandemic had also been an important factor to consider for the last three years.

M&A transactions among Islamic lenders establish a more competitive financial environment and consequently result in the introduction of relatively more favorable and varied Islamic finance tools for their customers. For the last three years, coping with the consequences of the pandemic has been included in the list as an additional motivation for M&A moves. As a result, in addition to the existing catalysts for M&A deals, the course of the COVID-19 pandemic had to be watched closely for an accurate assessment of the future of the markets.

> "The outlook for Islamic finance M&A activity is strong for the Islamic banking sector"

However, while having long-lasting effects, beginning from the first quarter of 2022, the pandemic has significantly lost its impact on the financial markets including Islamic finance M&A transactions. Although it is true the pandemic was one of the catalysts for M&A deals, we expect Islamic finance M&A transactions will continue to develop as there are other macroeconomic shocks such as the Russia–Ukraine conflict. With the more supportive economic outlook for many Islamic finance countries, bank financing growth is expected to accelerate for 2023 and beyond.

Review of 2022

In 2022, economies in the MENA region rebounded strongly from the pandemic, boosted by higher oil and commodity prices, and the continued economic momentum also restarted M&A activity in the region.

The UAE has been one of the most dynamic countries in the GCC region in terms of Islamic finance activities. A report published by EY stated that the UAE was the most popular country regarding M&A in the MENA region during the first half of 2022, with 105 deals having taken place totaling US$14.2 billion.

According to the EY MENA M&A Insights report, 359 M&A deals took place in the UAE worth US$42.6 billion in the six months of 2022 which indicates an increase of 12% over the same period of 2021. This increase was driven by continued post-pandemic economic growth across the region fostered by high oil prices and growing confidence in corporate boardrooms.

A notable deal in 2022 was carried out in Kuwait where one of the largest Islamic banks was established through an M&A deal. The merger between Kuwait Finance House (KFH) and Ahli United Bank (AUB) created one of the largest banks in the Gulf region with over US$118 billion in assets. While the merger of KFH and AUB is a notable M&A transaction in the Kuwaiti Islamic banking sector, there may be more deals to come, especially in Kuwait, in 2023. The potential merger of Al Ahli Bank of Kuwait and Gulf Bank, with one converting to Islamic, also shows the strong demand for Islamic banking and financing in Kuwait, states a Fitch Ratings report.

Preview of 2023

M&A deals complying with Islamic finance principles will likely maintain and improve its significant importance for most of the sectors but significantly for the Islamic banking sector. The outlook for Islamic finance M&A activity is strong for the Islamic banking sector; it is projected to continue its growth in 2023 despite difficult macroeconomic conditions such as the Russia–Ukraine conflict.

However, it is important to note that most of the countries involved in the Islamic finance industry are relatively resilient to macroeconomic shocks resulting from the Russia–Ukraine conflict. Therefore, this will support the Islamic finance sector's prospects for 2023.

On the other hand, different global developments may also result in different scenarios, for example the continuing and stubbornly high inflation, lockdowns related to COVID-19 and the US Federal Reserve and other major central banks taking measures against inflation.

The growth in the Islamic banking sector is expected to be supported by M&A deals which establish more competitive banks and financial institutions which will enable banks to reach out to more diverse customers.

Overcrowded Islamic banking markets, digitalization and a competitive sector can be listed among the reasons for increasing M&A deals in the Islamic banking sector. Moreover, Islamic financial institutions still lack the market share that they need to be stronger competitively against their conventional counterparts in an overbanked post-pandemic era.

Therefore, together with government backing and shareholders' trust in the M&A deals, it is possible to witness more M&As which will result in competitive Islamic banks and financial institutions providing their customers with varied quality products.

Conclusion

Unless there is an unexpected life-threatening global virus outbreak, 2023 will most likely become a similar year to the pre-pandemic era when compared with the last three years. While the impact of the pandemic will not disappear completely, its effect will be less significant. However, the world economy, including the Shariah compliant M&A market, should carefully watch for global developments along with the local situations.

Getting down to business – micro-investing in recovery and climate change

Dr Mohammed R Kroessin *is the head of Islamic microfinance at Islamic Relief. He can be contacted at mohammed.kroessin@irworldwide.org.*

This year was an almost perfect storm — a war with a direct impact on energy prices and the grain markets, climate change wreaking havoc in Pakistan and the world still recovering from the COVID-19 pandemic. Micro and small enterprises are both bearing the brunt and hold the key to recovery.

Globally, most food is produced by small holders, and micro and small enterprises are the engine of economic growth for low-income countries. Yet over 500 million people in the Muslim world do not have a bank account and therefore cannot access capital to invest in establishing, improving or expanding a small business such as a kitchen garden or a carpentry workshop. Microfinance institutions (MFIs) have been trying to fill this financing gap, although the Shariah compliant sector is chronically under-funded and under-supported with conventional providers making up 99% of the US$124 billion market that serves over 120 million customers the world over.

Review of 2022

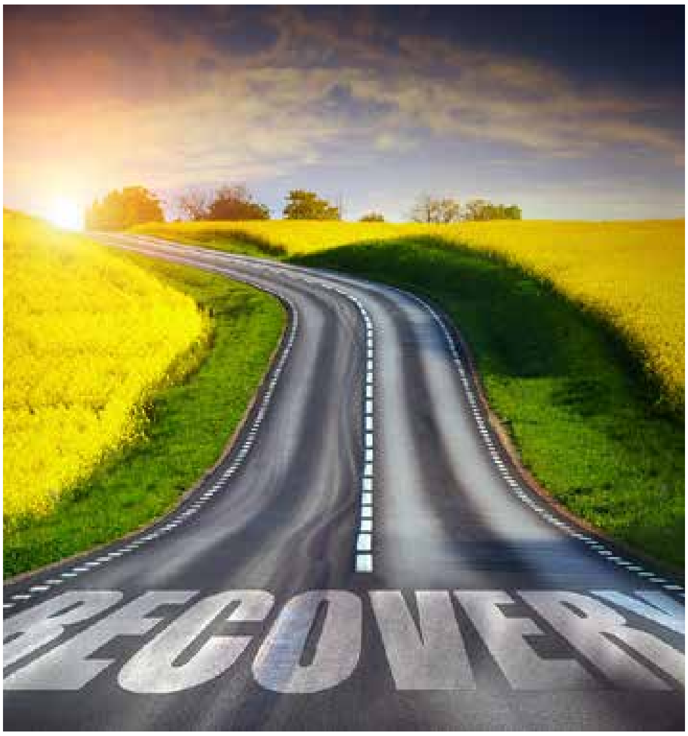
The Shariah compliant microfinance sector is growing and there are now some 3,500 Islamic microfinance providers. However, the sector is dominated by a few big players such as Akhuwat in Pakistan, Amanah Ikhtiar Malaysia, Islami Bank in Bangladesh or the BMTs [Baitul Mal Wat Tamwils] in Indonesia, although the latter are made up of a myriad of individual cooperatives.

Among the most dramatic events of last year were the repercussions from the regime change in Afghanistan which by decree sought to transform the banking sector, including microfinance, overnight to Shariah compliant. Obviously, such a paradigm shift cannot be effectively made at gunpoint and now a slow reform process has been initiated out of the initial chaos. Farther into central Asia, Bailyk Finance has joined Kompanion Invest as a provider of Shariah compliant microfinance, albeit on a window basis.

On a further positive note, Somalia saw the establishment of the Somali Microfinance Association with all licensed MFIs being Islamic and Shariah compliant. It is also worth noting that Iskaashi MSME Development, in collaboration with banks and MFIs, has introduced an Islamic/Shariah compliant non-profit partial credit guarantee scheme for the first time in Somalia which builds an important foundation for market development. An impact survey, perhaps the first of its kind in the country, was also carried by the MFI KIMS, evident of the accelerating change in the Somalian microfinance sector.

In The Gambia in West Africa, two fully-fledged Islamic MFIs — APS and Yonna — were opened and a conventional one established a window.

Interestingly, we did not see any significant interventions by the IsDB in the microfinance sector, even though it will be critical for continued post-COVID-19 economic recovery and transformation. The question is whether the market is now mature enough for private sector-fueled development or whether the development finance institution of the OIC member states needs to do some 'pump-priming'.



A further major concern remains the lack of product standardization especially for Qard Hasan, on which the Islamic microfinance industry relies heavily and which is likely to be the product of choice in these challenging times.

The current AAOIFI product standard was drawn up with commercial banks in mind which have a suite of revenue-generating financial services. But for MFIs 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 2023

Given the large Muslim population that remains underserved by Islamic financial services in, for example, West African countries such as Senegal, Niger and Mali; in North Africa like Morocco or Tunisia; or Central Asia such as Kazakhstan, Kyrgyzstan or Uzbekistan; global Islamic microfinance is bound to grow.

Pakistan may also look at Islamic microfinance as a funding source for economic recovery as international donations have fallen well below the US$30 billion estimated to rebuild after the flood that nearly engulfed half the country. In general, climate change will also require significant adaptation at household and enterprise levels that needs to be financed. Islamic pay-as-you-go solar systems for light, electricity and irrigation could be a game changer.

Conclusion

Change is on the horizon; the question is whether it is going to be a slow bottom-up organic growth or whether we will see some top-down interventions at the national, regional or international level in the way the now-thriving conventional microfinance sector was promoted.

Islamic private banking: Malaysian economy a rising dark horse

Samar Abuwarda *is an experienced professional in structured transactions with multiple organizations in Egypt and internationally. She can be contacted at samarabuwarda@yahoo.com.*

Currently, the Islamic finance market is subject to global economic dynamics of high inflation, rising interest rates and potential recession. Nevertheless, the presence and impacts of these dynamics differ from one economy to another. As such, Market Data Forecast research predicts the Islamic finance market to reach US$3.2 billion by 2027 with a predicted compound annual growth rate of 10.2% during 2023–27. Hence, what was the Islamic private banking focus during 2022? Which markets should Islamic private banking target during 2023?

Review of 2022

Islamic private banking, as part of retail Islamic banking, focuses on managing the wealth of high-net-worth families. Many Islamic banks launched investment funds for such a purpose. Some of these funds invest in different financial assets including Sukuk whether sovereign or corporate. Sukuk have an advantage of providing a fixed income stream that is considered a safe tool in increasing the net worth of Islamic private banking clients.

As depicted in Chart 1 and by the end of 2022, Sukuk issuance might witness a slight growth of around 3% if annualizing the first half (H1) figures of 2022. This is considered a lower growth rate if compared with 2021 where Sukuk issuance recorded a growth of around 8.2%. The 2021 growth could be explained in the context of Sukuk playing a critical role in achieving economic recovery from COVID-19 impacts for some developing countries. This was conducted through stimulus packages provided by some GCC governments and international organizations, namely the IsDB.

On the other hand, the annualized performance of 2022 could be reasonable in light of the increasing interest rates globally especially in the US. In addition, the sovereign debt capacity of some countries is another factor that should be taken into consideration combined with the IMF warning of a slower economic growth for the world economy.

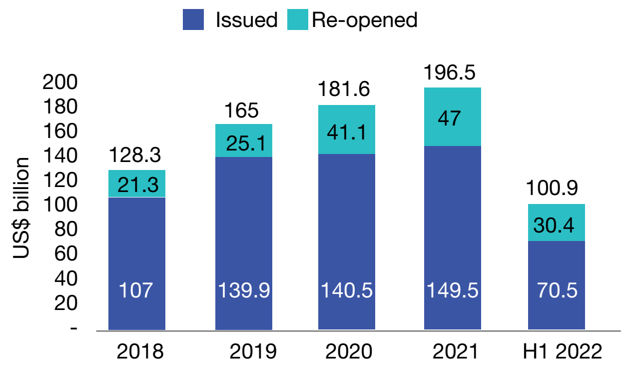
Higher oil prices could be good news to oil exporters and bad news to importers, reducing the latter's capacity of issuing fixed income instruments including Sukuk. Fortunately, most of the Islamic finance market is located in the GCC area. Such an area is considered net energy exporters.

Hence, it is crucial to provide GCC countries with a cash flow surplus to continue developing spending and at the same time provide ample room to issue Sukuk to curb any spillover impact such as inflation or recession from the global economy.

Consequently, one could assume that 2022 could witness a higher growth rate for Sukuk issuance. This assumption is also based on another reason. Saudi Arabia recently announced its intentions to issue dollar denominated bonds and Sukuk in the second half of 2022. Recently, it launched its US$10 billion green fund to invest in green projects by 2026. Last November, it raised US$3 billion in green bonds as a contribution to this fund.

That being said, clients of Islamic private banking could perceive this fund as an appealing investment opportunity since Islamic Shariah

Chart 1: Historical Sukuk issuance — 2018 to H1 2022



Source: Refinitiv

and ESG investing share numerous common principles. This definitely depends on the fund prospectus's compliance with Islamic Shariah especially in the governance compliance aspects.

Preview of 2023

As mentioned earlier the negative impacts of global economic dynamics will differ from one country to another. For example, Malaysia is an Asian tiger expected to achieve strong economic growth during 2022 and 2023. Some international reports are predicting an economic growth of around 5–7%.

In addition, Moody's Investors Service anticipates that Malaysia's Islamic banking is expected to grow faster than conventional banking with growth driven by retail banking during 2022 and 2023. Hence, Moody's has maintained a growth projection of 4–5% for the Malaysian banking sector.

Another piece of good news for Islamic banking in Malaysia could be found in the Economic Outlook 2023 report released by the Malaysian Ministry of Finance. The report stipulated Islamic banking's resiliency by the continuous introduction of Shariah compliant products. Last March, Malaysia introduced the Malaysia Islamic Overnight Rate, MYOR-I, which is a fully Shariah compliant rate which will enhance transparency and achieve efficient pricing across all financial instruments.

That being said, Islamic private banking in Malaysia could witness an increasing growth in 2023. Such growth not only stems from a domestic boost but also from attracting international private banking clients and funds. Launching more innovative indices, seeking more transparency and embarking on commercial projects could all be seen as supportive factors for such a conclusion.

Moreover, inflation in Malaysia is currently within reasonable boundaries. Such a strong Islamic banking industry especially in the retail side is good news in case of any increased or imported inflation. Islamic private banking through fixed rate Murabahah products could ease any inflationary negative impact on households and high-net-worth families.

Conclusion

Islamic private banking clients could achieve lucrative profits in 2023 if they allocated their funds to a rising dark horse which is the Malaysian economy.

Islamic private equity is on the rise — here's why investors are buzzing about it


Zahir Nayani *is a partner at Foot Anstey. He can be contacted at Zahir.Nayani@footanstey.com.* ***Rachel Griffith****, a trainee solicitor at Foot Anstey, assisted in authoring this report. She can be contacted at Rachel.Griffith@footanstey.com.*

Recent reports suggest a gloomy outlook for the UK economy as business and consumer confidence wavers with a recent change in government, rising costs of living and record-breaking inflation. However, the UK continues to attract interest from investors, particularly from dollar-denominated regions including the GCC.

While interest rates might cause real estate investments to dip, alternative investment areas such as Islamic fintech and ESG investments are having their moment in the sun. Over the past year, we have witnessed dramatic growth in the Islamic finance sector.

The market is currently **worth over US$2.2 trillion**, a staggering figure which has piqued the interest of private equity and venture capital investors. And it is no wonder, when there is so much about the industry and the way it has developed in recent years to entice them.

Review of 2022

Over the past year, the Islamic finance sector has grown in recognition as a key asset sector. Muslims comprise roughly a quarter of the world's population, and **just over 6% of the UK's population**. In spite of its size, the community continues to be one of the most underserved and marginalized groups globally.

Investment in Islamic finance and fintech promises to serve this rapidly growing market and improve their financial wellbeing by improving access to Shariah compliant financial products and services. The sector has also been bolstered by increased standardization and digitization. Islamic finance is rapidly adapting to new technology which cuts costs, sparks innovation, improves transparency and increases participation.

Islamic start-ups founded on ethical values which are central to the Shariah are becoming more closely aligned with ESG investing, an area of concern for established investors and new market entrants alike.

But investors are not just curious about the possibilities of Islamic private equity. A recent spate of successful funding rounds for Islamic start-ups demonstrates their belief in and commitment to the potential of this still relatively nascent sector.

In June this year, Gulf Islamic Investments **announced a majority investment in OFFA**, the UK's first Shariah compliant bridge financing provider for the real estate market. UK-based Islamic finance platform IslamicFinanceGuru **raised GBP3 million (US$3.36 million) in investment** funding in July 2021 in a seed funding round led by Outward Venture Capital and joined by B&Y Venture Partners.

Clearly, there is some cause for celebration. But while there has been growth in equity financing available to start-ups, Muslim-founded start-ups are still missing out. Of the top 20 venture capital firms surveyed in the UK, **only 3% of financed start-ups** have a Muslim founder.

So what lies ahead and what needs to happen for the Islamic finance industry to flourish?

Preview of 2023

The global Islamic finance industry will **expand by 10–12% this year** and the market for Islamic financial products and services is predicted to grow as well. The UK Islamic community alone is forecast to grow **from 6% of the world's Muslim population to 17%** by 2050.

The industry is positioning itself toward more sustainable growth, which will involve:

- Increased standardization and integration of the industry — we will see progress on a unified global legal and regulatory framework for Islamic finance.
- More issuance of dedicated social Islamic finance instruments and green Sukuk — the sector looks set to leverage and more closely align its values with ESG values.
- More digitization and fintech collaboration — this will strengthen the industry's resilience to disruptive events, eg global pandemics and stimulate more growth opportunities.

However, we cannot afford to sit back and watch these developments unfold. We need to maximize their impact in the following ways:

- Promote socially impactful and values-based initiatives and platforms such as Nester and Algbra and recognize that we, as practitioners, owe more to the Islamic finance industry and its foundational principles than simply promoting Islamic versions of conventional products.
- Make standardization inclusive — we need to avoid overcomplicating requirements which risks slowdowns such as that witnessed in global Sukuk issuance following the adoption of AAOIFI standards.
- Ensure timely implementation of policies — energy transition (particularly from historically fossil-fuel-heavy regions such as the Middle East) needs to be at the forefront of policymakers' minds to avoid slowing the expansion of social Islamic finance products.
- Use tech to improve industry resilience — we need to make more bank services digitally accessible and use platforms like blockchain to issue Sukuk while enhancing cybersecurity.
- Increasing the visibility of Islamic finance start-ups — the venture capital industry is set up to work around networks. We need to champion start-ups and provide aspiring entrepreneurs with role models and mentors by communicating success stories and promoting investment outside London and in more ethnically diverse areas.

Conclusion

Private equity and venture capital investors are growing increasingly excited about Islamic finance and Islamic start-ups. As we have explored in this article, they are right to get excited, as they have an ever-expanding menu of cutting-edge Islamic businesses to select from. But more needs to be done to prepare the Islamic finance industry for future growth and ensure it meets its full potential.

Project finance 2022: Renewables, utilities and ESG lead the way

Imran Mufti *is a partner at Gowling WLG. He can be contacted at Imran.mufti@gowlingwlg.com.*

There has been significant growth in the market for Shariah compliant project financing, especially in the MENA region, over recent years. It is clear that the Islamic finance industry is increasingly shifting focus to sustainable investing with an emphasis on areas like renewable energy and ESG financing. This is due to Islamic financing being a dichotomy that can exist under capitalism, without the oft-perceived exploitative nature that has become intrinsic with the western capitalist paradigm, making it a viable financing solution for sustainability projects.

Review of 2022

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 is the DEWA solar projects, where Abu Dhabi Islamic Bank funded US$103.5 million into the project. It is expected to power 270,000 homes and offset carbon emissions amounting to 1.18 million tons per year in Dubai.

The Kingdom of Saudi Arabia (KSA) has led the adoption of ESG Sukuk globally by issuing ESG Sukuk totaling US$1.5 billion during the f**irst two months of 2022** and there has been a push from fund managers within the industry to launch ESG and Waqf funds to meet increasing investor demand following the **COP26 summit** in Glasgow.

It is not just GCC countries which are using Islamic financing for infrastructure and sustainability projects. There is an emergence of African nations, such as Tanzania, using Sukuk and Musharakah financing in the form of public–private partnerships (PPPs) to fund their sustainable infrastructure projects. This is because Sukuk are a viable and flexible tool for investment funds, **mitigating project risks to infrastructure PPPs**.

There are still some key challenges in the Islamic finance market, including a complex issuance process and the need for Sukuk to comply with Shariah laws. Despite these challenges, and according to **Fitch Ratings**, outstanding ESG financing/Sukuk expanded by 11.2% in the second quarter of 2022, reaching US$19.3 billion. We anticipate seeing this kind of growth in sustainability financing in the year ahead.

Preview of 2023

According to the International Energy Agency, the growth of renewable capacity is forecast to increase by over 60% by 2026, with 65.5 GW of growth forecast for the **MENA region**. Accordingly, the energy sector remains a huge opportunity for investment with great prospects for the Islamic financing industry to step up as an alternative financing model for these capital-intensive projects across Africa and the MENA region.

Africa has lagged behind many other regions of the world when it comes to investment in basic infrastructure sectors, such as energy. According to the **African Development Bank Group**, the Program for Infrastructure Development in Africa (PIDA) has estimated that US$360 billion of investment is required to bridge Africa's infrastructure deficit by 2040, with as much as 60% accounted for by shortfalls in energy investment.

PIDA estimates that addressing these issues through provision of renewable energy supplies could facilitate Africa's much-needed economic growth with minimal damage to the environment. It is estimated that the Islamic finance industry in parts of Africa will continue on a moderate growth trajectory in **2022–23** with a particular focus on sustainable development, which was discussed as part of the **9th African Islamic Banking and Takaful Summit** held in July of this year in Dar es Salam.

The KSA will continue to lead the way in terms of commissioning Islamic finance. NEOM Company is endorsing the use of Islamic finance across its various infrastructure projects. Many of the projects being implemented in an attempt to build the city of NEOM are initially being financed by Sukuk with a focus on **sustainability** and it is expected to continue until the current completion deadline of 2030.

Overall, the global Islamic finance industry is set to grow by 10% by 2023 according to a new **report** by S&P Global Ratings. The Fintech Times **reported** that this is partially due to the MENA and African regions' resilience to the macroeconomic uncertainty of the Russia–Ukraine conflict and a higher volume of green and sustainability Sukuk as issuers look to broaden their investor base over the next year. In addition to this, Islamic financing has proven to be more resilient than western finance in the face of the COVID-19 pandemic.

According to a **report** by the IsDB, Shariah compliant equities performed considerably better than their conventional counterparts. This is largely due to the risk-sharing principles of Islamic finance, which will help the industry to provide a strong safety net against any induced economic cycles that lie ahead. Invariably, the resilience of this investor base will have a knock-on effect in relation to finding infrastructure projects across sectors such as transport, health and education.

Conclusion

As predicted, the Islamic finance industry continued to develop over the course of 2022 with projects focusing more particularly in the utilities and infrastructure sectors, despite some challenges facing the Islamic finance industry. The global focus on the climate emergency and the greater-than-before need for renewable energy sources are likely to result in a significant increase in Shariah compliant investment and ESG financing more generally across Africa and the MENA region, perhaps particularly in the KSA.

A review of credit ratings in Islamic finance

Muhammad Usman Sarwar *is the research analyst at Pakistan Credit Rating Agency. He can be contacted at usman.sarwar@pacra.com.*

The global economy rebounded by about 5.8% in the current financial year of 2021 (CY21), recovering about 2.3% above pre-COVID-19 levels. However, since then, the rapid expansion in demand, coupled with the recent recession, has hit supply chains and revealed major vulnerabilities. As the supply chains struggled to keep up with the increased demand, major commodities entered into price spirals, with the added shock of the Russia–Ukraine war. Commodities price inflation, reduced availability and spiked prices of value-added products had a severe knock-on effect on multiple industries.

Stimulative economic measures taken during the COVID-19 pandemic and the ensuing economic overheating in combination with supply shocks have led to decades-high inflation rates across the globe. In a bid to combat the economic overheating and inflation, most central banks have lately begun to adopt monetary tightening in CY22. Subsequently, the financial markets and interest rates have become highly volatile, reflective of high uncertainty regarding growth outlooks, monetary policy and inflation. Islamic finance is no exemption.

CY21 closed with global Islamic finance assets growing to around US$3.6 trillion and are estimated to reach around US$4.9 trillion by the end of CY24, maintaining a compound annual growth rate of about 9.6%; given the prevalent worsening global economic outlook, the industry may lose some traction.

Of the segments in the Islamic finance industry, Islamic banks hold the largest share in terms of assets held, as they represent about 70% of total industry assets, followed by Sukuk which represent an approximately 19% share of industry assets, while Islamic funds and Takaful hold around 5% and 2% of industry assets respectively.

Review of 2022

Against all odds, the global banking system has remained firm throughout the COVID-19 pandemic and the conflict in Eastern Europe. However, with the current economic outlooks skewed toward a negative trajectory with hawkish stances of many central banks, lending conditions have become more restrictive. Meanwhile, the demand for loans is still resilient as firms have higher working capital needs on account of increased input costs.

Most core Islamic finance markets (with the exception of Turkiye) have remained largely resilient during the commodity inflation cycle and the war in Eastern Europe, as many are major petroleum exporters. Core Islamic finance economies, therefore, reflect stable outlooks. Given a relatively stable operating environment, bank financing has maintained traction.

Credit ratings in Islamic finance take due consideration of the impact of the operating environment in the performance of Islamic finance assets. The ratings of the top 10 largest Islamic banks have all remained above the investment grade long-term rating (ie above 'BBB-' for Fitch Ratings and S&P Global Ratings and 'Baa3' for Moody's Investors Service) and fall in the rating bandwidth of 'A+' to 'BBB-'. During CY22, the earlier assigned negative outlooks (majorly amid COVID-19 uncertainty) and rating watch have all reverted to stable and even positive outlooks in some cases. The key common rating drivers to the revision in outlooks for Islamic banks are the improved/strengthened operating and economic environments amid the stabilization of oil prices post-pandemic.

The global outstanding Sukuk market size by the end of the third quarter of CY22 reached about US$750 billion (up about 2.1% quarter-on-quarter (QoQ)). However, like other structured finance instruments, global Sukuk are yielding higher returns amid tight monetary policies, rising inflation and global geopolitical and economic vulnerabilities. This has led to an aproximately 14.4% QoQ decline in new Sukuk issuance.

The S&P MENA Sukuk Index yield-to-maturity (YTM) reached about 5.8% in November 2022 compared with about 1.8% a year ago, while the YTM of the Dow Jones Sukuk Investment Grade Index reached about 5.5% and the S&P Global High Yield Sukuk Index YTM reached around 7.7% compared with about 1.9% and 4.2% a year ago respectively.

Despite the increased yields, Sukuk ratings have remained largely stable with Fitch assigning about 79% of its rated instruments a rating above investment grade. Fitch-rated Sukuk issued by major players in key markets have a rating bandwidth of 'A' to 'B+'. The largest Sukuk issue rated by Fitch to date is for Saudi Aramco, with an issue size of around US$6 billion.

"However, key industry participants are still centered around oil-exporting Islamic countries, with little to no additions beyond original territories"

Preview of 2023

Given the increasing fears of a global economic slowdown as a baseline assumption and the economic dependence of the core Islamic finance markets (the GCC and Malaysia) on energy exports (ie mainly petroleum products), the ratings and outlooks of Islamic finance institutions and bonds largely rely on the stability of crude oil prices. As the global economic growth weakens in the near term, energy demand is also expected to be subdued contemporaneously, as the two hold a high historic correlation. However, major exporting countries have managed to keep prices stable via strategic production cuts.

Seemingly, it is reasonably fair to conclude that the financial soundness and stability of the Islamic finance ecosystem, which ultimately set the direction of its credit ratings, would be driven by demand, supply and price dynamics of the oil markets in the near term.

Conclusion

The Islamic financial sector plays a significant role in most of the major Islamic economies. However, key industry participants are still centered around oil-exporting Islamic countries, with little to no additions beyond original territories. The industry must move quickly toward legal and regulatory standardization to cope up with its rapid expansion, as high complexity and relatively low standardization deter new entrants (non-Muslim jurisdictions in particular). This would not only allow better access to non-traditional territories, but also improve credit rating assessment criteria in the long term.

Increasing opportunities

Philip Churchill *is the founder and managing partner of 90 North Real Estate Partners. He can be contacted at pchurchill@90northgroup.com.*

Shariah compliant real estate investment has long been an established product offering for Islamic investment managers. As global markets wobble and recessions loom, the allure of bricks and mortar is strengthened, 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 increasing recognition that such principles fit well within the responsible investment ethos of ESG criteria.

While there is a global band of professionals able to assist with selecting, structuring and closing acquisitions, what remains lacking is a scale to Islamic banks outside of the Middle East and Southeast Asia able to provide Shariah compliant finance for larger transactions, with conventional finance and a structure to insulate investors from the non-compliant payment of interest required in a pragmatic approach to allowing transactions to occur.

Review of 2022

While the COVID-19 pandemic was put largely behind us, Russian President Vladimir Putin became the new foe, with his invasion into Ukraine escalating global tensions and energy prices. Along with supply chain issues, the last thing a post-COVID-19 world gorging on government handouts needed was higher gas and electricity prices, with inflation becoming rampant and interest rates deployed as the tool of choice to tackle the beast.

Summer was a tipping point, with investors, whether Islamic or not, determining that the world had indeed changed and with a swift repricing of assets before autumn reached the northern hemisphere. With benchmark interest rates escalated and banks often reluctant to provide the senior financing that previously fueled the net cash yield craved by Shariah compliant investors, a change of tack was required.

With the middle market of safe income streams that deliver a levered middling to high single-digit return gone, the investor market became noticeably split with respect to risk appetite.

For many, buying all-cash at prices 20% lower than before the summer was compelling, and while the cash yield may not deliver what they previously expected, medium-term prospects for capital appreciation were compelling, particularly if inflation could be directly captured through rental growth.

Others chose to look to post-high interest rates and a post-inevitable recession world, and to embrace some risk, sensing that available terms may not be this good for a long time. Mezzanine financing, often troublesome to agree from an Islamic perspective, for development and investment transactions became attractive, as well as taking the equity position on development opportunities due to complete post-chaos.

As the year drew to a close, activity levels noticeably fell, with investors, whatever their chosen strategy, deciding to see what the new year brings, anticipating that opportunities would not disappear over the coming few weeks. The sellers' market up to the summer of 2022 had most certainly changed to a buyers' market.

Preview of 2023

It is hard to project anything more positive than it is going to get worse before it gets better. The combination of inflation and the interest rates being used to tackle it will inevitably leave many economies at least dancing on the edge of recession. But maybe the tipping point will again be the summer?

With apologies for having yet again to reference interest rates in an article about Islamic real estate, but having to acknowledge their impact on economies and their use as a benchmark for Shariah financing rates, the peaks in the projected interest rates of the US, the UK and European markets favored by international investors are shown to be between May and July 2023.

Not long to wait, and the opportunities will likely present themselves before then.

Cash will be king, with such acquirers seeking healthy and frankly reasonable price discounts to reflect the strength of their position.

But I also see a potential revival in Islamic senior financing, including Sukuk issuance. With all-in finance costs now typically exceeding yield returns previously required on equity positions, this provides an attractive opportunity, including a senior security position on the underlying asset.

And lest we forget, higher energy prices are a key contributor to the current situation. While those countries on the selling side will obviously continue to benefit, it is also another reminder of the importance of energy efficiency, with a property's green credentials continuing to move up the ranking of investment considerations, along with the old favorites of lease length, tenant strength and cash yield.

Conclusion

Opportunities are being created. They may be as simple as buying at a discount and benefiting from the last ebbs of falling inflation as real estate delivers its historically proven hedging ability. Or it could be reacting with new and innovative products that fulfill Islamic investors' desires. Either way, let's get through this and come out stronger.

Selected regulatory and market developments in Islamic capital markets

Debashis Dey *is a partner at White & Case. He can be contacted at debashis.dey@whitecase.com.*

Xuan Jin *is a counsel at White & Case. He can be contacted at xuan.jin@whitecase.com.*

Eren Ayanlar *is an associate at White & Case. He can be contacted at eren.ayanlar@whitecase.com.*

The Islamic finance industry, much like the broader finance market, has spent much of the last two years weathering the global economic turmoil and market volatility caused by, among other things, the Russia–Ukraine conflict, high inflation and monetary tightening policies of the US Federal Reserve and other major central banks, as well as the ongoing economic fallout and steps to recovery from the COVID-19 pandemic. Higher oil prices have also negatively affected the volume of new issuances due to a decrease in financing needs from issuers based in oil-producing jurisdictions, particularly by sovereigns and sovereign-related entities in the GCC.

In this challenging macroeconomic environment, the topic of Shariah governance and standardization has continued to be central in the ongoing development of the Islamic finance industry and central banks, such as the Central Bank of the UAE, and industry bodies, such as AAOIFI, have continued to shape the regulatory and market practice framework applicable to Islamic finance transactions.

Review of 2022

Regulatory developments

In the context of the regulatory landscape of the Islamic finance industry, in particular in the Middle East and in respect of international Sukuk transactions offered to Middle Eastern investors, 2022 was a year of new and ongoing challenges.

In 2021, AAOIFI adopted AAOIFI Standard 59 and with it came a raft of Shariah-related requirements relating to the maintenance and, for the lack of a better description, 'eligibility' of underlying assets used in Sukuk transactions, which have necessitated certain departures from the previous status quo in terms of Sukuk documentation, particularly with regards to requirements for maintaining the tangibility of underlying assets and the consequences of the failure to meet such tangibility thresholds.

Such developments have become a focal point in Sukuk structuring in 2022, particularly given the adoption of such standards by the Higher Shari'ah Authority (HSA) of the Central Bank of the UAE, as financial institutions which are regulated by the Central Bank of the UAE are now required to only participate in Islamic finance transactions that meet the standards endorsed by the HSA.

Due to UAE financial institutions' regular position as anchor investors in US dollar-denominated Sukuk, and in order to achieve higher demand, new and existing Sukuk issuers and arrangers have on the whole sought to adapt transactions to ensure compliance with AAOIFI standards and HSA guidelines. This has proved to have a significant impact on transaction structuring and execution time frames as stakeholders get to grips with these relatively new requirements.

Stricter tangibility requirements include an obligation to monitor and maintain the tangibility ratio above 50% throughout the tenor (rather than at the time of the issuance) of the Sukuk and, in case such a ratio falls below such a threshold, either steps must be taken to restore the ratio above 50% or, if the ratio falls below 33%, a 'tangibility event' occurs involving certain consequences, including: (i) cessation of tradability (other than in accordance with the Shariah principles of debt trading, ie at par or against tangible assets/eligible commodities on a spot settlement basis), (ii) delisting from any stock exchange on which the Sukuk are traded and (iii) triggering of certificate holder put rights.

Such stricter tangibility requirements have also resulted in unforeseen challenges for banks seeking to issue regulatory capital Sukuk, arising from the conflict between:

(a) Basel III rules and their implementation across relevant jurisdictions which:
   i. generally restrict the exercise of certificate holder put/optional dissolution (issuer call) rights until a specific period of time (eg five years) has elapsed from the issue date and, in each case, subject to the approval of the relevant financial/banking regulator, and
   ii. prohibit acceleration of Sukuk by certificate holders other than in cases of bankruptcy or liquidation of the bank), and

(b) the new AAOIFI/HSA requirements to implement certificate holder put rights and dissolution event triggers upon the occurrence of tangibility events.

As a result, banking institutions seeking to issue Basel III-compliant Tier 2 Sukuk are now having to adopt new structuring approaches in order to reconcile AAOIFI Standard 59 with Basel III rules, where the Tier 2 Sukuk are intended to be marketed to investors in line with HSA guidelines.

A further challenge for the Islamic finance industry, in particular for floating rate financings, is the transition from interbank offered rates (IBORs) to overnight risk-free rates (RFRs). Although IBOR transition has long been in the works and is a more straightforward process for conventional transactions, replacing IBORs, which are essentially 'forward-looking' term rates with RFRs, which are mostly calculated on a 'backward-looking' basis, creates complexities for Sukuk issuers, mostly because of the lack of certainty in cases of 'backward-looking' basis calculations.

While the majority of US dollar Sukuk issuances are with a fixed rate, Sukuk issuers (particularly programmatic issuers) have begun replacing IBORs with RFRs and inserting fallback provisions in their program documentation, and we have seen a few secured overnight financing rate (SOFR)-linked issuances in 2021 and 2022.

Arguably, term SOFR is a suitable benchmark to replace LIBOR [London Inter-Bank Offered Rate]; however, its implementation is yet to be tested in Sukuk structures containing Ijarah or Murabahah components where there is a need to specify in absolute terms in advance (as opposed to in a retrospective formulaic manner) the profit rate at the beginning of the relevant profit period.

Naturally, the aforementioned developments, and the way the market adapts to them, is a moving process and it will take some time for consensus to form on the new status quo. Global economic uncertainty and volatility have not helped in this evolutionary process, as the muted frequency and volumes of Sukuk issuances in the last 12 to 18 months have essentially acted as a practical impediment — fewer issuances have provided fewer opportunities (than perhaps usual) to stress-test and resolve such structuring challenges.

Market developments

Despite, and perhaps as a corollary of, the aforementioned regulatory developments, 2022 was a year of innovation for the Islamic finance industry, in particular in the Sukuk space.

In Saudi Arabia, SNB Capital Company established its SAR5 billion (US$1.33 billion) short-term commercial paper issuance program and completed the inaugural issuance of SAR1.25 billion (US$332.87 million) short-term certificates thereunder, introducing a novel Shariah compliant capital market instrument in the Saudi market, and the domestic Saudi riyal market remains strong, fueled by issuances by the National Debt Management Center and sovereign-related entities such as the Saudi Real Estate Refinance Company and the Public Investment Fund (PIF), including the PIF's first-ever green transaction, as well as regulatory capital and some retail transactions by Saudi financial institutions.

In the UAE, we have seen, perhaps as an adaptive response to the structuring challenges faced by larger-scale public debt issuances, an increase in more innovative privately-placed credit transactions. In Southeast Asia, Indonesia remains a regular issuer of jumbo green and sustainable Sukuk at the sovereign level, and Malaysia's domestic Sukuk market (like Saudi Arabia, somewhat insulated from international market volatility), has remained resilient.

In Uzbekistan, the Ministry of Finance of the Republic of Uzbekistan, with support from the United Nations Development Programme are working toward developing a new legal and regulatory framework for plain vanilla and green Sukuk, which would, once completed, enable the issuance of Sukuk by sovereign and non-sovereign entities located in Uzbekistan, which represents an untapped market with a Muslim-majority population.

In Turkiye, the government's target to increase the market share of participation (Islamic) banks is ongoing and the government recently announced its strategy to further support the Islamic finance industry in Turkiye by developing the legal and regulatory framework to consolidate the participation banking system, to standardize Shariah compliant products and to introduce an enabling legal framework for new products (including Takaful products).

And, as with the larger global financial market, 2022 saw rapid development and alignment of Islamic financing transactions with ESG principles, with regulatory developments across various jurisdictions, including Turkiye (Green Bonds and Sukuk Guidelines), Malaysia (updated SRI-linked Sukuk Framework), Qatar (QFC Sustainable Sukuk and Bonds Framework), the UAE (Sustainable Finance Framework) and Indonesia (Green Taxonomy 1.0), as well as ESG-linked Islamic finance transactions representing an increasingly greater proportion of the Islamic finance space.

Preview of 2023 and conclusion

Much of 2023 will depend on the state of global financial markets generally and whether the volatility we saw in 2022 subsides, which is not something anyone can easily or accurately predict. What we anticipate, however, is for 2023 to bring further innovation in the Islamic finance market as stakeholders tackle both the regulatory and structuring developments and challenges mentioned previously and global market forces to successfully bring transactions to market.

Retail Islamic banking: Great ride but can do so much more

Mohammad Ali Allawala *is the head of Islamic banking for the UAE and head of Islamic consumer, private and business banking and group Islamic banking at Standard Chartered Bank. He can be contacted at ali.allawala@sc.com.*

2022 was the year of markets opening up after COVID-19 and aligning to some of the new norms of work. As restrictions eased, markets particularly in the GCC rebounded with increased economic activity with strong momentum especially in mortgage sales. In parallel, challenges in the form of inflation and rising borrowing costs will put pressure and warrant a cautious approach as we march ahead.

Review of 2022

Islamic banking growth outpacing conventional in select markets, increased regulatory governance and digitization have been the key themes for 2022 and would most likely continue as we start the descent into 2023.

Starting with Pakistan, Islamic banking continues to grow faster than conventional, with Islamic banking deposits growing at 10-year compound annual growth rate (CAGR) of 23% vs. 10% of conventional banking. Also, the market share of Shariah compliant deposits reached 19%, up from around 13% in 2015. The State Bank of Pakistan is supportive and has targeted to increase the Islamic banking share to 30% by 2025.

In Malaysia, Islamic finance is one of the key strategic pillars of the 2022–26 Malaysia financial sector blueprint under advance value-based finance through Islamic finance leadership. The structured focus on sustainable finance via Bank Negara Malaysia's value-based intermediation program, coupled with efforts on promoting the Halal industry, has put Malaysia at the forefront of these value-added initiatives.

One of the key learnings from Malaysia is the effectiveness of the Association of Islamic Banks in Malaysia platform which brings together the senior leadership of Islamic banks in the country to work on a common agenda of national interest.

Six of the top 20 Islamic banks globally are in Malaysia offering services through their digital/mobile banking platforms. Meanwhile, the Islamic fintech sector in Malaysia is expected to grow by a CAGR of 23% to US$8.5 billion by 2025, according to the Global Islamic Fintech Report 2021. This is certainly a space to watch out for.

Moving to Bangladesh, Islamic banking stands at about 28% in terms of deposits and investment with Islamic deposits growing by about 12% year-on-year. In terms of psychographics, there is a visible shift in consumer lifestyle leaning toward Shariah. This trend is well served by the 10 fully-fledged Islamic banks and nine conventional banks with Islamic windows operating with 1,700-plus branches. In order to enhance the client value proposition, the Islamic banking industry can consider adopting certain product structures like commodity Murabahah to offer cash-based personal finance, on similar lines as some of its peer Islamic markets.

Finally, in the UAE, the focus has been on strengthening its Shariah governance regime and today all products offered in the country are fully compliant with AAOIFI. This has led to greater standardization

and governance across the industry. Consumer perception and adoption of Islamic banking products are on the rise as mainstream retail banks in the country are fully-fledged Islamic or conventional banks with Islamic windows. Based on the Islamic Banking Index by a leading Islamic bank in the country, the awareness of Islamic banking grew from 59% in 2015 to 71% in 2021. Consequently, by an estimate, the intent to adopt an Islamic banking product in the future is almost 80%.

Preview of 2023

The key themes for 2023 are expected to be:

1. Focus on standardization and governance with the country regulator playing a more active role.
2. Sustainable finance, particularly more issuances of products like green Sukuk, green mortgage, etc.
3. Digitization and more prominent emergence of Islamic fintechs.
4. Business growth challenges in consumer financing on the back of inflation and the higher cost of borrowing due to elevated interest rates. There is also a bit of noise around a looming global recession — when and how deep is anyone's guess as of now.
5. Lack of qualified Islamic finance professionals would continue to pose a challenge. To keep pace with increased governance requirements and industry growth, there are not enough qualified Islamic bankers and Shariah professionals. We need more institutions like INCEIF (Malaysia) or IBA CEIF (Pakistan) with the mandate to develop and nurture talent in the Islamic financial services industry.

Conclusion

To conclude, I would like to touch upon three points:

1. While being Shariah compliant is a given, Islamic banks should endeavor to achieve the 'intended objectives of Shariah' by developing products which are sustainable, fair and have a positive impact or experience for the client and society.
2. Conventional banks with Islamic windows should assess if it would make sense to offer only the Islamic variant, ie offer 'Islamic First' where product features between Islamic and conventional are almost similar. This would save cost and simplify the proposition instead of having two variants of conventional and Islamic.
3. While the importance of governance and standardization cannot be overemphasized, however we need to balance this with industry growth and innovation. This also warrants greater coordination among industry practitioners, stakeholders and regulators to align on the common goals of industry growth and develop leading Shariah compliant propositions.

Challenging risk management landscape for 2023

***Mohamed Afzal** is the enterprise risk manager of the Risk Department at Saudi Home Loans. He can be contacted at m.ramiz@saudihomeloans.com.*

The Islamic banking industry was resilient during 2022 where several Islamic banks showed consistent growth in terms of profitability and enhanced liquidity. There was clear evidence in terms of progress toward sustainable Sukuk. The overall Islamic banking market continued to grow with positive impact from oil prices; however, it was impacted by the economic policies adopted by the US Federal Reserve of increasing the policy rates in addition to the key impact from the war between Ukraine and Russia that had a global impact on the overall financial industry.

Review of 2022

Despite key challenges, the risk landscape of Islamic banks was positive in terms of liquidity and profitability, for instance global outstanding Sukuk reached US$749.6 billion as of the third quarter of 2022 with total Sukuk of US$48.2 billion issued in the core markets of the GCC, Malaysia, Indonesia, Turkey and Pakistan (including multilaterals).

Further, Islamic finance is rebounding from the effects of the COVID-19 pandemic, with Islamic banks' profitability recovering after 2020 drops. Several major investments, an upswing in Islamic fintech and the funding of OIC start-ups are the key contributors.

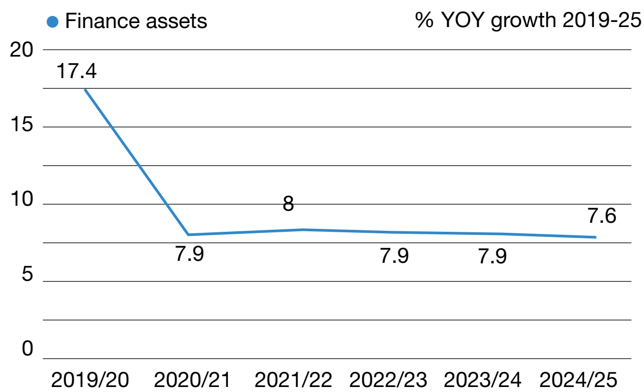
However, in 2022, the following were the key risks that Islamic banks had to overcome:

- **Rising inflation impacting upward revising of policy rates**
  The increase in inflation was mainly due to soaring oil and commodity prices, and disruptions in global supply chains. This impacted the contraction in loan originations as the overall rates had significant impact, especially in terms of retail lending in Islamic banks as result of an upward review of policy rates. In the UAE and Saudi Arabia, the interbank offered rates were revised as result of the upward revising of Federal Reserve rates.

Chart 1: COVID-19 impact projections

Projected 4-year CAGR of 7.9% (2021-25) reaching US$4.9 trillion by 2025

Projected Islamic finance asssets growth (% YOY growth, 2019-25)



Source: Salaam Gateway

Islamic banks had a major challenge in generating new business among corporate clients due to the rapid increase in policy rates. Despite the challenges, several Islamic banks continued to show positive growth during 2022 in terms of profitability.

- **Geopolitical unrest**
  The outbreak of war between Russia and Ukraine was a major hit for several economies and impacted the overall global financial market. Islamic banks faced a contraction in terms of Sukuk issuance. Despite the challenges, Russia opted to open opportunities for Islamic finance that assisted the overall growth of the global Islamic finance industry.

- **Tight cyber resilience**
  Ransomware attacks now pose not only a cybersecurity risk, but also an enterprise-wide risk, threatening business continuity

and operations. There were several regulatory updates in terms of cybersecurity control across several jurisdictions during 2022. For instance in Saudi Arabia, the Financial Sector Cyber Threat Intelligence Principles were outlined in the first quarter of 2022, seeking action from banks and financial institutions to ensure compliance especially in terms of proactive action to mitigate cyber threats.

Preview of 2023 and conclusion

Islamic banks will face tougher conditions in 2023 in an environment marked by slowing economic growth, spiking prices, uneven rising interest rates and sharpening of international political tensions. A majority of the outlooks as follows show that there will be an expected recession by 2023 affecting the global economy which will badly affect the overall credit growth among the total banking industry:

- **Managing market risk of Islamic banks will be challenging**

  The following outlook for policy interest rates shows that Islamic banks will have a major challenge as the policy rates are expected to rise further. It is important to note that Islamic banks have a limited landscape in terms of managing market risk.

  However, as per Moody's Investors Service's analytics, high commodity prices and the easing of pandemic restrictions will support strong economic recovery across major Islamic finance markets over the next 12 to 18 months, boosting the financial performance of Islamic banks for 2022–23.

- **Liquidity risk of Islamic banks will be positive**

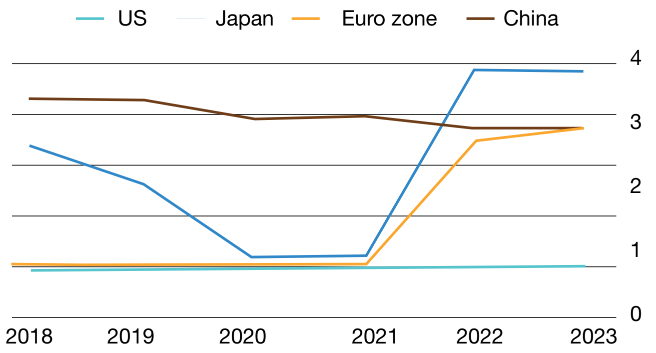
  As the policy rates are expected to be increased, the overall liquidity of Islamic banks may increase which will result in an increase in the high-quality liquid asset ratio as well as ample liquidity available among Islamic banks. However, this may cause an impact on the overall profitability of the banks since excess liquidity may squeeze the potential of enhanced profitability. On the other hand, Islamic banks will have a tough time in terms of meeting the requirements on displaced commercial risk to ensure a good return for depositors.

- **Islamic fintechs will be put to the test**

  Based on the forecast by the Economic Intelligence Unit, the incumbents of the financial industry will be affected in 2023, but their upstart competitors, including fintech companies, may fail in large numbers. Funders such as venture capital and private equity firms are insisting in the current market environment that financial challengers stop making losses and chart a path to profitability. This will prove terrible for some upstarts in consumer credit, payments and robo-advised fund management. Islamic fintechs will have to sharply curtail their expenses, including for marketing and customer acquisition. Thus, the culling of competition will ease pressures on established banks, insurers and fund managers.

Chart 2: No more easy money

(Policy interest rates; end-period; %)*



*2022-23 are forecasts

Source: Economist Intelligence Unit

- **Negative outlook on credit risk and strict regulatory requirements**

  The corporate and SME sector will be affected in specific jurisdictions such as Pakistan and Bangladesh as there will a requirement to create excess provisioning for expected defaults with an expected contraction in terms of credit growth.

Further, it is important to note that the final implementation dates for Basel III (also known as Basel IV) will come into effect on the 1st January 2023, after having been postponed by one year due to the pandemic. Customers will not notice the changes, which require new government regulations and will change the way that banks account for base capital and credit risk using standardized or internal models, as well as mandatory disclosures.

Shariah governance practices in the global Islamic finance industry

Prof Dr Younes Soualhi *is a senior researcher fellow at ISRA RMC (INCEIF University). He can be contacted at younes-isra@inceif.org*

Islamic finance is still growing at a double-digit pace, making new inroads in the MENA region and Africa. Countries adopting Islamic finance have embarked on developing legal and regulatory frameworks to ensure compliance and good governance. Shariah governance frameworks (SGFs) are of a unique nature as they ensure full Shariah compliance by Islamic financial institutions.

Review of 2022

Financially, 2022 recorded a rather unwavering growth despite the aftermath of COVID-19. With less regulation for the year, regulators embarked on managing the systemic risks to ensure financial stability. Governance-related measures were initiated by central banks such as the granting of moratoriums to achieve optimum levels of fairness to individuals, SMEs and corporations. However, a few regulatory consultative initiatives were launched by standard-setters, central banks and capital market authorities across several jurisdictions.

In March 2022, the IFSB and AAOIFI circulated an exposure draft (ED) on the SGF for institutions offering Islamic financial services. The draft sought industry feedback on its content that aims to solidify a sound and effective SGF, provide minimum requirements and best practice examples to improve the quality of Shariah governance in institutions offering Islamic financial services, promote public confidence and enhance the harmonization of Shariah governance structures and practices across jurisdictions.

The ED adopts a principle-plus-rule approach that provides a comprehensive set of Shariah governance practices for implementing each principle. Key issues purported to be endorsed include the establishment of a Central Shariah Board, a mandatory external Shariah audit, specific governance considerations for Islamic windows and a limit on the number of Shariah supervisory board membership globally to only eight.

In March 2022 also, the central bank of Malaysia issued a discussion paper looking into the possibility of incorporating the essence of Ta'awun (cooperation) in Takaful products, offerings and operations. One of the key governance issues highlighted is the need to emphasize the contractual terms that do not give rise to a conflict of interest to the Takaful operator as the Wakeel (agent) in managing the Takaful fund on behalf of Takaful participants.

For corporate governance purposes, the discussion paper emphasizes on the 'Fairness to Contracting Parties', which entails clear and effective communication to Takaful participants on the wider scope of Ta'awun.

In January 2022, the 'Guidelines for Shariah Advisers' issued by Securities Commission Malaysia became effective. The guidelines aim to streamline a number of practices, namely the registration requirements for both local and foreign Shariah advisors and the fit and proper criteria applicable to Shariah advisors. The guidelines emphasized, among other things, the need for a Shariah advisor to have adequate arrangements in place to identify and effectively manage or mitigate conflicts of interest.

In the MENA region, the regulators did not issue any new Shariah guidelines in 2022. However, initiatives to enhance Shariah governance practices are noticed at the level of institutions dealing with the capital market. In March 2022, the Capital Market Authority of Saudi Arabia issued a consultation draft outlining the Shariah governance guideline for institutions providing Islamic capital market products and services. The draft aims to organize the responsibilities of the board of directors, the management and Shariah committee, and the provisions of the Shariah committee's independence and its organizational affiliation.

Lastly, in 2022, the State Bank of Pakistan emboldened its SGF with the official adoption of four AAOIFI Shariah standards made mandatory for Islamic financial institutions to apply. These are Salam, Istisnah, combination of contracts and irrigation partnership which have been added to the existing regulations on Islamic finance, invoking penal action on Islamic financial institutions that do not comply.

Preview of 2023

SGFs in 2023 will not be very much different from previous years. The new IFSB–AAOIFI SGF is expected to gradually impact the Islamic finance industry if taken seriously. However, the new framework will mainly be embraced by developed Islamic finance markets. For some developing markets, the framework will be used as a main reference for their respective SGFs.

On the other hand, Islamic finance will be forced to tweak some of its governance practices to accommodate digitalization and fintech solutions. With Islamic digital banks planned to be launched, issues of disclosure, transparency, the rights of the contracting parties using smart contracts and robot advisors will be the new governance issues to be debated. This will require all stakeholders to develop their capacities in the modern Islamic fintech ecosystem.

Conclusion

The SGF is developing in tandem with the development of Islamic finance in several jurisdictions. Islamic finance standard-setters such as IFSB and AAOIFI are consolidating their efforts to help regulators fully adopt the new SGF or use it a reference to adopt best practices of the SGF. The adoption of digitalization and fintech solutions are expected to pose new challenges to governance, especially Shariah governance practices in terms of realizing the Shariah requirements of Islamic financial products and services.

Islamic SME financing in a triangle of crises

Dr Mamunur Rashid *is the senior lecturer in finance at the Christ Church School of Business, Canterbury Christ Church University, UK. He can be contacted at mamunur.rashid@canterbury.ac.uk.*

Owners and managers of SMEs would like to forget 2022. SMEs were devastated first by COVID-19 and the slow recovery from the pandemic, then by an unexpected increase in prices — partly due to geopolitical crises in Europe — leading to higher interest costs on a global scale and, finally, by the grim economic recession and climate change affecting the small business ecosystem.

Islamic SMEs experience similar problems, only more intensified as Islamic banks — a crucial supplier of funds to Islamic SMEs — have had a liquidity crisis in the aftermath of the COVID-19 pandemic. The OECD reported from several Asian countries that almost 30% of the SMEs reported having 50% of their staff laid off, and only half of the SMEs had savings to survive a month. Four major areas where SMEs are primarily affected include the sectors that employ mostly semi-skilled professionals, such as tourism, restaurants, construction and personalized services (ie hairdressers, etc).

Figure 1: Most affected SME sectors

Transport, tourism accomodation	Food, restaurants and allied	Construction and real estate	Personalized services

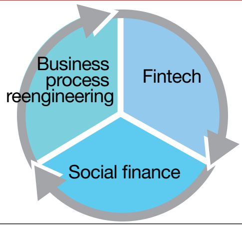
Source: OECD, 2020

Figure 2: Four broader sets of initiatives to help SMEs during recent crises

Fiscal easing (tax deferral, etc)	Market measures (debt moratorium)	Operational measures (wage subsidies)	Infrastructural (Fintech/ digitilazation)

Source: Author's own

Figure 3: Three interconnected methods to keep SME financing active



Source: Author's own

Review of 2022

Take for example Bank Negara Malaysia (BNM)'s funds for financing SMEs. BNM allocated RM31.1 billion (US$7.08 billion) and an additional RM500 million (US$113.9 million) as disaster recovery funds to support almost a million SME financing accounts. Several microfinance schemes (ie SPM and MEFs), a social finance scheme (iTekad) and online financing platforms (ie iMSME, investment account platform IAP) were activated. The Malaysian government also widened the scope of SME touchpoints for financial and general guidance during the pandemic and post-pandemic.

The Turkish government assured SMEs with a massive 18% credit guarantee scheme that benefited the sector in the mid of the pandemic. Egypt took a similar approach to guarantee SME credit, extend grants and provide tax deferrals and debt moratoriums. Indonesia, a prime Islamic finance destination, took an advanced approach to finance SMEs. Aside from the traditional tax benefits, Indonesia offered wage subsidies and facilitated fintech to maintain a healthy level of SME financing. The government also opened new digital platforms to train SMEs to get accustomed to the new digital framework. We saw similar technological means deployed in Malaysia to save Islamic SMEs. The IsDB Group also reserved US$2.3 billion-worth of funding to help member countries during crises.

Clearly, the initiatives can be divided into two groups that are a combination of traditional assistance packages coupled with some initiatives to achieve more markets and financing using technology. Malaysia and Indonesia led the digital initiatives to aggressively be involved in fintech to avail new funding and market opportunities for Islamic entrepreneurs and banks.

The IsDB Group Report 2020 suggests that Pakistan have ticked most boxes to save their local SMEs, ranging from policy cuts to digitalization and training local knowledge workers with e-learning platforms. According to the report, the three countries that took the most initiatives to work on Islamic SMEs are Bangladesh, Indonesia and Pakistan.

Non-banking financing, involving private equity funds, grants and crowdfunding, assisted several mid-budget projects in the agricultural sector in Indonesia. Smaller private equity investment, either through a separate fund or through a profit-and-loss-sharing basis, are back in the thought process.

Charitable grants, Zakat and Waqf funds are being processed to form a large pool of funds for refinancing smaller firms. Fintech firms are given special tax incentives — for example in Bahrain — to facilitate a low-cost fund transmission mechanism, which has also worked well on the objectives of financial inclusion.

Preview of 2023

The way forward is difficult not because of the lack of initiatives but because of the multitude of problems created by the triangle of crises. The year 2023 might be even worse due to higher prices of commodities, leading to high inflation and low demand of products. Initiatives taken to recover from the pandemic may fall short in helping Islamic SMEs face the negative impact of climate change. Some prime Islamic destinations are concurrently facing natural calamities that include floods in Bangladesh and Pakistan. At least three changes are suggested to maintain the Islamic SME financing level in this difficult time. Fintech has been widely cited and suggested both in academic literature and policy documents as having a positive impact on SME financing by engaging general crowds into financing small ideas.

Several fintech-based Zakat, microfinance and Waqf models are active that integrate fintech and social finance channels to generate new sources of funds for SMEs. However, the total amount of socially generated funds will decline as the global sources of Islamic benevolent and social funds decrease in the post-pandemic period. Therefore, it is important that SMEs redesign their business process to rely more on internal funds and get ready for future crises. Innovation is the key to preparing SMEs for future uncertainties in the funding market.

Conclusion

The year 2023 is not expected to be any better than 2022. Government funds and grants for SMEs will decrease. There might be more geopolitical crises affecting oil prices and general price levels. Products will be costly, which may lead to more SMEs going out of business.

In order to get ready for future uncertainties, SMEs should start their business process reengineering to generate internal funds, reduce operating expenses and reach more customers using digitalization. Innovation should be given priority at every level. In the coming days, due to a fund shortage, banks may only finance innovative projects. Instead of focusing on tax breaks, policymakers should help foster the growth of innovation, knowledge-sharing and cooperation among SMEs.

Islamic social finance: Potential in the face of global uncertainty

Dr Mohamed Eskandar Shah *is the associate dean of academic and associate professor of Islamic finance at the College of Islamic Studies at Hamad bin Khalifa University. He can be contacted at mrasid@hbku.edu.qa.* ***Mohamed Umar*** *is the project analyst at the College of Islamic Studies, Hamad bin Khalifa University. He can be contacted at mohumar@hbku.edu.qa.*

The struggle against poverty has taken a positive turn in the previous decade, with the proportion of the world's population living in extreme poverty falling by half, as reported by the UN (n.d.). However, this progress was hampered by the impact of the COVID-19 pandemic, which forced over half a billion people into poverty. Furthermore, many people have been subjected to increasing levels of stress as a result of shocks caused by climate change and geopolitical risks. This has resulted in a rising worldwide food shortage and a slew of other recurring issues. While some countries do have the ability to manage these overwhelming obstacles, many others, particularly the poorest ones, are still struggling. Unfortunately, many Muslim-majority countries fall into the latter category.

As a result, the role of Islamic social finance in addressing these concerns and assisting countries in developing strong economic systems is becoming more important. Increasing access to new opportunities and educating themselves on how to affect positive social change are profound in the face of global uncertainty. It is very important that Islamic social finance helps the most vulnerable groups prepare for the effects by adopting the right solutions.

Review of 2022

Zakat, Waqf, Sadaqah and Islamic microfinance are the four main components of Islamic social finance. Our aim is not to provide an exhaustive list of initiatives within the scope of Islamic social finance but rather share some of the most recent success stories and these stories are critical in demonstrating the potential of Islamic social finance. The success of Zakat and Sadaqah can be recorded through established funds, such as the United Nations High Commissioner for Refugee (UNHCR)'s Refugee Zakat Fund (2020). It reports that yearly donations are increasing, with the most recent documented donation stream being US$61.5 million. The greatest bulk, 79%, is given as Zakat.

These donations were largely utilized to assist internally displaced people in Yemen, followed by Rohingya refugees in Bangladesh and India. These efforts have benefited 651,425 and 580,911 people respectively.

The Zakat Foundation of America is another Zakat and Sadaqah donor vehicle that has made significant contributions to individuals in need. The foundation's latest report (2020) highlighted its activities during the pandemic, with the institution assisting approximately 2.6 million people with emergency aid. Over 8.3 million life-saving meals were supplied to the needy. However, the foundation's assistance does not end there; it is committed to finding a long-term solution for food security through agricultural projects. It also focuses on resolving issues such as the lack of access to clean water, demolishing barriers on education and so on. In the end, this helps hundreds of millions of people live better lives.

Waqf are endowments that have traditionally supported a community's necessities, such as healthcare and education. The International Waqf Fund exemplifies the potential of such endowments. Its primary goal is to enhance people's livelihoods. This is done through a variety of initiatives, including sustainable living, education, healthcare, clean water access, children's welfare and others. The fund's annual report (2021) highlights its gifts for the most recent fiscal year, amounting to GBP395,307 (US$485,797), which resulted in improved living conditions for thousands of individuals worldwide. Islamic microfinance is another means of alleviating poverty. Shariah compliant financing is available to assist individuals in need of establishing a small company, thus, going beyond simply delivering a care package and eradicating poverty as a whole.

Preview of 2023

This report is not just about looking back and celebrating some of our recent accomplishments; it is also about looking forward to scaling up and mainstreaming Islamic social finance. Apart from the success stories listed previously, we are also aware that Islamic humanitarian deeds have benefited people all over the world, from mending war-torn houses in Bosnia to assisting the destitute in Gaza and Chechnya to even improving cancer care in Albania, as recorded by Islamic Relief Worldwide (2021).

Nonetheless, despite all of these attempts, poverty, food insecurity, a lack of access to clean water, educational hurdles and even basic healthcare appear to be obstructing a big portion of the world, particularly in Muslim nations. This raises the question of how to broaden the function of Islamic social finance. We propose harmonizing regulations, encouraging innovation, transforming institutions and developing talent. First, many people regard regulation as a challenge, and adhering to new norms and practices may be difficult since Zakat and Waqf rules are dictated by Islamic scripture and legacy.

Despite disagreements over interpretation, the rule of common principles should be followed in order to improve uniformity and therefore boost the relevance and usefulness of Islamic social finance. Second, in terms of innovation, the exploitation of fintech and associated development in the domain of digitalization should be fostered further.

Nonetheless, some funds have already opted to adapt to the ongoing digitalization, such as the UNHCR's Refugee Zakat Fund (2020) with the launch of its GiveZakat app. This project gives the fund access to a much larger pool of donors, which means more money is raised and, in the end, more people can benefit. Third, the underlying difficulties of institutional quality span from low credibility to low levels of trust, with instances including governance issues, as highlighted by the 'Maximizing Social Impact Through Waqf Solutions' report jointly published by World Bank Group, International Centre for Education in Islamic Finance and International Shari'ah Research Academy for Islamic Finance (2019). Institutional transformation is required since the performance of social finance is largely determined by the degree of social capital. The use of blockchain as a method of documenting transactions has the potential to improve public perception and confidence. Last but not the least, it goes without saying that unless these institutions are led and managed by skilled individuals, social finance would struggle to compete with its competitors.

Conclusion

We hope that this piece highlights the potential and possibilities of what we can achieve through Islamic social finance. Transformation is essential; this might be the key to achieving an inclusive world. We have the liquidity, technology and people in place; all that is needed is the determination to pursue a better solution.

Standards and standardization: A need for more capacity-building

Dr Rizwan Malik is the head of standards implementation and strategic developments at the Accounting & Auditing Organization of the Islamic Financial Institutions (AAOIFI). He can be contacted at rmalik@aaoifi.com.

The Islamic finance industry continues to grow in different parts of the world both in terms of its size, as well as through regulatory and policy developments. More and more countries are introducing Islamic finance in their economies and are enhancing their regulatory ecosystem to cater for this important industry. Some of these emerging Islamic finance economies have taken a conscious decision to follow up best practices by adopting the standards developed by global standard-setting bodies. It is expected that other jurisdictions will adopt similar practices and implement internationally benchmarked standards, which is vital for the long-term sustainable growth and development of the industry.

Review of 2022

As the world has largely moved away from the COVID-19 pandemic-related restrictions, there remain countries that still have these restrictions in place. However, 2022 was the first year where mostly things have returned to some form of normalcy. This is true for the standard-setting bodies including AAOIFI, IFSB and International Islamic Financial Markets where the normal course of activities has resumed including physical meetings of technical boards, capacity-building initiatives, as well as advocacy and awareness programs.

Standardization in Islamic banking and finance is a topic that has been discussed since the establishment of AAOIFI in 1991 as the proponents and opponents of the industry continues to deliberate on the never-ending debate. Through this article, I wish to highlight some of the practical, strategic and operational challenges in the adoption and implementation of internationally benchmarked standards.

However, the interesting part is that some of these may be where standard-setting organizations can and currently play an important role to overcome them. It is important to emphasize that these infrastructure institutions are complementing the work of each other and actively work together where possible.

Some of the strategic challenges include a lack of commitment from key decision-makers to undertake actions to prioritize Islamic finance, ie lack of political will. There are others who see little difference between conventional banking and Islamic banking while others are not convinced with standardization and its benefits and at times state that international standards are incompatible with the official school of thought (Madhab) of the jurisdiction.

This is particularly true for some of the emerging Islamic finance markets where decisions by the boards are based on different schools of thoughts within one country, which creates confusion within the country and in turn hampers growth.

Other issues include a lack of infrastructure in terms of a regulatory framework compatible with standards and a lack of Islamic finance experts with respect to supervision. Additionally, from AAOIFI's perspective on the accounting side, the framework of a country may not allow the adoption of AAOIFI Financial Accounting Standards (FASs). Some operational challenges include financial considerations of the implementation of standards, the language barrier, technical assistance and gaps in standards.

In my opinion, the aforementioned challenges are a starting point as a number of them are perception-based and far from reality while others are general concerns and not necessarily related to standards issued by these infrastructure institutions. For example, the difference between conventional and Islamic financial services is an established phenomenon, as such it is accepted by multilateral organizations including the IMF, World Bank, BIS and such.

With regards to the compatibility with any Madhab, this is relevant to AAOIFI; a standard is not issued by any one particular school of thought but rather, it is a collective effort and Ijma of all the scholars from different schools of thought involved.

Similarly, when it comes to the adoption of AAOIFI FASs, the strategy at AAOIFI is simple and this is adopting the conventional best practices issued by the International Financial Reporting Standards and US GAAP on the accounting side. Similarly, on the governance standards, AAOIFI and IFSB follow the best practices issued by the International Organization of Securities Commissions on the governance side.

As such, standards in these areas are only issued where there is a direct conflict with the Shariah principles or something that the conventional rules do not address completely and/or adequately. A prime example is the Shariah governance framework as an additional layer over the conventional corporate governance framework.

With regards to capacity-building and technical assistance in the adoption and implementation of standards, all three infrastructure organizations have globally recognized initiatives. These include internationally benchmarked qualifications offered by AAOIFI and technical support in the form of bespoke and general workshops by all three institutions.

We believe these initiatives enhance the understanding and awareness of AAOIFI standards, as well as increase the existing knowledge base which assists in the adoption and implementation of the standards.

To further enhance the understanding and reach of standards, infrastructure institutions have exerted efforts in making standards available in English and Arabic in particular. While AAOIFI Shariah standards are available in more languages including Turkish, Russian, Urdu and French, translation into the Bangla language has been finalized and efforts are in place to translate into Bahasa Indonesia and Mandarin.

More recently, infrastructure institutions are placing more effort in terms of enhancing their relationship with regulatory institutions around the world through various initiatives. These include formal meetings, engagements with regulators through workshops and roundtables, working with banking associations to bridge the gap (this is particularly true in Muslim-minority countries), as well as actively partnering with international conferences and events and enhancing the understanding of the institutions and its standards.

From AAOIFI's perspective, the response of this effort has been positive and has resulted in the gradual increase in the adoption of AAOIFI standards. As such, AAOIFI standards are at present adopted

at various levels by more than 45 countries and more than 50 regulatory jurisdictions as reported in the AAOIFI Footprint Report 2022.

Preview of 2023

With the enhanced understanding of the standards and through active engagement with different stakeholders (including regulatory and supervisory institutions), it is expected that the implementation and adoption of standards will improve in 2023. This is beneficial for developed Islamic finance markets and the developing markets alike.

For the regulators and policymakers in particular, it is important that the industry follows a set of standards that are benchmarked to the highest standards to ensure the financial stability and integrity of the industry in the long run. Additionally, the emerging markets are better off in adopting existing standards issued by these institutions to leapfrog the times rather than developing standards from scratch.

Conclusion

As new markets are opening to Islamic finance, they are making the right decision of not reinventing the wheel by developing standards and regulations from scratch; rather they are adopting best practices issued by global standard-setting bodies. These countries include Iraq, Afghanistan, Somalia and Libya.

We believe this is a strategy that should be replicated by other countries and jurisdictions in order to ensure there is no duplication of effort and the industry is benchmarked to international standards.

As such, there is a need for more capacity-building in these countries as policymakers and practitioners continue to exert efforts in enhancing their understanding of standards issued by these infrastructure institutions.

At the same time, the three standard-setting organizations (AAOIFI, IFSB and International Islamic Financial Markets) are increasingly working together for the collective benefit of the industry through standards development, capacity-building and awareness and advocacy programs, which is expected to continue in the year 2023.

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.

Global economic crises, debt crises and participatory capital

Mohammad Aamir *is an ex-Islamic International Rating Agency credit analyst and Islamic finance practitioner. He can be contacted at ifsaamir@ gmail.com.*

The global economic landscape since the year 2008 has been going through crises or facing a challenging environment and is once again facing an unprecedented economic crisis that is said to be more damaging than the 1970s recession and the 2008 global financial crisis at the collective level. This report discusses the ongoing and going-forward scenario of the global Islamic finance industry in the current economic situation across the world.

Review of 2022

Fitch Ratings's third quarter of 2022 (Q3 2022) report on Sukuk states that the near-term Sukuk market activity will be slow in the core markets of the GCC, Malaysia, Indonesia, Turkey and Pakistan (including multilaterals) amid continued volatilities as will bond market activity. Rising interest rates, high oil prices, geopolitical events and lower emerging market debt appetite propelled a 14.4% quarterly fall in total Sukuk issuance in the core markets in Q3 2022, with bond issuance similarly falling (down 14.1%).

Funding diversification plans across sectors, upcoming debt maturities and the further maturity of the domestic debt capital market in a number of countries will continue to drive Sukuk issuance. S&P in its report titled 'If Stagflation Strikes, Loss-Making Corporates Will Double Globally' states that overall, conditions are tougher compared with December 2021's semi-annual Global Debt Leverage series. Stress tests on its rated corporates pointed to cash flow stress. It also states that in the US, the share of speculative-grade issuers with free operating cash flow (FOCF) deficits would increase to 39% from 15%.

In Europe, 50% of speculative-grade issuers in 2023 would have a negative FOCF compared with 30% in 2021. In the Asia Pacific test, 25% of issuers would breach rating triggers. The foregoing indicates the impact of current economic challenges on the credit quality of Sukuk issuers or financing seekers over the short to medium term going forward.

Preview of 2023

The combination of monetary tightening in terms of rising interest rates at the central bank levels in the US, the UK and other parts of the world and supply-side shocks in the form of rising oil prices and other commodity prices is widely expected to put pressure on economies from two fronts. One such pressure may be a deep recession and the other may be on the global financial system. The recessionary economic crisis can be tackled to some extent by taking fiscal measures and better supply chain initiatives, etc.

The financial crisis may pose a complex situation this time where measures like quantitative easing and monetary policy softening that were adopted to manage the global financial crisis of 2008 can no longer prove useful and relevant. There seems to be a consensus among economists and finance experts that the current crisis can become a stagflationary debt crisis as well. Now the question is how this scenario may be affecting the Islamic finance industry globally besides not offering a rosy picture for the conventional finance industry internationally too.

The challenge in the first place is going to be for sovereigns and corporates to keep their creditworthiness or credit ratings intact. Further, they have to manage their liquidity to fund ongoing contractual obligations on time while their financial charges would also be increasing due to the high interest rate environment in developed and other economies, ie the spillover effect. Remember, it is not about refinancing existing non-equity liabilities but scheduled contractual payments.

Next comes the refinancing challenge; if sufficient interest would be available for some jurisdictions then at what funding cost would they be able to raise the financing, whether short- term or long-term? Finally, post the risk-adjusted credit profile of issuers of Sukuk and financing seekers, how many would be able to raise funds at the sustainable levels and terms?

The Sukuk market may be expected to remain relatively stable on the international or domestic scale but it is for sure that investors' and financiers' comfort level to invest will become quite selective and cyclical sectors of the economy like real estate, technology, financial, construction and automotive can suffer due to fewer financing options and unfavorable terms.

In the foregoing expected economic environment, the sovereigns and the corporate sector can adopt the strategy of focusing on raising short-term financing and instruments to ride over the rising interest rate curve environment and it will be mostly from domestic markets and from international markets, if feasible, for medium- to longer-term tenors. The features of Sukuk or financing may take two extremes: (a) plain vanilla or (b) complex structures to ensure repayments of non-equity schedule obligations.

Conclusion

The current and ongoing expected economic conditions would make fundraising activities more challenging in the short term and terms of financing would be more stringent with the risk of deteriorating credit quality. Seeing through the turbulent times is again making the case pf participatory capital stronger and appealing as it can at least help to address debt crises at the national and international scales that would otherwise aggravate the social and economic well-being of the masses and limit the economic growth of countries.

The rising state of sustainable finance — challenges and opportunities

Luma Saqqaf *is CEO of Ajyal Sustainability Consulting. She can be contacted at luma.saqqaf@ajyalconsulting.com.*

There is little doubt in the minds of financial market participants that Islamic finance has a natural affinity with sustainability. The underlying ethos is quite similar: making an investment decision on the basis of more than just profit. In addition, the typical negative screening list of the sectors or activities to avoid such as alcohol, armament, pornography and gambling is almost identical. Sustainable finance is seen to extend to more than just that negative list, but so does Islamic finance. Like other religions, its core tenets do cover the wellbeing of humanity and the environment.

According to Fitch Ratings, the size of the Islamic finance sector may have already exceeded US$3 trillion. While the size of the sustainable Islamic finance sector remains a fraction of that, it is rising. Nevertheless, it would seem that the growing importance of sustainability, in particular climate change-related issues, is giving back some importance to Islamic finance in particular in the Middle East. As the Middle East continues to seek distinguishing itself from the rest of the world through sustainability, Islamic finance could easily enable that.

Indeed, the ability to structure a sustainable Islamic finance deal as seen in capital market transactions (Sukuk specifically) has enabled expanding the pool of funding to borrowers. These types of bonds attract three pools of investors: Islamic finance investors, sustainability investors and those simply looking for the underlying credit risk.

Islamic capital market instruments, specifically Sukuk, remain the fastest-growing segment. However, one segment to watch is Islamic fintech which has grown exponentially in both Asia and the Middle East with various digital and fintech products becoming Shariah-approved such as crowdfunding, Buy Now Pay Later products, blockchain-based products and cryptocurrency.

Review of 2022

The biggest markets for Islamic finance continue to be centered in the Middle East, Saudi Arabia and the UAE, as well as East Asia, in Malaysia and Indonesia. The growth of Islamic finance products in both markets continued in 2022, although it may have started to slow down after the second half due to, among other reasons, the geopolitical and economic issues which started impacting the world.

Other factors have contributed to this deceleration including the fact that the Central Bank of the UAE adopted the AAOIFI standard demanding stricter adherence to the percentage of underlying assets required to enable the transferability of Sukuk. On the sustainability side, the slow growth of available projects for financing has restricted the market. That may change as MENA approaches both COP27 Egypt [2022 United Nations Climate Change Conference] and COP28 UAE [2023 United Nations Climate Change Conference], heightening awareness and interest in the region and increasing transition plans and net-zero commitments.

Preview of 2023

Growth challenges going forward depend, in part, on areas not specifically related to Islamic finance such as the global economy and the availability of sustainable projects that can be financed, including the development of sustainability frameworks and taxonomies that would accelerate this process.

But there are other challenges from within the industry itself, namely the lack of standardization of documents across the markets and, more importantly, the differences in Shariah interpretation between Asia and the Middle East for the purposes of finance structures. This difference means that it will always be difficult for the global market to expand rapidly.

The ability of the Asian Islamic finance market to use Murabahah/Tawarruq structures provides flexibility and more product possibilities. Yet that structure not being acceptable in the Middle East means that, when embarking on global issuances as in the example of Indonesia's Sukuk, a more Middle Eastern-accepted structure requiring minimum physical assets would be needed. This is potentially restricting issuances.

Conclusion

Despite these stumbling blocks, there are several factors that send encouraging signals for the year ahead, providing international capital markets recover. The world requires massive amounts of financing to achieve their climate and SDG commitments. The Middle East alone requires around US$2 trillion.

Given that 90% of sustainability bonds that came out of Saudi Arabia have taken the form of Sukuk, it is expected that Saudi Arabia will be tapping into Islamic finance to fund its sustainability-related expansion. Saudi Arabia also has set a target of becoming the global Islamic finance center in its Vision 2030.

Similarly, in Asia, in 2020, Malaysia's Securities Commission has identified socially responsible Islamic investment as part of its continued leadership in the Islamic capital market space. In furtherance of that vision, Malaysia today is home to 91% of all ESG Sukuk issuances and has issued in June 2022 the SRI Sukuk Framework to further support that vision and facilitate further issuances by corporates.

With the two key markets standing behind it, the only way for sustainable Islamic finance is moving up.

Islamic syndicated financings: MENAT market overview

***Hitesh Asarpota** is the managing director and head of global capital markets and loan syndications while Shayaan Khan is the head of loan sales at Emirates NBD Capital. They can be contacted at asarpotah@emiratesnbd.com and Shayaank@emiratesnbd.com respectively.*

Islamic syndicated financings underwent a major uptick in volumes fueled by buoyant loan financing markets in the GCC, underpinned by strong deal flows across the Kingdom of Saudi Arabia, the UAE and Bahrain. Despite a slowdown across the global markets, MENAT [Middle East, North Africa and Turkiye] syndicated loan markets stood resilient in 2022 with strong deal flows, especially across the GCC, on the back of strong liquidity among banks, high oil prices and a favorable macro–micro environment backed by local, regional and international investor appetite.

MENAT's syndicated loan volume year-to-date (YTD) for 2022 stands at circa US$111 billion, with an additional circa US$20 billion-plus of deals closed or expected to be signed by the end of the year, including the Public Investment Fund's US$17 billion deal and Ministry of Defence Egypt's US$2.5 billion deal.

The year is expected to close flattish to the financial year (FY) of 2021 — which was a record year for MENAT, clocking a total syndicated loan volume at circa US$151.6 billion on the back of a sharp post-COVID-19 recovery (+ 83% vis-à-vis the average annual volume between FY 2019 and FY 2020).

Review of 2022

Key themes witnessed in FY 2022 were the following:

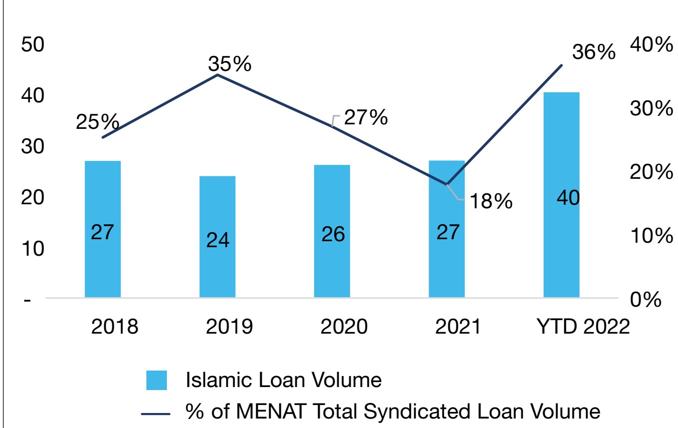
- Strong liquidity dynamics within the GCC banking system led to fierce competition on deals leading to margin and fee compression.
- Departure of the underwrite-to-syndicate model toward large-scale club and bilateral financings.

Chart 1: MENAT — Syndicated loan volume (US$ billion)*

**Bloomberg MENAT data excludes acq. fin infra deals including likes of Green Saif Pipelines (KSA) US$13.8 billion and CDPQ (UAE) US$2.9 billion due to foreign-based borrower/sponsor domiciles.*

Source: Bloomberg

Chart 2: MENAT — Islamic syndicated loan volume (US$ billion)



Source: Bloomberg

- A number of GREs, blue chips and established corporates consolidated and refinanced their debt stacks with favorable maturity, pricing, security and covenant profiles.
- Uptick in acquisition financings, particularly in the infrastructure space driven by strong cross-border investor appetite in performing local and regional assets.
- Focus on bridge structures, driven by IPO-linked financings on the back of progressive equity capital markets across the GCC.
- Transition to the secured overnight financing rate, and focus on building the sustainable financing framework across MENAT borrowers.

On the back of (i) increased overall deal flows in the GCC (ii) competitive liquidity dynamics in the local and regional banking system (iii) improved alignment in Shariah boards of local/regional banks leading to shorter documentation/turnaround times on documentation and (iv) increased inclusion of Islamic tranches in large financing across the Kingdom of Saudi Arabia, the UAE and Bahrain, the MENAT Islamic syndicated financing markets witnessed a record year with YTD 2022 volume at circa US$40.3 billion (+49.6% year-on-year (YoY)), representing 36% of the total MENAT loan volume for the respective period.

This was a sharp increase vis-à-vis FY 2021, whereby the Islamic financing volume stood at circa US$27 billion and only contributed circa 18% of the total syndicated loan volume in MENAT; the weak Islamic activity in the respective year was a result of rapidly changing and volatile market conditions, whereby there was a strong preference from the majority of sovereigns, government-related entities (GREs) and corporates for conventional loans primarily owing to the relative ease and speed of structuring, documentation and execution.

- Over the years, GCC countries have remained the top contributors representing an average of circa 82% of MENAT's total Islamic syndicated loan annual volumes between FY 2018 and FY 2021; this witnessed a sharp increase to circa 96%, with the total GCC Islamic financing volume at circa US$38.8 billion YTD 2022 — a steep increase from circa US$18.8 billion in FY 2021.
- Egypt remains the second-largest contributor, accounting for circa US$8.1 billion in the Islamic loan volume in FY 2021 primarily driven from large-scale Islamic tranches of mega deals executed on behalf of the Ministry of Finance and Egyptian Electricity Holding.
- However, in FY 2022, Egypt experienced a sharp decrease in Islamic volumes to circa US$1.3 billion (-84% YoY), which was in line with the overall slowdown in Egyptian deal flows — primarily on the back of significant foreign exchange volatility and the global macroeconomic impact on the country.

A deep dive into the FY 2022 Islamic deal flow

Within the GCC, Saudi Arabia remained the largest driver of the Islamic loan volume (primarily on the back of a wider Islamic banking sector and local borrower/lender preferences); however, the UAE has consistently ramped up over the years, whereby in consolidation the two countries account for circa 88% and circa 84% of the total GCC Islamic loan volume and the total MENAT Islamic loan volume YTD 2022 respectively.

Major financings completed in FY 2022 in Saudi Arabia which incorporated Islamic tranches include Saudi Aramco's US$10 billion dual tranche syndicated financing, Saudi Electricity's US$3 billion financing facility and Advanced Petrochemical's US$1.6 billion financing, among others.

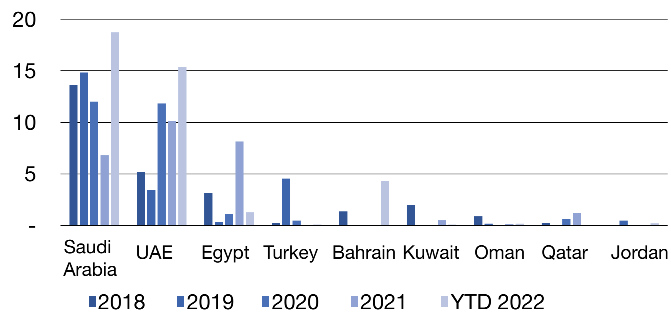
In the UAE, a number of GREs entered the loan markets primarily for refinancings and IPO-linked financings, whereby a number of mega deals were completed either on a dual conventional and Islamic structure or a sole Islamic structure, including Etisalat's US$7.5 billion equivalent dual facility, Nakheel's AED17 billion (US$4.63 billion) dual-tranche financing (largest real estate financing completed in the region), DEWA's AED10 billion (US$2.72 billion) facility (solely Islamic) and TECOM's AED7.6 billion (US$2.07 billion) dual-tranche financing facility.

A sharp jump was also witnessed in Bahrain's Islamic activity after a hiatus since FY 2018, whereby the oil and gas holding and investment arm of the Ministry of Oil, nogaholding, successfully signed its US$2.2 billion sustainability-linked syndicated financing in May 2022, which incorporated a conventional and Islamic tranche.

Preview of 2023 and conclusion

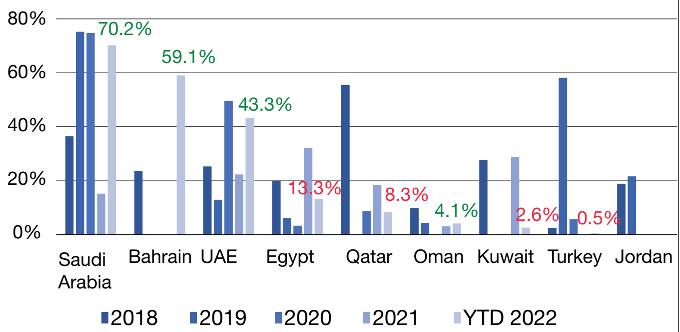
FY 2022 witnessed a sharp recovery in the Islamic loan space, whereby Saudi Arabia, Bahrain and the UAE saw strong representation of Islamic liquidity/banks in milestone financings completed for their top-tier GREs, real estate players and project financings, among others — we consistently experienced competitive bids by local and regional Islamic banks on primary deals, which looked to deploy liquidity in order to meet aggressive asset targets, with a view to recover from the slowdown in Islamic activity in FY 2021 and replenish respective asset run-offs (especially across their GRE portfolios) in FY 2022.

Chart 3: Islamic syndicated financing volume by country (US$ billion)



Source: Bloomberg

Chart 4: Islamic volume/total loan volume by country (%)



Source: Bloomberg

Given a majority of the GREs and blue chips accessed the loan markets this year, taking advantage of the liquidity dynamics, and have solved their medium- to long-term capital requirements, in 2023, we expect to see more of the private players (especially mid- to large-tier corporates) enter the loan space for balance sheet management and to extend maturity profiles and resize covenants/structures primarily due to the increasing rate environment, whereby they would look to follow the present financing trends, and incorporate dual-tranche structures in their financings in order to optimize pricing and liquidity.

While the decline in Islamic volumes in the other GCCs in FY 2022 is in alignment to the overall decrease in syndicated volume in the respective countries, we believe there is a larger role for Islamic liquidity to play especially in Oman where (i) we have recently seen an uptick in loan activity driven by sovereign and quasi-sovereign funding requirements (which have primarily been conventional thus far, whereby a number of conventional banks are now tapped out on limits for the sovereign and GREs), (ii) the pricing challenges and relative inaccessibility to the debt capital markets in the near term may steer borrowers more toward the loan markets to achieve competitive pricing (recently witnessed on Ministry of Finance Oman and foreign investment deals) and (iii) given the improved credit rating, on the back of macro performance, of the country, we would expect more banks to have appetite for the country going forward.

Given the challenges in the frontier and emerging markets, decrease in overall investor appetite and inaccessibility to the debt capital markets, we expect issuers to continue to expand and diversify their funding sources via the loan markets, whereby a further diversification and expansion of their liquidity pool/investors can help in optimizing pricing and size on their upcoming funding requirements. This creates an opportunity for Islamic liquidity to play a key role in FY 2023.

The views expressed herein are those of the author and do not necessarily reflect the official policy or position of any other agency, organization, employer or company.

Digital Takaful transformation strategy in Africa

Professor Dr Abdussalam Ismail Onagun *is the co-founder and CEO at Qitmeer Smart Consultancy. He can be contacted at abdussalam@qitmeer.io.*

2022 is considered the year of Takaful growth development 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 compliance, operations and customer service and is typically accompanied by a move to modern cloud technologies.

Review of 2022

In the beginning of 2022, there were awareness events and workshops on the Takaful business because COVID-19 had a strong impact on the Takaful industry in Africa, leaving many unanswered questions about the sector's full-year performance. Despite the difficult economic situation, the pandemic also revealed some positive effects such as a growth in awareness about the benefits of Takaful and the acceleration in digital Takaful transformation.

In March, the Moroccan Supervisory Authority of Insurance and Social Welfare granted a license to Wafa Takaful Insurance, a subsidiary entirely owned by Wafa Assurance, to carry out family, investment and general Takaful activities. The new entity has started Takaful insurance operations with three Takaful products in both General and Family Takaful.

In July, the 9th African Islamic Banking & Takaful Summit was held in Johari Rotana, Dar-es-Salam, Tanzania. The purpose of this event was to explore the untapped Takaful insurance market for socioeconomic benefits of the African region. The banking and Takaful industry of Tanzania and the surrounding areas had actively participated in the conference to gain ample knowledge of the Islamic insurance sector and solutions to the escalating problems of society. Among the issues discussed in this conference was the issue of digital transformation of Takaful operations.

Gambia, Tunisia, Algeria, Kenya and Egypt stand among African countries where Takaful insurance is witnessing substantial growth. The establishment by some insurers of Takaful windows, providing at the same time conventional products that are consistent with Shariah rules and principles, has boosted this activity.

In the third quarter of the year, Noor Takaful Insurance, the pioneer of Takaful insurance companies in Nigeria, distributed a total of NGN109.85 million (US$249,360) as surplus to Takaful participants who did not make claims on their insurance contracts during the 2020/2021 financial year — Noor Takaful Insurance announced this during the surplus distribution event held at Radisson Blu Hotel in Ikeja, Lagos.

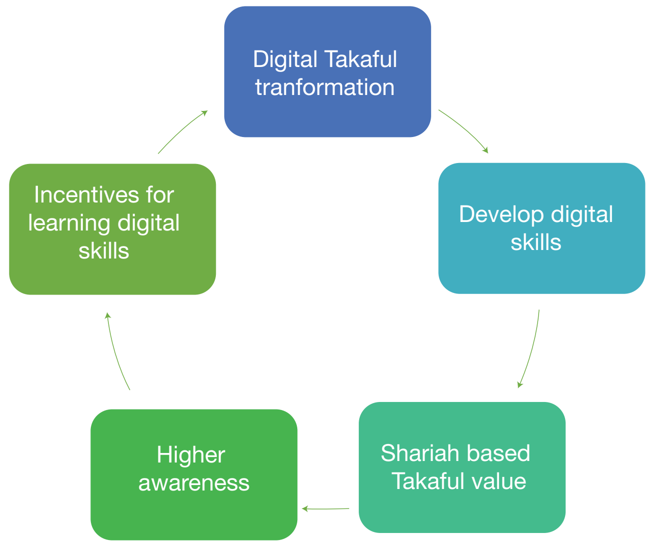
At the event, the vice-chairman of Noor Takaful Insurance, Aminu Tukur, stated that the surplus distribution came as a redemption of its pledge to Takaful participants, noting that Takaful insurance has become highly receptive among Nigerians over the last few years.

Preview of 2023

In previewing 2023, the Takaful operators in Africa need to have a strategy in deploying innovative technology for digital Takaful transformation which can be the focus of the Takaful industry leadership in 2023 as follows:

1. Develop digital skills: To succeed in the 'new products', Takaful operators will have to adopt technology by developing digital skills and offering new Takaful products based on P2P platforms, 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 their digitalization efforts to create a seamless and efficient customer experience to cater to an increasingly digital consumer market. This will also enable better access to new customer segments such as young consumers and the lower income class.
3. Shariah compliance-based Takaful value: COVID-19 has reinforced the need 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 value. 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 operators are applying for a license to do Takaful business 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 capacity in the strategic transformation for digital Takaful insurance.

Figure 1: Digital Takaful transformation strategy



Source: Qitmeer Commercial white paper

The strategy can be summarized in Figure 1.

Conclusion

In conclusion, COVID-19 has accelerated the transformation of the Takaful insurance industry in multiple respects. It is the obligation of the Takaful industry leadership to drive transformational change in ESG to continue to build across geographies including the African region. It is hope that Takaful operators can achieve digital Takaful transformation in 2023.

Mixed fortunes for the Takaful industry in Asia

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

2022 has so far been a year of mixed fortunes for the Takaful industry in the region. While it continued its growth path, several Takaful companies have sustained losses from big market events and a difficult economic situation.

Review of 2022

The General Takaful industry in Malaysia grew 19.8% in the first half of the year with a gross written contribution of RM2.23 billion (US$477.96 million), increasing its market share from 15.5% to 18.5% a year ago.

However, the impressive growth ratio is partially due to the following: (1) the economy was still struggling with the effects of COVID-19 in 2021, and (2) tax incentives were provided in the first half of 2022, which boosted car sales and led to a higher motor Takaful takeup rate.

Meanwhile, the industry' combined ratio significantly increased in the first six months of the year by 11.6%, rising from 92.2% in 2021 to 103.8%. The surge in the combined ratio is driven by the increase in net claims, for example due to flood losses, and a higher claims ratio of the motor business which climbed from 61% to 74.2%.

Although the 2022 increase is not a complete surprise given the relatively low claims ratio in 2021 amid Malaysia's prolonged lockdown, General Takaful's motor business performance is worrying compared with general insurers, whose claims ratio is 10% lower at 64.3%.

For Family Takaful operators, after a strong rebound in Malaysia last year with a 29.1% increase in new business, they are struggling to keep the growth momentum. Unfavorable investment valuations and cost pressures weakened the profit performance of the Family Takaful sector.

In Indonesia, the Takaful sector is also facing profitability challenges due to COVID-19 losses on the Family Takaful side and disappointing performance of the credit portfolio for General Takaful.

Regulatory activities continued to pick up in 2022. In Malaysia, Bank Negara Malaysia launched the Financial Sector Blueprint (FSB) 2022-26 in January. Among other new regulations, it issued two discussion papers each on Shariah-related matters (ie Ta'awun; Hajah) and relating to climate change (ie 'Climate Risk Management & Scenario Analysis'; 'Climate Risk Stress Testing Exercise'). All these regulations will have an impact on the Takaful industry.

In Indonesia, the spin-off requirements by 2024 are still going ahead, and the preparation for the upcoming implementation of IFRS 17 is continuing across the region.

Preview of 2023

The FSB has defined three desired outcomes for Malaysia:

1. Finance for all, which aims to offer diverse choices to customers such as 'digital first' solutions, to strengthen financial safety nets and cultivate confident and capable financial consumers. This is especially important as the severe floods and other events earlier in the year have shown that there is still a significant protection gap in the country.

2. Finance for transformation is about enabling growth in alternative finance, facilitating deeper global integration for Islamic finance and establishing a vibrant financial landscape. In this respect, it will be interesting to see whether digital Takaful operators' entry expected in 2023 will lead to a changing Takaful landscape.

3. Finance for sustainability aims for a wider adoption of value-based intermediation (VBI) to serve the economy, community and environment with steady progress in greening finance and financing green. The implementation of VBI by the Takaful industry can play an important role in achieving sustainable growth of the industry in the coming years.

These ambitions were set amid a challenging economic outlook with rising inflation and a potential economic downturn. Moreover, further liberalization of motor and fire tariffs will likely lead to greater competition in these segments. All these could put additional pressure on Takaful operators' results and will need to be addressed in the coming year.

In addition to some of these common themes, there are other specific aspects for individual countries to consider in 2023. For example, in Indonesia, the key question remains whether the regulator will proceed with its requirement for Shariah business units to convert to fully-fledged Takaful operations by 2024. Until now, only a few Takaful window operations have done so even though the deadline to submit revised spin-off plans has passed.

Other structural challenges in Indonesia include: (1) developing an Islamic finance ecosystem that supports Takaful operators, (2) attracting adequate capital, (3) strengthening the regulatory framework, (4) raising awareness of Islamic finance products, and (5) improving the market's results.

Besides Brunei — where Takaful already has a major market share — Takaful continues to expand its footprint in other regional countries, such as the Maldives, Sri Lanka and Thailand. As some of them are Muslim-minority countries, it is up to individual companies to increase their respective market share.

Conclusion

While Takaful has proven its resilience during the pandemic, it must seize the opportunities in an increasingly dynamic risk landscape and sustain strong financial results despite a challenging economic environment.

Rising demand supports further Takaful growth in an evolving Middle Eastern insurance market

***Mohammed Ali Riyazuddin Londe** is the vice-president and senior analyst at Moody's Financial Institutions Group. He can be contacted at Mohammed.Londe@moodys.com.*

We expect the market for Takaful to keep expanding in the Middle East, supported by strong demand and the spread of compulsory insurance in the Muslim-majority region. Takeup of insurance in the region also remains comparatively low, an indicator of good growth potential. Takaful operators' profitability is currently under pressure as inflation drives up claims costs, and as claims volumes return to normal after a COVID-19 pandemic-induced decline. We expect a combination of weak profitability and rising regulatory costs as supervisors tighten their scrutiny of the sector to drive industry consolidation.

Review of 2022

Takaful premiums/contributions in the GCC, the Middle East's biggest Takaful market, grew at a compound annual rate of 6% between 2018 and 2021, compared with 3% in 2016–21. We expect continued strong growth over the next two to three years.

Our view primarily reflects increased demand as countries in the Middle East and in particular the GCC introduce or expand compulsory health cover.

The introduction of compulsory medical insurance over the past three to five years in Oman, Qatar, Saudi Arabia and Kuwait, and the implementation of mandatory motor insurance in Saudi Arabia in 2022/23,will help sustain Takaful premium growth at least at the levels seen in 2018–21. Takaful operators are well positioned to benefit from compulsory medical and motor cover, as they focus mainly on retail lines.

Governments in the region are also encouraging consumers to build up their savings and make greater use of protection insurance. This will underpin growth in Family Takaful products, prompting insurers to acquire relevant licenses and expand their life insurance capabilities.

A further supportive factor is the current strong economic growth in the key hydrocarbon-rich Takaful markets of the Middle East, where governments are also attempting to diversify economically. Insurance penetration (premiums/GDP) remains relatively low in these countries, leaving ample room for growth. Takaful premiums in the GCC market grew by 21% in the first six months of 2022 compared with the same period a year earlier, reflecting a post-pandemic economic recovery across the region as well as pricing corrections in Saudi Arabia.

Higher claims weigh on profitability

Inflation is driving up Takaful operators' claims costs, while claims frequency is also rising as economic growth picks up following a pandemic-related downturn in 2020. With inflation also eroding household incomes, the Takaful sector has been unable to push through matching price increases, leading to a decline in its profitability. This is reflected in a 70% decline in the overall GCC Takaful market's profits in the first six months of 2022 compared with the same period a year earlier. The deterioration came despite higher returns on deposits and fixed income investments as interest rates rose globally, although this will provide some counterbalancing

uplift in the future. Weaker profitability has also reduced potential synergies from mergers and acquisitions (M&A) activity.

Preview of 2023

M&A momentum remains strong

We expect Takaful insurers to continue investing in digitalization to improve their efficiency. The industry stepped up its digitalization efforts in response to the coronavirus pandemic, which encouraged consumers to interact with their insurers mainly through online platforms. Digital channels allow insurers to reach more customers at a lower cost and may allow some Takaful operators to boost their premium growth. However, switching from traditional to online channels can require significant upfront investment. As a result, we foresee that many small Takaful players will seek M&A opportunities to spread their digitalization costs.

Furthermore, supervisors in the key Takaful markets are raising minimum requirements around governance, risk and capital management. This is adding to Takaful operators' compliance costs, particularly for smaller players. Smaller operators may also seek mergers to help them comply with increased capital and other regulatory requirements, particularly in Kuwait, Saudi Arabia and the UAE.

In Saudi Arabia, recent legislation gives the regulator the power to raise the minimum capital for insurers to at least SAR300 million (US$79.89 million) from SAR100 million (US$26.63 million) currently, with the final regulatory implementation expected soon.

Similarly, in March 2021, Kuwait's insurance regulator published new executive directives that increase insurers' minimum capital and introduce risk-based capital measures and actuarial-led reserving.

Conclusion

While we expect the changes in capital regulation to strengthen the industry over time, they pose some implementation and operational hurdles in the short term. It is therefore important for Takaful operators to achieve the scale required to absorb these costs.

As a result, while better governance is supportive of credit quality in the longer term, rising regulatory costs are a source of additional profitability pressure, and will continue to spur M&A activity across the sector.

2022: Robust and eventful year for Islamic nations' economies

Arshad Khan *is CEO of Venomex. He can be contacted at arshad@venomex.com.*

Despite global economic and financial uncertainty over the course of 2022, underpinned by successive interest rate hikes by the US Federal Reserve and its global counterparts, the developments in terms of financial exchange and activity in the Islamic world can be regarded as positive.

Islamic economies around the world, especially in the GCC region, bounced back strongly, as the final expectation of the growth of non-finance economy sectors in the Islamic world in 2022 exceeded 9% on the output of the previous year, when total spending amounted to US$2 trillion across food, fashion, recreation, media, cosmetics and pharmaceutical sectors. The finance economy growth in 2022 is expected to have gained a 10–12% increase on its US$2.2 trillion capitalization from 2021.

Review of 2022

In the MENA region especially, there has been industry-level increases in the number of IPOs, the number of trading and brokerage firms and brokers providing retail customers and institutions access to multiple financial market asset classes, as well as the number of cryptocurrency and fintech firms and start-ups being launched with government and regulatory support.

The COVID-19 pandemic-induced trend of the online financial economy has also continued and flourished in both traditional and decentralized finance, with the UAE alone accounting for US$25 billion in total cryptocurrency trading volume annually.

In terms of IPOs, the Middle East stock market listings increased by more than 300% this year, reflecting sizeable economic development in the region. Fintech investment has also been significant, with Saudi Arabia and the UAE leading the way. Saudi Arabia has its eyes on its Vision 2030, and its fintech start-up ecosystem is expected to form a major pillar of its economic aspirations.

Over in the UAE, the Dubai Metaverse Strategy takes center stage after its summer announcement, as the government aims to turn Dubai into one of the world's top metaverse economies, attracting over 1,000 companies in the blockchain and metaverse fields and contributing to more than 40,000 jobs in the space by 2030.

Additionally, we have seen strong government support for the cryptocurrency industry in the GCC, with the UAE and Bahrain leading the way in terms of establishing regulatory frameworks governing virtual asset markets, ensuring fair and orderly trading and protecting investor interests while guaranteeing asset security.

Major cryptocurrency firms and exchanges have flocked to the UAE in particular, and have begun expanding their operations in the country, now seen as a crypto and technology hub and a marketplace of ideas characterized by a strong human capital and knowledge base. E-commerce has also grown massively in the Islamic world, and especially in the GCC region.

Over the course of this year, the UAE's e-commerce spend will exceed 22% on last year's total, and is set to surpass the US$8 billion target in online sales by 2025, while it is expected to reach US$9.2 billion the following year.

Additionally, Saudi Arabia-based Noon, the Middle East's leading digital e-commerce platform, which was launched in 2016, expanded its retail portfolio through its acquisition of online fashion platform Namshi from Emaar, in a deal worth US$335.2 million.

This reflects a rise in mainstream participation in the sector, with mobile devices in the country alone being used to enact US$2.6 billion of online purchases in 2021, with the expected growth rate from their retail transactions being 15.6% annually over the next four years.

With the number of young Arabs shopping online doubling over the past five years, their target purchases including gadgets, apparel, footwear, food and fashion items, business opportunities in fintech and payment systems are set to increase further in the present and future.

Preview of 2023

In the coming period, I see further economic progress and recovery in the Arab and Islamic world. We are currently in the midst of a deep global recession, and at some point over the coming year the international interest rate hikes would have to decrease in frequency, based on the market pricing in policy changes as well as a reduction in inflation numbers.

This will have a positive impact globally, leading to an increase in international trade figures and therefore enhanced economic activity and cooperation between the Islamic and non-Islamic countries, resulting in enhanced transaction volumes and liquidity entering Islamic economies.

This would further strengthen the Islamic finance industry overall, which would be further supported by government regulation for financial activity among different asset classes.

Additionally, economic engagement between the GCC and Indonesia has been growing over the past decade and is set to continue over the course of next year, cementing the historic commercial ties between both regions and further developing the Islamic finance industry.

Conclusion

In conclusion, it has been an eventful year in terms of financial, trading and brokerage activity in the Islamic world, despite major global uncertainties and concerns including interest rate hikes, inflation and the war in Ukraine. Arab and Islamic economies, aided by oil revenues in addition to the growth of numerous important sectors, have remained relatively robust, and are well-placed to weather potential challenges in the coming years.

The future is promising, as the financial health of Islamic countries is set to improve further due to more economic and financial cooperation and integration between their respective economies.

Expectations from Islamic trade finance during challenging times and beyond

***Ahmadou Kane** is the senior manager of the Legal Transaction Team, Risk, Legal and Compliance at the International Islamic Trade Finance Corporation. He can be contacted at AHKane@itfc-idb.org.*

The COVID-19 pandemic coupled with the Ukraine–Russia crisis led to the deterioration of the global food security situation over the last years into 2022 and beyond, impacting severely the trade finance industry. Indeed, many countries involved in trade are hit so much that the recovery of the global economy has been further slowed down. Because of the crisis, countries are impacted at different levels (high food and fuel prices, currency fluctuations, etc), forcing them to request more financing support than ever from various institutions, including Islamic finance.

Review of 2022

As a result of the crisis, Islamic financial institutions are required to play an active role in assisting countries to face their needs. Among them, the International Islamic Trade Finance Corporation (ITFC) **continues** to assist its member countries facing these variety of challenges all happening at once. Indeed, in June 2022 alone, the ITFC signed 12 agreements totaling an amount of US$7 billion dedicated to member countries to help address their food, health and energy needs. This number is expected to increase significantly as we get closer to the end of the year.

The role of the ITFC does not focus only on the financial needs as it extends technical assistance to its clients whenever needed. In September 2022, the ITFC cooperated with the Sustainable Coffee Platform of Indonesia in order to facilitate the transfer of knowledge to different stakeholders regarding the latest opportunities and challenges in the coffee sector.

In addition, it is worth mentioning that the Islamic trade finance industry is positively growing and impacting the financial market. In fact, one can note that Faysal Bank of Pakistan plans to complete its conversion into a fully-fledged Islamic bank in January 2023 while it is envisaged that the Islamic banking landscape in Africa will significantly grow in the coming **years**.

In a nutshell, Islamic finance and Islamic trade finance are growing and welcomed by the players of the industry; although they face challenges, but if the challenges are overcome in the coming years, it will help extend their roots further and further.

Preview of 2023

Despite the fact that Islamic finance has received its letters of nobility, it will gain a lot in improving its infrastructure. Indeed, the industry would gain a lot by having, among others, unification or standardization of the Shariah's interpretation and audit rules and regulations. In addition, Islamic trade finance would be more impactful were the Muslim countries to provide a more enabling macroeconomic environment by developing sound financial policies, trade infrastructures (warehousing for Islamic products such as Salam), good governance and a strong Islamic banking system.

In fact, there is a need to adopt a very effective and inclusive Islamic legal framework which incorporates not only accounting standards, but also corporate governance and a pre-drafted agreement template. In this regard, the IIFM is playing a crucial role aiming at standardizing most if not all of an Islamic product's legal **agreements**.

Furthermore, COVID-19 forced the acceleration in the development and progress of technologies, in order to ease the movement of goods, capital and investments. In this regard, the UK has introduced, on the 12th October 2022, the Electronic Trade Documents Bill into its **parliament** for the purpose of digitalizing its trade industry.

There is no doubt that new technologies will help speed the digitalization of Islamic trade finance and facilitate its adoption globally since the need for creative technological solutions is now more vital than ever. It is important to note, indeed that, the use of technology in the Islamic trade finance industry will simplify the entire process, decrease costs and improve trading efficiencies.

Conclusion

Trade represents one of the important drivers of growth of the economy as well as is an essential labor-intensive sector that might help in raising income levels and reducing the high unemployment rates in most of Muslim countries. With experience as a player in the industry, one of the challenges facing Islamic trade finance is the regulatory aspect as well as the need for consistency of the Shariah's interpretation, the poor infrastructure of the Muslim countries and lack of a wider use of technology.

Indeed, weaknesses in trade infrastructure development, trade facilitation and Islamic finance infrastructure development have created an unfavorable environment for Islamic finance to be easily accessed by the trading enterprises.

However, multilateral development banks such as the ITFC, with resources, experience and exposure, can play a great role in the enhancement of the Islamic trade finance landscape. As for the regulatory challenges and the differences in the Shariah's interpretation, the OIC can play an important role in setting unified rules and standards for Islamic trade finance and more unified rules regarding the interpretations of Shariah principles.

The lines are getting blurred

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

It is generally well accepted that the principles on which venture capital is built are Islamic in nature — they are based on risk-sharing and the lack of a guaranteed financial result.

The world of Islamic finance is no longer isolated enough to sustain independent development. The calamities of the global financial system caused by the Russia–Ukraine military conflict, a global economic slowdown and raising interest rates affect structuring and performance requirements for Islamic finance instruments.

And so, the lines between Islamic and conventional investments are getting blurred — we now have Shariah compliant funds investing in conventional start-ups and private companies, as well as conventional funds investing in Islamic start-ups. And moreover, there is an emergence of Shariah compliant debt funds.

Review of 2022

It was an eventful year. Some of the most interesting venture capital deals were:

- The **ABHI** of Pakistan which offers Shariah compliant digital financial services raised US$17 million in Series A funding
- **Fasset Exchange** secured US$22 million in Series A funding led by **Liberty City Ventures, Fatima Gobi Ventures, Some Capital** and **MyAsiaVC**, and
- **Gulf Islamic Investments** from the UAE bought a majority stake in OFFA, the UK's first Shariah compliant bridge financing provider for the real estate market.

By the way, I still wonder, whatever happened to **Ethos's** GBP1 billion (US$1.22 billion) Shariah compliant fund — remember last year's 'Project of the Year'? Hmm…

Some interesting novel funds were launched in 2022 as follows. They provide Shariah compliant debt — a unique feature for young companies that would allow them to grow without diluting their shareholdings:

- The US$250 million **SHUAA Venture Partners** fund is set to provide Shariah compliant debt opportunities to GCC companies, and
- **Gulf Islamic Investments**, a Shariah compliant global alternative investment company, launched the US$100 million GII Debt Fund — also for GCC-based investees.

The signatory event of the year is, of course, the launching of **EthisX**, a US$20 million Islamic seed fund by ethical investment platform operator **Ethis Group** in collaboration with Asian venture capital firm **Gobi Partners**. The latter is well known for its involvement with Islamic investments via its involvement in **TaqwaTech** and collaboration with **MAVCAP** and **FIKRA** Islamic Fintech Accelerator Program.

Some of the widely publicized investments into leading Islamic fintech companies were effected by conventional funds. Indonesia's **Alami Sharia**, a famous P2P SME lender that features a 0% default rate, scored its 6th round of funding from conventional sources such as **East Ventures, AC Ventures, Quona Capital** and **FEBE Ventures**.

Wahed Invest received US$50 million in investments from **Wa'ed Ventures**, the venture capital arm of **Saudi Aramco**, as well as Paul Pogba — not strictly Shariah compliant investors.

There are also examples of per se conventional funds that structure their funding activities in a Shariah compliant manner. Exactly such a modus operandi was declared by Abu Dhabi-based **Shorooq Partners's Nahda Fund I** that widely uses Murabahah and Ijarah arrangements but does not have a Shariah board. Malaysia's Shariah compliant venture capital firm **Ficus Capital** predominately invests in conventional start-ups.

Preview of 2023

Saudi Arabia is going to be the bright spot in the Islamic venture capital universe. There are two very simple reasons for this assumption:

- the state coffers are overflowing with hydrocarbon cash, and
- the implementation of **Saudi Vision 2030** — a strategic framework to reduce Saudi Arabia's dependence on oil and diversify its economy. The Saudi leaders have spoken: "Tech is the future".

The renewable energy projects, from wind and solar to hydrogen and geothermal, are not likely to displace Islamic fintech as the top recipient of venture funds but will definitely come a close second.

> **"The active Islamic fintechs are reinventing Islamic finance services through technology-enabled disruptions"**

The key factors that will affect the performance of the Islamic venture capital industry in 2023 are the following:

- Excessive liquidity in the GCC countries
- Greater investor participation due to the growth of co-investment platforms led by **Ethis, Qardus** and **IFG**
- Exceptional growth in renewable energy projects, primarily in the GCC countries, Malaysia and Indonesia
- Emergence of high-yield single asset investment vehicles — business aircraft, marine vessels, and
- Introduction and acceptance of the 'new economy' Shariah compliant actively managed certificates, including **Orestes Hydrogen Shariah**, developed by **Yassar** and **Al Waseelah**.

Conclusion

As capital tends to always flow 'from liquidity to opportunity', the relative domination of conventional funders in the Islamic business will continue … for now. The great Deng Xiaoping once said: "No matter if it is a white cat or a black cat; as long as it can catch mice, it is a good cat."

Islamic banks will not enter the venture capital market in 2023. 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.

So what? The lines are getting blurred, but capital flows.

Shariah status as a true safe haven for investors could very well be the silver lining

Brian Adams *is the director of Islamic wealth management at Merlyn Wealth Management. He can be contacted at brian.adams@merlynwealthmanagement.co.uk.*

Much of the euphoric 15% rally seen in the summer months of 2022 was down to a large sell-off in the price of oil which feeds directly into petrol pump prices, which in turn feeds directly into lower inflation numbers. This move lower in oil and pump prices gave investors the confidence that with inflation consistently coming down there would be less need for central banks to raise interest rates to the extent that a recession would ensue.

Review of 2022

This ultimately proved short-lived, and another sell-off set in at the back end of September as inflation numbers failed to come down in the magnitude that the summer's positivity had led investors to expect. Shariah was not immune from the sell-off, but the high-quality nature of the sector helped to deliver good levels of protection for investors.

For investors in Islamic investment strategies, it is worth visiting this defensive point in more detail because this year will likely prove a critical litmus test for Shariah investing. In the volatility we have seen in 2022, the Shariah market continues to be as dependable in a bear market as it does in a bull market.

Why? Shariah investing over the bull market of the last few years has kept pace with, and often exceeded, the performance of many of the world's best non-Shariah 'growth' funds. Predominantly what makes a good Shariah compliant investment has focused on good companies with well-run balance sheets, diverse boards, robust earnings margins and importantly, very attractive future growth projections.

It is no surprise then that many of the stocks which have made their way into Shariah funds have also found their way into high-quality ESG and mainstream growth funds, which has been one of the best places to be invested over the last five years. From a purist angle, this outperformance in up markets demonstrates Shariah law guiding Muslim investors into the right companies, and the market has agreed with and rewarded them for this dedication to religious-based investing.

Fast forward to 2022 and most investors will know that the hallmark of this bear market has been investors selling those same growth companies on fears that raising interest rates and a recession would obliterate the attractive future growth prospects, and in the main this has been exactly what has happened.

Yes, we see Shariah strategies being insulated from a lot of the pain. Take the likes of Fundsmith's celebrated global equity fund which is down over 26% this year alone against iShares World Islamic ETF which is down 14% in dollar terms.

From a professional investor's perspective, Shariah investing delivering 12% outperformance on Fundsmith in just 10 months is a significant point to note. Considering this outperformance is against one of if not the most well-known and widely held global funds, it just shows how effective the Shariah market has become in outperforming its mainstream growth competitors in down markets.

These relative outperformance numbers become more extreme when one takes another high-profile growth fund, the ARC Innovation ETF (a celebrated fund with deep ties to religious-based investing), falling 60% in 2022. Again, Shariah markets are, on average, down less than half of that.

Broadly speaking, the same observation holds true when looking at the whole market, with the iShares MSCI World Islamic Index outperforming the FTSE All World Index by nearly 40% this year. Again, one can look to Shariah law guiding investors to owning high-quality companies which hold up well under pressure.

Individual fund selection remains risky, however, with different Shariah funds providing different offensive and defensive capabilities which need to be blended to give an enhanced level of protection. This is where Shariah managed portfolio service (MPS) solutions, such as TAM's, have come into their own in this downturn.

Mainstream industry benchmarks such as the IA Mixed Investment Sector and ARC Private Client Indices are down 12% and 13% respectively this year, whereas Shariah MPS portfolios are down just 4% over the same period. This Shariah model portfolio was up 40% in the five years to the end of 2021, when those same industry benchmarks were only up 26% and 27% respectively.

Right now, the only industry to boast outperformance in both up and down markets largely remains the hedge fund industry (which is struggling this year), and for those hedge funds which are not, clients can expect to pay 2% upfront and 20% per year in fees, which makes their strategies unaffordable, unsuitable and unattainable for many average investors.

Preview of 2023

Looking forward, the global economy appears to be slowing down, but inflation is not. Markets are seemingly torn between the fear that central banks are going to raise rates into recession territory while showing positivity on the belief that supply side inflation drivers are going to drop off enough to slow inflation to the point where central banks stop raising rates and pull off the elusive 'soft landing'.

This positivity and negativity oscillating around economic indicators such as unemployment numbers, wage inflation, everyday goods inflation, consumer sentiment, house prices and interest rates have the potential to keep markets volatile with elevated risks.

It is worth stressing that volatility means markets go up and down, so if the news flow from the aforementioned indicators surprises on the upside and indicates inflation slowing faster than many are expecting, then we can reasonably expect a continuation of the rally we are currently seeing. Precious metals (gold and silver) continue to remain a fantastic hedging option against dollar weakness the likes of which we saw in September.

While there is an opportunity in this uncertain market to start to invest cash now, we envisage some more challenging months ahead and thus remain very much in defensive investments which are suited to protecting investors in times of stock market volatility.

Conclusion

The Shariah market remains underdeveloped and underfunded, and the challenge remains to widen the range of funds available for Shariah investors. However, Shariah's status as a true safe haven for investors could very well be the silver lining of this market, a defining point in the history of this fascinating sector, and something to get excited about when this market gets back into rally mode.

Forward-looking perspective for women in Islamic finance

Asal Saghari *is the counsel at King & Spalding. She can be contacted at asaghari@kslaw.com.*

The conversation about achieving better representation of women among the highest leadership ranks has been an issue at the top of the agenda for businesses in recent times. There has been a heavy focus on the significance of diversity, with several studies illustrating that a more diverse workforce helps organizations achieve growth and success.

This is no different in the global finance industry, or the Islamic finance industry. Women's participation is growing, as is their involvement in decision-making processes. This is hugely encouraging as such engagement is positively correlated with a company's financial performance.

As Islamic finance continues to ramp up in the GCC, and globally, this article considers the role of women in Islamic finance over the course of 2022 and an outlook as to what 2023 is likely to hold.

Review of 2022

Women onboard and on boards: A growing necessity, no longer 'a nice to have'

In the GCC, there have been a number of key initiatives and developments to increase the participation of women on boards. These include the following:

- In 2021, the Emirates Securities and Commodities Authority set a quota for all listed companies to put at least one woman on their boards by 2025.
- The UAE's continued efforts to improve gender diversity in the boardroom have led to more women holding board positions in 2022 (8.9%), up from 3.5% in 2020, according to research undertaken by **Aurora50**.
- In 2022, Saudi Arabia appointed a number of women to senior positions in the government. Shihana Alazzaz was named the first female deputy secretary-general of the Saudi cabinet. Sheila Alrowaily (a former Saudi Aramco executive) was appointed as the first female to join the board of the Saudi Central Bank.

Such initiatives are prime examples of the desire to recruit and retain women at the highest ranks. A Deloitte survey (see **here**) from earlier this year said that within financial services institutions, women hold 21% of board seats, 19% of C-suite roles and 5% of CEO positions in 2021. Considering those figures used to be zero, the progress curve is clear. Change takes time.

This is a similar situation to the global Islamic finance landscape. While there are claims that the gender gap is much wider in the Islamic banking and finance industry, that does appear to vary across different countries. For instance, an Islamic country like Malaysia actually outperforms the Deloitte global data with 33% of senior roles held by women (see previous IFN article **here**). These achievements are to be celebrated.

Surge in ESG: The 'S'

ESG is gaining momentum globally and increasing in prominence in the finance and investment sector.

It is fair to say that there are a lot of similarities/overlap between ESG and the Islamic finance and investment principles, the fundamental principle being "doing less harm, and striving to do better".

Having said that the 'S' component of ESG (being the social aspect) has historically been less visible — but this is changing (and in our view ought to change). As part of that change, a central issue will be gender equality and the reinforcement of the number of women in key management positions.

It is in this context that we see the role of women in Islamic finance to continue to gain importance and grow as part of the ESG drive.

Islamic microfinance for women

Islamic microfinance refers to the Islamic financial services provided to low-income individuals or groups who are typically excluded from traditional financing. Most microfinance Islamic institutions focus on offering credit in the form of small working capital advances. We understand that in 2022 the market witnessed a number of such financings making advances to female-led small businesses in developing countries. Such advances play a pivotal role in the empowerment of women and fighting poverty.

Preview of 2023

Although progress is being made in terms of women on boards, there are still too few women in leadership positions. The overall progress remains slow and uneven. Achieving true diversity requires a real cultural shift (by truly understanding the significance of the role of women), regular review of the composition of the boards by businesses, removing barriers to entry and most importantly legislation.

As part of the global ESG agenda, we anticipate that 2023 will see more focus on the 'S' in ESG. We would hope that governments, regulators and standard-making bodies as well as organizations and stakeholders in the Islamic finance sector would follow suit and put a spotlight on achieving diversity.

More specifically and over the past year or so, in the conventional finance sector we have seen margin rachets (ie increase or decrease in the margin) in ESG loans. Such facilities link these rachets to ESG key performance indicators (ESG KPIs). Therefore, if the borrower meets the relevant ESG KPI (eg female board representation), it benefits from a reduced margin. We would hope to see gender integration as a profit rate rachet in ESG-linked Islamic financing facilities.

Conclusion

As is the case with many discussions around diversity, there is a tendency to look back. A retrospective can be helpful, certainly when it comes to showing the progress that has been made in such a short time, but the perspective must be forward-looking. There are so many ambitious, enthusiastic and intelligent young women coming through in the Islamic finance sector who will be future leaders.

Think of the progress made in the last decade. And now think how much progress we can make in the next decade.

COUNTRY REPORTS

Afghanistan: A glimpse of hope amid challenging times

***Bernd Leidner** is CEO of the Afghan Credit Guarantee Foundation. He can be contacted at info@acgf.de.*

More than a year after the fall of the Afghan government, the humanitarian and economic situation in the country remains difficult, and the new regime faces a wide array of internal and external challenges. In July 2022, the World Bank ranked Afghanistan as one of the seven countries (next to Eritrea, Mauritania, Somalia, Sudan, Tajikistan and Yemen) facing the immense risk of overlapping food and debt crises. According to the US Special Inspector General for Afghanistan Reconstruction, around 18.9 million Afghans will potentially experience life-threatening hunger, with up to six million people likely to endure near-famine conditions.

The exodus of highly qualified people from the country continues as many attempt to escape the dire economic conditions and human rights violations. At the same time, evidence from a World Bank survey suggests that the overall security situation has improved markedly, and the new rulers managed, at least initially, to curb corruption levels.

The financial sector of Afghanistan faces tremendous challenges due to the ongoing challenging economic environment and the uncertainty associated with the currently progressing transformation of the financial sector to Shariah compliance. The latter, however, also presents opportunities to increase access to finance. As the population of Afghanistan is almost entirely Muslim, an exclusively Shariah compliant financial system can potentially increase acceptance of formal financial products among the population.

Review of 2022

2022 was a challenging year for the Afghan economy and financial sector. The regime remains subject to significant international sanctions, creating severe limitations for the economy and the country's financial institutions. Liquidity issues in the financial system persist, and foreign assets are frozen. Companies and individuals continue to experience severe restrictions on payments and transfers, and banks struggle to recover a large proportion of their loan portfolios.

These developments jeopardize the progress made in strengthening the formal financial sector over the last 20 years and leave it in a weakened state. Anecdotal evidence indicates low trust levels in the formal financial sector and an increasing reliance of market players on unregulated informal service providers (eg Hawala networks). While the financial system previously featured both conventional and Islamic financial services, the new regime appears determined to convert the entire financial sector to Shariah compliance.

However, the decision-making, technical capabilities and coordination among regulatory bodies require urgent improvements to overcome bottlenecks and frustration among financial sector stakeholders. At present, comprehensive regulations to guide business activities and the conversion of pre-existing conventional structures are still not in place.

Despite the numerous challenges and economic instability, the financial sector has been able to restart some of its activities (including lending) in the second half of 2022, albeit with low volumes and a limited range of financial products.

Preview of 2023

Future predictions are never certain, even more so in volatile environments such as Afghanistan.

Improvements in particular areas, such as the security situation, cannot hide the fact that the unprecedented humanitarian and economic crisis is unlikely to be resolved soon. And unless the regime lives up to its initial promises on human rights, international isolation will not end. The financial sector will likely continue to experience considerable stress, including the potential exit of some market players over the coming year.

The regime will need to facilitate the finalization of new banking laws, rules and regulations, as well as the guiding principles for converting current assets and liabilities to Shariah compliance. In addition, capacity issues must be addressed to ensure the financial sector will not be stuck in a state of limbo, potentially exacerbating an already-challenging situation.

Conclusion

Even if the regime resolves the highlighted challenges in the near future, the problems underpinning the Afghan economy will not vanish overnight. The international donor community must not forget about the fate of Afghanistan by ensuring continued relief and support, moving away from pure humanitarian assistance to building long-term resilience through initiatives that aim to stabilize and strengthen the financial and private sectors.

Decisive and coordinated donor action is immediately needed to prevent the further deterioration of the financial sector and avoid adverse repercussions for private businesses. Afghanistan's population cannot survive without continued international support, including a continuation of the building of a stable and robust financial sector.

Africa — the sleeping giant

Dr Aziza Yarlaeva Ebrahim *is the strategy and Islamic finance advisor at the Islamic Finance Think Tank. She can be contacted at aziza.cifp@gmail.com.*

The African economy witnessed a contraction of 1.6% during the COVID-19 pandemic, albeit followed by an increase of 6.9% in GDP in 2021.

As Africa gradually tries to recover from the global pandemic, its average growth rate is projected to decelerate to 4.1% in 2022–23. Several key factors influence this decline; among them is the spillover effect of the Russia–Ukraine war impacting the cost of living as well as post-COVID-19 uncertainties and the increasing impact of climate change on the African economies.

According to the **African Development Bank**, during the COVID-19 pandemic, nearly 29 million Africans ended up being in extreme poverty in 2021, compared with the pre-pandemic projections, with an additional 30 million people expected to fall into extreme poverty in 2022 and 2023.

If the Russia–Ukraine war continues, an additional 1.8 million Africans could fall into extreme poverty in 2022, with an additional 2.1 million expected in 2023. These numbers alone raise huge concerns on the actions taken so far, and the challenges respective governments face on poverty alleviation and employment.

Here again, stakeholders expect development finance institutions such as the IsDB, African Development Bank and others to play a more active role on poverty alleviation and economic empowerment.

Review of 2022

Almost one-third of the world's Muslim population resides in **Africa**, yet the total Islamic finance assets on the continent represent roughly 1% of the global Islamic finance industry's total assets valued at US$2.2 trillion.

According to a recent study by **Reuters**, South Africa holds the lion's share of Islamic finance assets, US$2.6 billion as of 2016, and also issued Africa's largest Sukuk worth US$500 million in 2014.

The Ivory Coast, the second-fastest growing economy in Africa according to the IMF, had the second-largest Sukuk issuance worth US$244 million after South Africa's US$500 million Sukuk issuance.

Morocco, the leading financial center in Africa, currently has five fully-fledged participative banks and three windows in operation since 2017.

Africa is an undoubtedly most untouched market with huge potential for Islamic finance to develop. The issuance of Sukuk for infrastructure development is gaining popularity in African markets; successful cases would be Nigeria's sovereign Sukuk issuance or offset budget deficits. If this trend continues, it will not only attract foreign investors but will make a positive impact on the economy of the issuing country and the African continent as a whole.

Islamic finance is also expected to play a significant role in cultivating financial inclusion and facilitating banking penetration rates in countries with a high rate of unbanked population in Africa.

Islamic asset management in Africa is also barely tapped; it is simply absent in most African financial hubs, except South Africa which holds 98 Islamic funds under management, with pioneers such as OASIS Crescent Group which has been successfully operating for over 25 years. Other African countries can take a leaf out of its book and create a diverse portfolio of Islamic capital market products.

Sukuk seem to be the first step in most jurisdictions when it comes to Islamic finance. Thus, countries like Nigeria and the Ivory Coast, post-successful issuance of sovereign Sukuk, need to start developing their Islamic asset management sector and introduce Islamic pension funds to help grow their Islamic asset base.

A good example is Kenya's retirement fund, which is creating a Shariah compliant pension fund to cater to its four million-strong Muslim population.

Preview of 2023

According to **data** provided by Moody's Investor Services, Islamic banking assets in Africa are expected to increase noticeably over the next 10 years, given the continent's large Muslim population.

A large number of Africa's unbanked population, particularly those opting out of the conventional system due to their religious beliefs, present an untouched client base of potential deposits and investments. Nevertheless, continual challenges will constrain Islamic banking's growth over the next 12 to 18 months.

Another challenge for the development of the Islamic banking industry is increasing competition among conventional banks in Africa; that is together with the fact that across the continent, legal, regulatory and tax regimes are still in the early stages of maturity for the Islamic financial services industry.

2023 could be a year where we focus on fiscal and monetary policy coordination among African countries to contain inflation while safeguarding the economic recovery and protecting the vulnerable population. Enabling a level playing field for Islamic financial institutions could facilitate this process and supplement poverty alleviation projects.

Fintech, combined with Islamic financial instruments, could bridge the significant gap of the unbanked population and add more Africans into the mainstream financial system and reap economic benefits, and help in stimulating economic activity and the movement of money.

Another area where African stakeholders need to focus on is to develop human capital. Relevant knowledge, skills and expertise will enable the African people to realize their potential as productive members of society and contribute toward the eradication of extreme poverty and create more inclusive societies.

Conclusion

A recipe for a more inclusive and accessible financial sector in Africa would be a combination of fintech and Islamic finance, from small and medium business owners to big investors; this could be the next rescue mechanism for the region.

Policymakers and regulators should develop financial stability mechanisms to protect economies by widening and deepening the utilization of innovative financing instruments such as green bonds and loans, sustainability or sustainability-linked bonds and financing, debt-for-climate swaps and Islamic and ethical finance instruments and products, among others.

The challenges are multi-fold as much as risks are material, but experience from the recent global pandemic response demonstrates that the world has the capital and policy tools to rapidly deploy them to meet global headwinds when the political will is there to do so.

New dawn for Australian Islamic finance and investment

Dr Pasquale Franzese *is the head of regulatory compliance at MCCA. He can be contacted at pas.franzese@gmail.com.*

For Australian Islamic finance and investment, 2022 was a watershed year notwithstanding the challenging economic environment. The annual inflation rate in Australia was trending to 7.3% over the year to September 2022 (ABS September 2022). This level of inflation was last seen in 1990. Primary causes of high inflation were higher prices for housing, petrol and food.

The Reserve Bank of Australia (RBA) has since April 2022 implemented a contractionary monetary policy. The current cash rate of 2.85% in November 2022 set by the RBA is well above the cash rate of 0.1% set at the start of the year. By August 2022, the previously booming housing market was showing signs of a slowdown with investment bank Goldman Sachs predicting in September 2022 that the Australian housing market will fall in value more than the housing market of other developed countries.

There is some uncertainty as to whether Australia will be in recession starting early 2023. Despite the economic uncertainty, the Australian Islamic finance and investment sector has never been stronger in terms of participants, financial performance and product offering.

Review of 2022

For much of 2022, Australian Islamic finance and investment entities offering housing finance had a stellar year. MCCA, Hejaz Financial Services and Amanah all had their best year for home finance in many years. Volumes were driven on the back of COVID-19 government stimulus directed at the housing sector. Low cost finance for the first half of 2022 encouraged demand for the Australian housing sector.

However, by November 2022, the tide has significantly changed. Increased finance costs have dampened demand for housing finance. Accordingly, the volumes of all Australian Islamic housing finance providers have decreased as 2022 is nearing its end.

There were some exciting developments in the Australian Islamic finance and investment sector in 2022. The Australian Financial Review in July 2022 reported that the Australian Prudential Regulation Authority granted the Islamic Bank of Australia (IBA) a restricted authorized deposit-taking license, which allows "IBA to start building and testing Shariah compliant retail banking products ahead of a full launch planned for next year". While its banking license is restricted at this time, IBA will, with the support of its UAE backer in Abreco Group, seek to raise AU$20 million (US$13.34 million) over 2023 to enable it to obtain an unrestricted banking license.

Crescent Wealth and Hejaz Financial Services in 2022 continued to be the main providers of Shariah compliant superannuation in Australia. The future augurs well for Australian Shariah compliant superannuation. The Australian Muslim population stands in the order of 813,000 people according to the ABS Census 2021. More importantly, the Australian Muslim population has a younger demographic profile than the non Muslim Australian population. Accordingly, demand for superannuation will grow as these younger Australian Muslims enter the workforce.

In 2022, a new Islamic finance and investment product was released. Hejaz Financial Services in October 2022 launched its Shariah exchange-traded fund (ETF). Listed on the Australian Stock Exchange (ASX), this ETF represents the first time a Shariah compliant 'index type fund' is listed on the ASX. The listing of this fund on the ASX not only gives Hejaz Financial Services a presence in the mainstream Australian capital markets but also helps to give Shariah and Islamic finance/investment an enhanced profile and standing.

Older more established Shariah-based retail funds continued to be offered over 2022. The MCCA Income Fund, one of the first Shariah-registered managed investment funds, continued its steady growth. As at June 2022, funds under management were in the order of AU$84 million (US$56.04 million). Similarly, Healthbridge Investments (pharmacy/healthcare property-related investment fund manager) continued to offer its healthcare retail fund over 2022.

If there is one negative in 2022, it is that Islamic finance and investment still seems not of much interest to the Australian conventional banking sector. The expectation is that not much will change in this regard, at least in the short to medium term.

Preview of 2023

The Australian economy is bound to have many challenges in 2023. Higher interest rates, inflation and a weakening property market will continue. Despite these economic challenges, the outlook for Australian Islamic finance and investment looks good. Over the last 12 months, we have seen new finance and investment products, increased sector profitability and for the first time, the listing of Shariah ETFs on the ASX.

Hopefully, the first full Islamic digital banking license will be issued sometime in 2023. While the older more traditional Shariah finance products will continue their steady growth, the signs are for a more digital- and fintech-focused Islamic finance and investment sector in 2023.

Conclusion

2022 saw the 'dawn' of a new era in Australian Islamic finance and investment. No longer is Shariah finance and investment purely limited to home finance, superannuation and property investment. The sector has never been stronger in terms of profits and growth of assets under management. Despite tougher economic conditions expected in 2023, the demand for Islamic finance and investment is expected to continue strongly over the year. Listed funds, digital banking and fintech in general will be the new frontier in 2023 and beyond.

There is no doubt that Australian Islamic finance and investment is creating interest among the mainstream Australian financial services community, albeit not so much for the major banks. We hope that 2023 will be the year when the major Australian banks finally take Islamic finance and investment seriously. Time will tell.

The views expressed by the author are his own and not necessarily those of any fund or organization that he may be associated with.

Islamic finance is the Bangladeshi economy's new engine

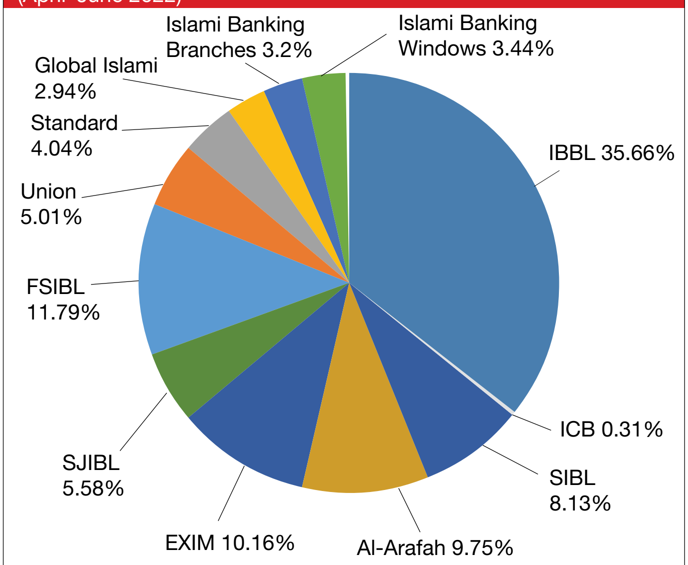
Md Touhidul Alam Khan *is the additional managing director, chief risk officer and chief anti-money laundering compliance officer of Standard Bank, Bangladesh. He can be contacted at touhid1969@gmail.com.*

Bangladesh has a population that is overwhelmingly Muslim (91%), creating a strong and expanding demand for Islamic banking and finance, which is promoting the nation's economic growth. Bangladesh ranked 14th out of 135 nations around the globe on the Refinitiv Islamic Finance Development Indicator 2021, a composite weighted index that assesses the overall development and health of the Islamic finance industry. Bangladesh is also among the top 10 nations with the greatest Islamic finance assets, according to the Islamic Finance Development Report 2021. The Islamic financial assets of Bangladesh were valued at US$50 billion as of 2020, or 10.75% of the country's current GDP.

Review of 2022

Out of the 10,942 branches in the banking sector, 10 fully-fledged Islamic banks have 1,679 branches. In addition, 434 Islamic banking windows and 41 Islamic banking branches of 13 conventional commercial banks in Bangladesh offer Islamic financial services. At the end of June 2022, there were 2,207 Islamic bank branches in total, including Islamic branches and windows of conventional commercial banks.

Chart 1: Share of investments by Islamic banks in Bangladesh (April–June 2022)



Source: Bangladesh Bank

At the end of June 2022, the total deposits held by the Islamic banking sector were at BDT4,123.41 billion (US$39.78 billion), up by BDT126.61 billion (US$1.22 billion) or 3.17% from the end of March 2022, and BDT441.77 billion (US$4.26 billion) or 12% from the same period the previous year. Islamic banks' portion of total deposits made up 26.19% of all deposits made by banks as a whole.

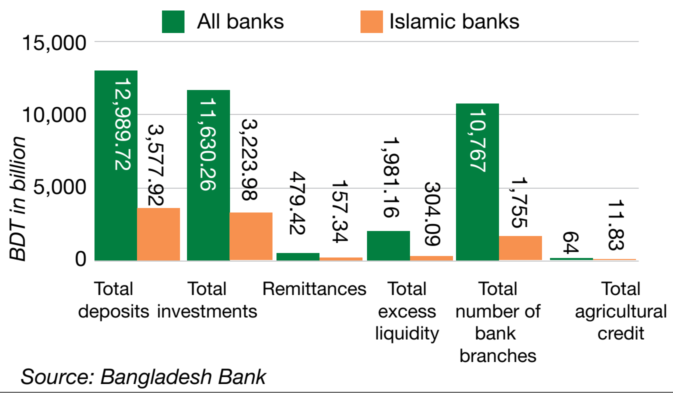
Comparatively, the total investments (loans and advances) of the Islamic banking segment increased by BDT211.8 billion (US$2.04 billion) or 5.87%, and by BDT538.86 billion (US$5.2 billion) or 16.43% as compared with the end of March 2022 and the end of the same quarter of the previous year respectively to reach BDT3,818.29 billion (US$36.83 billion) at the end of June 2022. According to a Bangladesh Bank report, 28.52% of the total loans and advances made by all banks were made by Islamic banks.

Total remittances mobilized by Islamic banks during April to June 2022 were BDT157.17 billion (US$1.52 billion), up by BDT22.47 billion (US$216.76 million) (16.68%) from the end of March 2022 and down by BDT43.23 billion (US$417.03 million) (21.57%) from the prior quarter in 2021. From April to June 2022, 32% of remittances mobilized by the financial industry came from Islamic banks.

In terms of sector, investments through Islamic banking, trade and commerce secured the highest position (37.66%) among all sectors at the end of June 2022, followed by large industry (27.88%); CMSMEs (cottage, micro, small and medium enterprises) (10.61%); construction (6.64%); miscellaneous (6.26%); services industry (5.41%); agriculture, fishing and forestry (2.08%); consumer finance (2.02%); transport (0.94%); and other institutional investments (0.5%).

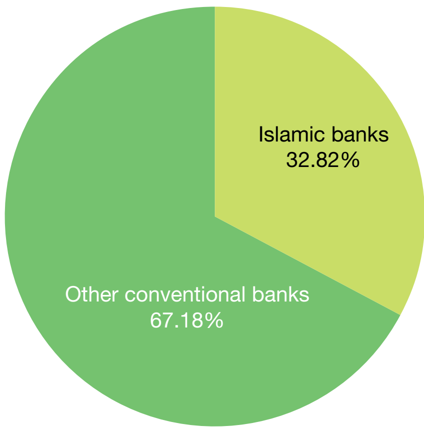
Bangladesh Bank on behalf of the government issued a maiden sovereign investment Sukuk facility to raise BDT80 billion (US$771.75 million) for the implementation of the safe water supply project across the nation. The overall cost of the project is estimated at BDT88.51 billion (US$853.84 million) of which BDT8.51 billion (US$82.09 million) will be provided by the government. The total amount of Sukuk issued stood at BDT180 billion (US$1.74 billion) until the end of June 2022.

Chart 2: Islamic banking activities in Bangladesh: Conventional banks vs. Islamic banks (April–June 2022)



Source: Bangladesh Bank

Chart 3: Share of remittances through banking sector in Bangladesh: Conventional banks vs. Islamic banks (April–June 2022)



Source: Bangladesh Bank

Preview of 2023

Given Bangladesh's strong economic growth and favorable demographics, the country has a bright future in Islamic banking and finance. Undoubtedly, the rising demand for financial services created in accordance with their worldview would accelerate the development of Islamic financial goods and services in Bangladesh. In Bangladesh, it has been noted that Islamic banks are outperforming traditional banks in terms of profitability, capital sufficiency, asset quality and managerial effectiveness. This will increase investor confidence in the Islamic finance industry, which will lead to more capital infusion and the conversion of financial institutions into Shariah compliant ones. In turn, it will support the expansion of the Islamic finance industry in Bangladesh.

As the Sukuk market is flourishing in Bangladesh, there is also a need to restructure the Bangladeshi bond market. The majority of the country's population needs to be brought under the umbrella of financial inclusion. The mass penetration of Islamic microfinance can be a game-changing phenomenon in the country.

Bangladesh has a strong local market presence and is beginning to access international markets as sovereign Sukuk have created some interest for local corporations to follow the lead into the international Islamic capital markets.

Bangladesh has a strong and stable economy and a strong foreign currency export market that may support business issuances. For new corporate issuers in the Islamic capital markets, Bangladesh may be the next big hub because both sovereigns and corporations there have prospects.

All Islamic banks in Bangladesh must have independent Shariah boards with Islamic experts on them in order to encourage effective corporate governance. Social Sukuk can be used in addition to green Sukuk by large non-governmental organizations and microfinance institutions that can significantly contribute to boosting financial inclusion and reducing poverty.

Conclusion

It would be beneficial for Bangladesh to embrace Shariah standards from international accounting and auditing organizations in order to appropriately handle concerns with Shariah compliance in the Islamic financial sector. According to the most recent report from Bangladesh Bank, Islamic banks and conventional banks with Islamic banking branches and windows may take the appropriate steps to become members of AAOIFI.

It is crucial to create a market for Shariah compliant shares and a secondary market to trade Sukuk. In order to improve the investment climate and promote long-term sustainability, there must be vested interest in promoting chances to introduce and execute green and social Sukuk. By lowering the stamp fee on Islamic products and allowing borrowing from traditional current accounts to fund Islamic assets for Islamic banking windows and branches, the central bank can promote the uptake of Islamic banking.

To advance the Islamic market, appropriate policies must be implemented to solve its problems with the development of the legal, regulatory and tax systems, among others. The high potential of Shariah-based investment facilities, particularly in facilitating infrastructure development, and the exceptional chances and potential to prepare a sustainable investment model through new Islamic products are both very important. A dedicated regulatory framework is also crucial.

Bosnia & Herzegovina: Accelerated digital transformation


Kenan Žigovic *is an expert associate and* ***Admir Meškovic*** *is a project manager at Bosna Bank International. They can be contacted at kenan.zigovic@bbi.ba and admir.meskovic@bbi.ba respectively.*

Bosnia & Herzegovina (B&H)'s Islamic finance industry has only one bank and one microcredit organization. For many years, Bosna Bank International (BBI) has been a role model for the expansion of Islamic banking in a conventional environment, although the bank itself cannot properly apply most Islamic finance models in practice because of the regulatory constraints. Similarly, The First Islamic Microcredit Foundation is the only microfinance organization in B&H that operates according to Shariah banking principles, and was established by Islamic Relief. Accordingly, the microfinance institution does not use interest in its operations and approves exclusively interest-free Qard Hasan loans in the maximum amount of up to BAM10,000 (US$5,112.9).

Review of 2022

The banking sector is well-capitalized and its profitability has increased further in 2022. Asset quality has further improved compared with the previous year and the pre-pandemic period, with the ratio of non-performing loans to total loans decreasing to 5.2% at the end of the second quarter of 2022, from 5.7% in the same period in 2021 and 8% in 2019.

The Islamic finance industry in B&H has turned toward a more social impact-oriented approach to Islamic finance, rather than just technically applying Islamic finance instruments in its operations. It started from a greenfield operation, while other European banks took over small banks that were established immediately after war.

BBI as a socially responsible development institution within the Sarajevo Business Forum (SBF) platform worked on creating and presenting various opportunities and potential for investments.

Having in mind the potential of B&H as an attractive 'nearshoring' destination for companies from the EU, BBI, together with domestic businessmen, recognizes nearshoring as an approach that can positively change the economic situation in B&H in the next five years. That idea was promoted within the SBF this year.

The 11th SBF 2022 was held in Sarajevo on the 11th and 12th May, attracting about 1,550 domestic, regional and global representatives of governments, ministries and entrepreneurs from nearly 40 countries. A record number of projects were submitted this year. During the two-day business–investment conference, 313 project presentations were presented and over 400 B2B meetings were held.

The Participation Banks Association of Turkiye (TKBB) signed an MoU with BBI to develop the Islamic banking sector. The cooperation to strengthen economic relations will allow the two countries to exchange information, and various events and activities will be mutually organized. The MoU signed between TKBB Acting Secretary-General Ismail Vural and BBI CEO Alek Bakalovic aims to develop Islamic banking.

Islamic finance institutions do everything that they can to help young people and support them on the path of education. BBI's commitment is to invest in science and support the development of technology. Therefore, BBI supported B&H students at the Robotics World Championship. B&H students won first place at the Robotics Olympiad in the competition of 177 participants from around the world.

Furthermore, six graduates from B&H will continue their education at the prestigious Albukhary International University (AIU) in Malaysia. This is a program implemented by AIU with the support of BBI. Full scholarships are provided for students.

Preview of 2023

In accordance with its new strategy, BBI continues with the process of business transformation in 2023 as well, focusing on its core business and shutting down non-profit non-core activities. Above all, this implies an accelerated digital transformation process together with significant changes in the field of human resources. The process of business optimization continues, as 13% of BBI branches were closed while the bank purchased a significant number of modern multifunctional ATMs to respond to clients' needs. Virtual branches are also under development.

Together with the IsDB, BBI was a shareholder of BBI Real Estate, a very successful Islamic leasing company in B&H, but the IsDB purchased BBI's share during 2022.

With many non-core projects canceled, BBI is now focusing on the banking business alone and is slowly getting closer to the conventional business model. However, the organization of the SBF and the Sarajevo Halal Fair (SHF) as the bank's two most important projects will continue as part of the bank's socially responsible activities.

Conclusion

The outlook of B&H's Islamic finance industry is unclear based on an inadequate regulatory environment. BBI still plays a significant role in the promotion of new foreign direct investments through the SBF and the SHF. A large portion of these new projects are carried out by BBI. We can conclude that Islamic banking in B&H has an increased influence despite regulatory constraints. Besides its Shariah compliance struggles, BBI has succeeded to maintain several unique features which can be a model for other Islamic banks in the conventional regulatory environment.

Slow but assertive steps

Angela Martins *is the chief representative of the Brazil Representative Office of First Abu Dhabi Bank. She can be contacted at Angela.martins@bankfab.com.*

The year 2022 was a very busy one for Brazil — we not only had the presidential elections but also had to choose the governors and Congress representatives for both the Lower House and the Upper House and the campaigns are usually run throughout the year and consume a lot of energy and attention.

Review of 2022

Anyway, even in this challenging year, there was an opportunity to have already in April a meeting with the president of the Congress, Rodrigo Pacheco. In this meeting, it was discussed in more detail the great and important advantage of working on a legal framework, to make feasible the practice of Islamic banking in Brazil. This visit was put together with a representative of FAMBRAS, the Brazilian Federation of Islamic Associations that has a great interest in this initiative and is leading the approach to the lawmakers, as well as myself.

In such a meeting, it was agreed we would work and present a document with guidelines on how we could work together to have this joint project becoming true. With the help of a group of friendly lawyers, a draft was made and since then we are working on having this project moving, which is not an easy task for such an innovative project.

On a different front, an event was organized by the Federation of Brazilian Banks in partnership with AlBaraka Group, where an online presentation on the basics of Islamic banking was made to associated banks. Ebrahim Elsayed was the panelist and content development coordinator as part of the Albaraka Forum for Islamic Economy. The event was titled 'The Islamic finance role in developing the world economies, and Brazil in particular'.

This initiative generated the interest of some participants to go deeper into the understanding of the industry and how conventional local banks could partner with Islamic institutions and together offer solutions to the Halal industry not only for trade but also for investments.

Preview of 2023

2023 promises to be even more challenging once Brazil has a new government and a new Congress but the firm interest to continue this process persists and, in this regard, several meetings are being set.

Already in January 2023, the Halal Academy of Brazil, an entity that is part of FAMBRAS and created in 2017 to qualify the workforce of Halal production in the country, is setting up an event to thank and award those involved in teaching and spreading the Islamic culture in the country, where Islamic finance also plays a relevant role.

After Ramadan, at the end of April, other events are also being planned to gather diplomats and government representatives to continue discussing the subject, as well as other important points involving not only Halal production, but also food security in this moment of uncertainty that the whole world is undergoing due to the post-pandemic moment aggravated by the war between Russia and Ukraine.

Two other very relevant events are scheduled to happen in 2023. In August, one more edition of the course 'The Islamic World', sponsored by both the Confederation of Agriculture and Livestock of Brazil and FAMBRAS, will happen, and this time will come again with a chapter on Islamic finance on what was not possible in 2022 but was missed by the participants.

September will be the time again to have the paramount event of the Global Halal Business Forum that gathers experts from around the world with face-to-face and online participations. This year, it is intended to have a full panel on Islamic finance with the participation of relevant financial institutions from key Islamic markets to discuss not only the relevance of the industry, but also present some case studies on the development of the industry in non-Islamic countries; this would certainly add a lot of value to the discussions happening in Brazil at this moment.

Conclusion

In conclusion, we can say that 2022, despite the difficulties caused by the COVID-19 pandemic, the war between Russia and Ukraine and the distraction caused by the presidential elections, was positive. This positiveness refers to the continuous development of the knowledge of what the Islamic Industry means in general, and what it could mean to a country that is a successful case in Halal food production and is also a market of more than 200 million people and one of the top economies of the world.

Similarly, 2023 will be even more promising, considering that a new government will assume the great challenges of boosting economic growth, repositioning the country as a relevant player in the achievement of a more sustainable world and keeping its importance as one of the most important food producers in the world.

In all of these targets, the Islamic financial industry can add value and help, not only by supporting Halal food production but also supporting investments in the industry. To continue its path of evolution, Brazil needs and counts on the involvement of the best players of the Islamic banking industry worldwide.

Brunei Darussalam emerging from market turbulence

***Mohammed Roaizan Johari** is the head of financial development at Brunei Darussalam Central Bank. He can be contacted at roaizan.johari@bdcb.gov.bn.*

Renowned for its strong Islamic philosophy, Brunei Darussalam envisions itself to become an international Islamic financial hub. Islamic finance is one of the key focus areas in Brunei Darussalam Central Bank (BDCB)'s strategic development agenda as set out in the Brunei Darussalam Financial Sector Blueprint 2016–25. Brunei Darussalam has a dual financial system comprising both Islamic and conventional financial institutions. The Islamic financial system is made up of Islamic banks, Takaful operators, Islamic investment dealers, Sukuk and other ancillary services. As of the second quarter of 2022 (Q2 2022), Islamic financial assets accounted for 57.6% of the total market share. There are vast opportunities that are yet to be fully explored and continuous efforts are being made to further deepen the Islamic financial market.

Review of 2022

The impact of the re-emergence of the COVID-19 pandemic in Q3 2021 in Brunei Darussalam has further accelerated the digitalization of financial services and delivery of products through digital means. The range of digital payment services has also expanded with an increase in the pace of financial technology adoption. Despite heightened uncertainties due to the pandemic and the relatively low global interest/profit rate environment, the Islamic financial sector showed resilience and recorded 7.8% year-on-year growth in total assets as of Q2 2022, from BN$13 billion (US$9.21 billion) to BN$14 billion (US$9.92 billion).

The Islamic financial sector in Brunei Darussalam continued to be dominated by the Islamic banking industry. Comprising 61.5% of the entire banking sector, the Islamic banking industry grew by 9% year-on-year with BN$12.5 billion (US$8.86 billion) in assets as of Q2 2022. Beyond Islamic banking, the Takaful industry also recorded positive growth of 0.4% year-on-year as of Q2 2022 with BN$619 million (US$438.53 million) in assets. Since the launch of the Islamic window in 2021, the capital market industry saw an increase in Islamic investment offerings in Brunei Darussalam from seven to 10 Islamic collective investment schemes to cater to market demand.

Brunei Darussalam continues to introduce Islamic securities to further develop this market. The availability of Brunei Darussalam Government Sukuk Ijarah securities and BDCB Islamic Bills (BDCB I-Bills) allows Islamic banking institutions to meet their investment and liquidity needs. As of Q2 2022, the government of Brunei Darussalam has issued over BN$15.4 billion (US$10.91 billion)-worth of Sukuk Ijarah securities since the maiden offering in April 2006, while BDCB has issued BN$2.2 billion (US$1.56 billion)-worth of short-term BDCB I-Bills, since the maiden offering in October 2020.

Recognizing that knowledge and awareness play pivotal roles in the overall Islamic finance development in Brunei Darussalam, Islamic finance was featured as part of the showcase of the Islamic week during the annual thematic Brunei Darussalam Mid-Year Conference and Exhibition 2022, which is one of the most significant exhibitions in the country. During the Islamic week, several events were held, including conferences, workshops and forums to share and exchange Islamic finance knowledge, such as the Syariah Governance Conference, organized by BDCB's training arm, the Brunei Institute of Leadership and Islamic Finance (BILIF).

As one of the Islamic finance thought leaders, BILIF continues to champion human capacity development in Islamic finance by providing certification programs such as the CISI Islamic Finance Qualifications, as well as learning solutions such as its signature programs of Fiqh Mua'malat Professional Programme and Leadership in Islamic Finance and Economics.

In the Islamic finance regulatory landscape, Brunei Darussalam has made great strides in the formulation of Shariah standards to facilitate product innovation and harmonization, under the guidance of the national Shariah Financial Supervisory Board. BDCB has introduced guidelines for Shariah standards on Tawarruq, Murabahah, Wakalah and Mudarabah as best practice references in structuring any Islamic finance products.

Additionally, BDCB has also issued the 'Notice on Application Process of Islamic Product' to enhance the approval process for new products. In the Takaful sector, all operators are now required to establish an operational framework governing the management of Takaful operations in accordance with the 'Notice on Takaful Operational Framework'.

In the general regulatory landscape, BDCB has issued the 'Guideline on Issuance of Debentures' that sets out the necessary standards for any issue, offer or purchase of debentures, including Sukuk in Brunei Darussalam. To facilitate the digital onboarding process, BDCB has also issued the 'Notice and Guidelines on Measures for Non-Face-to-Face Customer Onboarding and Ongoing Customer Due Diligence' to allow financial institutions including Islamic financial institutions to utilize electronic know-your-customer solutions.

Preview of 2023

Based on the issuances of new regulatory notices in 2022, Islamic financial institutions are expected to adopt more digitalization initiatives, especially in the customer onboarding process and the creation of new Islamic finance products. Within the Islamic finance sector, the Takaful sector may present growth potential as the reopening of economies and borders may spur demand for more Takaful products.

On the regulatory front, BDCB will further strengthen its regulatory framework with plans to improve Shariah governance in order to boost market confidence; issue notices and guidelines to encourage new Islamic finance players; issue guidelines on Shariah standards for other types of Islamic finance products, as well as introduce development initiatives to increase the utilization of Islamic finance products.

Conclusion

Against the backdrop of the COVID-19 pandemic recovery, Brunei Darussalam will continue to place high priority on the development of Islamic finance to achieve a more inclusive, resilient and sustainable future.

Glowing embers of progress and support surging in favor of Islamic finance

Momin Saeed *is the head of Abrahamic Finance, an Islamic finance advisory in Canada providing services through its global network. He can be contacted at Momin@abrahamicfinance.ca.*

Canada has seen some considerable growth in the Islamic finance sphere, which is always pleasing to see. One thing has become clear: from the 2021 Canadian census that has been released throughout 2022, the Muslim population has grown exponentially from the 2001 census and is the second-largest faith group in Canada comprising nearly 5% of the population. With that stat, there is critical mass to help push, for not only Muslims, but all people to have access to Islamic and ethical options.

Review of 2022

Canada's behemoth, Manulife, got on board by adding two Shariah compliant exchange-traded funds to its portfolio to meet the growing demand of Canadian Muslims. One of the funds is part of ShariahPortfolio which is a boutique asset management firm that started in the US and has established itself in Canada as well. This offering allows Manulife's savings sponsors and members to place capital in Shariah compliant instruments from an equity and fixed income pool, thereby aiding Muslims in Canada.

There is also active Halal wealth management being offered by financial planners such as Hash Assad (of Assad Wealth) and Jesse Reitberger (of Canadian Islamic Wealth) who are working with Muslim families throughout the country and aiding them in planning, managing and growing their wealth.

There was activity in the fintech sector through Manzil acquiring Muslim Will Solutions, an Islamic digital wills platform; it believes, in addition to this being another product offered on its shelf, it is much needed that Muslims have accessible, reliable and faith compliant final wills. Furthermore, Manzil also launched a new platform called Manzil Invest to help Muslim Canadians build wealth in a Shariah compliant manner.

Student loan financing has also made some strong gains this year. The growth of Islamic finance is not just limited to profit-creating mechanisms but also to benevolence as well and aiding people with their debt. Beneficent is one such offering that aids individuals to refinance a heavy short-term high-interest debt burden through a fund of donors and then setting the course of action on principal repayment through financial planning and coaching.

Defynance is another offering that is working to break into the Canadian market, which works through a setup that includes, but is not limited to, an original debt repayment setup, an income-sharing agreement and career coaching.

Vehicle leasing is another area where there was growth this year by an innovative start-up, Econommi, dealing with car leases and asset tokenization. By bridging people who need vehicles and investors who purchase tokens of investment with daily returns, it is providing a new avenue of vehicle leasing and investing. It is currently closing its seed round in December.

There are Halal investment setups for real estate also being offered through companies like Verona by issuing Canada's first Shariah compliant fund for real estate projects and developments and it has been actively engaged with funds in Ireland. Royal Canadian Development (and Nur Homes) are development and home-building companies which are structuring projects in a Shariah compliant manner for investors; their goal is to keep things simple and understandable from agreements to focusing on consistency and well-rounded returns rather than going for big hits.

Education is an important pillar toward the growth of Islamic finance both in Canada and globally. When people understand what it is, they will understand why it is important and further understand the differences and similarities between conventional and Islamic offerings. The community being informed with knowledge is where further calls can be made to the government for financial parity for Muslims (and other faith groups such as Mormons and others) by amending regulations which will inevitably lessen barriers and facilitate the growth and prosperity of this industry.

Abrahamic Finance is one such organization that not only provides Shariah compliant advisory (to Canadians and beyond) but also provides seminars educating people on this topic. I (Momin Saeed of Abrahamic Finance) was involved with a book authored by the distinguished scholar, Dr Ahcene Lahsasna from Malaysia, on commodity Murabahah (Tawarruq) — a vital book on understanding this product of monetization and its application.

Preview of 2023

With news articles being issued by leading Canadian news providers on Islamic finance, especially in the last half of 2022, this has been a great sign of awareness by the mainstream media. As we longingly look to countries such as the UK and now Australia (with their first Islamic bank), we need to recognize the incremental and consistent growth that is happening in Canada.

The fintech space will continue to grow with more offerings coming out as well as more and more start-ups popping up during 2023; we will see more movement in the crypto, defi and blockchain sphere. This positive momentum will only continue strongly by building trust and engagement with the community and in doing so, it will allow Canadian start-ups to stop looking to Southeast Asia or the Middle East for angel or venture capital funds, but rather fostering those links within the local Canadian market and Canadian players. It behooves the community to support start-ups with their seed raises to help them get off the ground and take a stake in their future growth — without doing that the Canadian market will be lagging as there will always be reliance on outside money for inside needs.

Furthermore, education will always be the hallmark of progress for understanding this industry, and advising according to it, resulting in awareness and growth, and organizations like Abrahamic Finance and others will continue to lead the way there.

Conclusion

The way to make things grow further will require uptake by the Muslim community and marketing this as not only Islamic but ethical so that it is also taken up by the larger society due to having the SRI and ESG components. It befits the community to push the government for regulatory amendments to allow this industry to flourish — and all we must do is look at the new kid on the block, Australia, in how to make a case to start change and the old kid on the block, the UK, in how to make that case successful.

Hope for Shariah compliant foreign direct investments during economic uncertainty

Dr Walid Hegazy *is the managing partner at Hegazy & Partners. He can be contacted at whegazy@hegazylaw.com.*

The Egyptian Islamic finance market witnessed slight, yet steady growth over the past year. The Egyptian Islamic Finance Association noted that the Shariah compliant banking industry had expanded 17.4% since 2020. The rate of corporate Sukuk issuances has stabilized at approximately two to three issuances per year.

Once again, the Ministry of Finance has postponed Egypt's first sovereign Sukuk issuance until next year. Inflationary pressures, a progressively weaker Egyptian pound, and the aftershocks of the COVID-19 and Ukrainian conflict crises have affected the development of the Egyptian Islamic finance industry. Even so, the Financial Regulatory Authority (FRA) continues to establish the legislative framework that will allow Shariah compliant financial alternatives to flourish in the future.

Review of 2022

2022 was distinguished by a couple of major Sukuk issuances, new FRA regulations and the issuance of Egypt's first Islamic microfinance license. To date, approximately EGP5.25 billion (US$226.46 million)-worth of Sukuk were issued this year. The most active company in the Sukuk market is Tharwa Capital, a subsidiary of Contact Financial Holdings. Its most recent issuance was EGP2 billion (US$86.27 million) in Sukuk Mudarabah.

This year, Tharwa Capital concluded a cooperation protocol with the IsDB to target an increase in Egyptian Sukuk issuances. Egypt's regulations permit foreign currency-denominated Sukuk, which is beneficial for a country that is in dire need of such currencies, particularly US dollars, to meet infrastructure and import needs.

Palm Hills Developments, a leading real estate company, used Tharwa to underwrite its EGP3.25 billion (US$140.19 million) issuance for the development of its Badya compound on the 6th October. Real estate developers are often in search of unique financing initiatives, as it is no longer feasible to use deposits on future projects to finance existing developments that have yet to be completed. Furthermore, the inflationary effect on construction supplies' pricing has created unforeseen budgetary shortfalls.

In contrast, the Ministry of Finance had announced in January that the first sovereign Sukuk issuance would occur this summer. Although the Egyptian cabinet issued the executive regulations to Sovereign Sukuk Law No 138/2021, the anticipated Sukuk issuance never materialized.

The reasons cited for the delay were myriad: disruptions in global markets, interest rate uncertainty and inflation rates. It may also be because the government's efforts in privatizing publicly held companies through IPOs are the Ministry of Finance's priority, and the sovereign Sukuk issuance will not be a pressing concern until the government can steer a clear way out of the current economic crisis.

Notwithstanding, the FRA is preparing for a more favorable economic climate. It issued the first Islamic microfinance license to Maksab, specifically for investment financing. In the future, the FRA is expected to issue similar licenses to non-banking entities for Musharakah and Murabahah microfinancing, financing which is typically extended to SMEs.

Preview of 2023

Next year, the International Conference on Islamic Finance and Financing Methods will take place in Cairo. By then, Egypt will have received an IMF loan that will reduce the government's funding deficits, even if the accompanying monetary and fiscal policy recommendations lead to a sharp currency devaluation and an ensuing rise in consumer inflation. In such circumstances, Shariah compliant financing may present itself as a superior solution to traditional methods.

Once the Egyptian pound is accurately priced, and the fog of uncertainty has lifted, originators may feel more confident issuing Sukuk in foreign currencies. While 2022's Sukuk issuances were denominated entirely in Egyptian pounds, yuan- or dollar-denominated corporate Sukuk issuances are not unlikely. The

Sukuk market will expand when more companies apply for, and are granted, SPV licenses by the FRA. Currently, EFG Hermes and Tharwa Capital have hegemonized the Sukuk issuance market, which is an acceptable situation for the short term, but may be inimical to the market's long-term evolution.

Egypt's ability to use Shariah compliant financial products as it seeks to emerge from its economic doldrums will greatly influence Islamic finance markets in other African countries. Egypt is not alone in experiencing a weakened currency. As the US Federal Reserve periodically raises interest rates to combat domestic inflation, most African currencies are declining in relation to the US dollar.

Egypt has the potential to become a regional Islamic finance leader, especially if its first sovereign Sukuk issuance really does occur before the end of the 2022–23 fiscal year next June.

Conclusion

Egypt's Shariah compliant banking sector is probably the strongest element of its Islamic finance industry. It has proven able to withstand external shocks and pressures, and a slowed growth rate is unlikely to impede its overall trajectory. Hopefully, Sukuk issuances will expand beyond the real estate and financial services industries to encompass Egypt's energy and transportation sectors.

Egypt's exponential population growth has led to an imbalance between available facilities and current and projected need. Although the Ministry of Finance has indicated that the first sovereign Sukuk issuance will be used to finance Egypt's debt repayments, subsequent issuances could be used to fund Egypt's healthcare and educational infrastructure. The overall outlook is positive for the upcoming year.

A simple market looking for practical solutions rather than sophisticated products

Anass Patel *is the co-founder and CEO of Groupe 570. He can be contacted at anass.patel@ groupe570.com.*

2022 was a rather calm year, yet with ground progress from the client's perspective. Three new solutions were launched for French consumers, a record number from the previous year especially following the end of the COVID-19 crisis. The presidential election brought its lot of surprising news and sensible announcements regarding faith communities, but market forces on the ground are at work for a great step toward financial freedom and inclusion based on values.

Review of 2022

2022 has been a full year of recovery from COVID-19 with demand from clients for all types of investments and financings. There were clearly two periods during the year: the first semester with growth from the different segments of the markets and unfortunately, a higher inflation rate for the second semester which deteriorated quickly the economic conditions.

The areas of focus for 2022 were as follows.

- On the academic front: a new MBA course was launched by Financia Business School, with the same team that previously offered this course with University of Dauphine. This time, the focus was more on decentralized finance, digital platforms, fintech and alternative systems. The first batch of students had the opportunity to perform a study visit to the **International Islamic Financial Market** in Bahrain.

- On the insurance front: Sakina Takaful launched in 2020 a death and burial expenses cover and is going forward with the first new customers, addressing the go-to-market strategy through a network of not-for-profit organizations and burial services companies. Regarding life insurance, there is a new entrant in the French market: the **Perenys** platform offering a life insurance product with many unit-linked ethical investment funds along with a retirement plan savings product for individuals.

The Perenys team is composed of the former leadership team from 570easi and two financial engineers who worked for Amundi, the global asset management company with its fund and structured investment products team. From the feedback of the team, the main challenge is to reach a network effect through the largest distribution network including independent financial advisors, insurance brokers and self-employed distributors.

To get a better grasp of what is happening in the French market, it is important to understand the dynamics of both demographics and laws of demand and supply.

It is quite clear that all major financial institutions in France understand what Islamic finance is, at least from an economic potential point of view, but they see the market as not mature enough to launch any product or services.

The market thus far is still balancing between the growing French Muslim population, putting more graduates and potential consumers on the market, and the increase of ethical or

alternative-based finance such as green finance, SRI, ESG or impact investing.

It is interesting to go back to consumers' preference patterns. Up to 80% of French Muslims declare they prefer eating Halal and participating in Friday prayers in mosques (source: IFOP). The level drops to 57% when they express an interest in an alternative option for their savings, as they all have an account in a conventional bank. (source: AIDIMM).

In practice, there are around 10,000 to 15,000 retail clients who benefited from Islamic finance products overall in France, which represents a huge gap toward the potential of one million customers that market studies infer to.

We suggest that a good proxy to understand the French market trend is not comparing to any English cultural background countries but to a French-speaking country with local roots, whether in Africa or the Indian Ocean region.

The only SRI Shariah compliant property fund available in the market, distributed by **Conexcap Finance** and its network of distributors (agencies, franchises and intermediaries), has passed the EUR50 million (US$51.61 million) mark of assets under management.

Despite the relative growth of the retail mortgage and savings segment, other asset managers or insurance companies have been quiet and most of the local initiatives have been propelled by smaller entities, fintechs and neobanks with some start-ups taking the lead in promoting new life/death Takaful.

It is still Chaabi Bank with its network of local agencies that offer directly an account and a home finance solution along with its exclusive fintech platform, 570easi (including overseas territory in Réunion Island) providing the majority of its Murabahah-based financing volumes with its portfolio of approximately 3,000 homeowners.

Preview of 2023 and conclusion

A good opportunity for the French market is the capacity for the decision-makers to work in cooperation with entrepreneurs and start-ups to cater for their funding, from the early-stage ones to the more mature ones.

The successes and prospects of the Islamic financial system in The Gambia

Karamo Sawaneh *is an Islamic finance specialist in the Banking Supervision Department of the Central Bank of The Gambia. He can be contacted at ksawaneh@cbg.gm.*

The Gambia is one of the smallest countries in mainland Africa covering a land area of 11,000 square kilometers. Out of its 2.4 million population, 95.3% are Muslims. The Gambia is among the first countries in the West African subregion to license an Islamic bank. The Islamic financial system is evolving, currently with one Islamic bank, two Islamic microfinance institutions, two Takaful operators, one Islamic credit union and a window of Gambia Teachers Cooperative Credit Union. There are also other Islamic microfinance institutions and credit unions in the informal sector and not regulated by the Central Bank of The Gambia.

Review of 2022

The Islamic finance market has gone through commendable growth while operating in a fully dominated conventional environment, highlighting the growing prominence that Shariah compliant finance has in the financial sector in The Gambia. As of September 2022, Islamic finance assets represent 7.4% of total industry assets.

Meanwhile, as of the same period, Islamic banking assets represent 6.8% of total banking assets while the two Islamic microfinance companies controlled 13% of microfinance assets and the two Takaful companies controlled 15.7% of insurance assets.

The Gambia does not have a separate legal and regulatory framework for the operation of Islamic financial institutions. The industry is regulated mainly through Part III, Sections 12 to 17 of the Banking Act 2009 that deal with the regulation and supervision of Islamic banks. The Insurance Amendment Act 2006 caters for the licenses, regulation and supervision of Takaful operation and the Non-Bank Financial Institution Act 2016 caters for the regulation and supervision of Islamic microfinance institutions.

Following the tremendous success in the Islamic financial system in The Gambia in 2022, for the first time, the central bank has issued guidelines for the regulation and supervision of Islamic financial institutions covering banking, Takaful operation and microfinance.

The guidelines which will come into effect on the 1st January 2023 cover key areas including Shariah governance, financial reporting, product development and such. The guidelines are expected to complement the current regulatory framework and enhance the reputation of the Islamic financial institutions as well as consolidate the confidence of customers in the products and services offered by these institutions.

The two Islamic microfinance projects funded by the IsDB — The Small Ruminant Production Enhancement Project (SRPEP) and the Rice Value Chain Transformation Programme (RRVCDP) — continue to register remarkable success. In line with component B of the project, access to Islamic financing and capacity-building, the SRPEP conducted a three-day training program on Islamic microfinancing in October 2022 as well as funded the construction of community pastures, veterinary drug outlets, fattening and breeding schemes, milk collection centers, slaughterhouses, meat stalls and such.

Meanwhile, the RRVCDP, through its implementing partner SDF, also conducted a three-day Islamic microfinance training program to build the capacities of stakeholders on the different products of Islamic microfinance in March 2022. To boost the productivity, processing and marketing of rice, the RRVCDP recently constructed and handed over drying floors and stores to the beneficiary communities.

The Gambia continues to grapple with capacity issues especially Shariah advisors and product development specialists. Nevertheless, the talent pool is growing with more people taking Master's and PhD programs in Islamic finance. To ease the capacity problem currently facing Islamic financial institutions, the University of The Gambia has introduced the Bachelor of Science in Islamic Finance degree program at the School of Business and Public Administration. The introduction of this degree program complements other short-term training conducted by the Management Development Institute, Equity Solutionz and Institute of Islamic Economics and Finance.

Preview of 2023 and conclusion

We are expecting a double-digit growth in the Islamic financial services industry with the introduction of Islamic windows, the Islamic capital market and the issuance of the first sovereign Sukuk. The introduction of these windows and the capital market is expected to strengthen the Islamic finance industry and provide new opportunities for investment in the sector. The Islamic capital market in particular will ease the liquidity management constraints faced by Islamic financial institutions and raise the needed funds for the country's infrastructure challenges.

The first Family Takaful company, Salam Family Takaful, which was licensed in 2022, has resulted in a total of three Takaful operators in The Gambia. However, the company is expected to only start operations in 2023. Moreover, we are expecting the conversion of a microfinance institution that has already appointed an Islamic financial specialist and which offers a number of Islamic finance products.

Furthermore, the central bank is expected to develop and issue new Murabahah guidelines that will encourage Islamic financial institutions to explore new Shariah contracts in their product development, given that Murabahah currently represents almost 80% of financings in Islamic finance contracts.

Germany: New technologies the way forward for the Islamic finance market

***Rebecca Schonenbach** is CEO of Independent Information Service on Islamic Finance. She can be contacted at rebecca@veto-rechtsstaat.de.*

Although there have already been some attempts to introduce Islamic finance products in Germany in the 1990s, Islamic banking products were considered a non-starter by most commercial bankers — until the financial crises in 2008. But despite the ensuing search for an alternative to conventional banking which has helped the Islamic finance industry worldwide, Islamic banking was still not considered to be a hot topic for quite some time.

The proponents pointed out that most of the Muslim community in Germany originated from then-secular Turkey and did not show any interest in Islamic banking whatsoever. Some studies showed that only a maximum of 5% of the then-4.3 million German Muslims would consider using Shariah compliant products. Additionally, as most of the Muslim households were earning low- to middle-range wages, the resulting number of persons with a small- to medium-sized budget was not considered an attractive market opportunity.

But those responsible for state finances were more willing to take risks than the private sector. Already in 2004, the state of Saxony-Anhalt issued a Sukuk facility which was fully paid back by 2009. The regional government of Saxony-Anhalt had hoped to attract new investment from the Gulf to the economically weak state in the east of Germany. When this hope was not fulfilled, no new plans were made to venture further into the Shariah compliant financing methods.

After 2015, with an influx of Muslims from Arab and North African backgrounds augmenting the number of Muslims in Germany by one to 1.5 million, some analysts hoped to finally see a rise in interest in Islamic finance products. In 2015, the first-ever Islamic bank obtained a banking license in Germany. The process of obtaining a license can be several years long, especially since the German regulator BaFin does not grant special conditions to Islamic banks.

So, competitors of the Turkish–Kuveit Bank watched closely to see if the effort was worth it. When KT Bank failed to reach its breakeven point within the set time frame of three to five years, banks which were beforehand considering to enter the German market were not following suit.

Review of 2022

KT Bank finally broke even in 2020 but then had to face the worldwide effects of the COVID-19 pandemic. As the economy in general slowed down, the hopes for a surge in the Islamic banking field were not fulfilled. KT Bank has so far managed to stay in the market and its revenues picked up in 2021 along with booming stock markets but it still suffered under the impact of the global downturn.

The 2021 annual report for KT Bank therefore states: "In the financial year 2021, the business development of KT Bank AG was again characterized by the expansion of the customer portfolio. In addition to the acquisition of new customers in the corporate and retail customer business, the focus was on expanding product use among existing customers. Activities included the optimization of the existing product portfolio with regard to customer needs as well as the development and implementation of technical optimizations that enable our customers to use our products more easily and conveniently."

The number of employees remained the same as the years before (around 110 employees).

Although KT Bank did not manage to achieve its goals fully, in 2022, INAIA, the first German Islamic finance fintech, expanded the launch of its first Islamic real estate platform, launching a crowdfunding version of a real estate platform and also including the Franklin Sharia Technology Fund in its portfolio. As its name suggests, this fund focuses on digital technologies such as artificial intelligence, cybersecurity, secure cloud services, software as a service and internet of things. The fund invests two-thirds of its assets in technology companies that are compatible with Shariah principles.

Another new hope in the Islamic technology field, the Shariah compliant cryptocurrency Caizcoin, has not let on much about its business success so far. But it managed to secure a public relations stunt by saving the known 'Euro' symbol in Germany's banking capital, Frankfurt. The sculpture was in dire need of maintenance and repair and Caizcoin's managing director, Jorg Hansen, stepped in in September with EUR200,000 (US$210,780) per year to save the known landmark.

Preview of 2023 and conclusion

Co-CEO of INAIA Emre Akyel has assumed a market volume for Islamic finance of EUR3.64 billion (US$3.84 billion) for savings, investments and capital-forming insurance products in an article on Germany's Islamic finance market, thus holding up hopes of possible future success for Islamic finance products.

Concluding from recent developments and in light of a worldwide recession, it seems that new technologies are the way forward in particular for the Islamic finance market, whereas traditional banking will prevail albeit without the promising prospects of new Islamic finance tech products.

Traditional Islamic banking has so far not managed to expand its customer base in retail banking but a young generation of integrated and high-performing Muslims in Germany might be tempted to check out not only new tech alternatives to conventional banking, but also Shariah compliant tech alternatives.

Islamic finance development can support Ghana's economic recovery

Dr Abdul-Jalil Ibrahim *is the senior consulting partner at Dar al Istithmaar. He can be contacted at a.ibrahim@distithmaar.com.*

Ghana's public debt has reached 83% of GDP, with a debt service payment of US$3.01 billion as of 2022 (EIU, 2022). The debt figures raise the debt sustainability issue for Ghana and its impact on the Ghanaian cedi. Ghana has begun discussions with the IMF to secure financial support. However, risks to regain access to the international financial market, stemming from investor concerns about fiscal sustainability and high debt levels, will remain high in the coming months (EIU, 2022).

The current debt situation calls for prioritization of concessionary borrowing from now on, as commercial borrowing through the eurobond market has exposed Ghana to the shocks of the global financial market. The prioritization of concessionary borrowing will mean that the government should stretch its arms to attract a broad array of multilateral partners and equity-inclined financial institutions. Islamic finance comes in handy toward this.

Review of 2022

The Islamic finance industry in Ghana is at its formative stages with no presence of any Islamic banking services. However, over the years, advocacy and engagement with policymakers have resulted in the amendment of the Banks and Specialized Deposit-Taking Institutions Act 2016 to include non-interest banking in Ghana.

The absence of regulation has put potential Islamic finance sector investors in Ghana at a disadvantage regarding issues like taxation, liquidity instruments and others. For instance, in the case of Ijarah (lease), the law should allow customer exemption from stamp duty and capital gains tax.

The Islamic Finance Research Institute of Ghana (IFRIG) emerged in 2019 with the main aim of carrying out Islamic finance research, training, technical assistance and developing Islamic finance in Ghana. IFRIG has engaged with various stakeholders, including the central bank, the Ministry of Finance and others, on how to develop Islamic finance in Ghana.

Also, Dar al Istithmaar provides Shariah compliant advisory and structuring to clients interested in structuring investments according to Islamic finance principles. Further, MUDI, an organization whose mission is to introduce ethical investment tools to investors seeking to invest in profitable Halal businesses, has come to the market.

The listing of NewGold Issuer on the Ghana Stock Exchange as an investment holding company managing the NewGold Exchange Traded Fund, a Shariah compliant exchange-traded fund launched by ABSA Capital, creates an asset class for Islamic investors. The fund allows institutional and retail investors to invest in commodity markets and gold bullion.

Preview of 2023

In 2023, we are likely to see more proactive actions from the Bank of Ghana and the Ministry of Finance, especially as the government looks for a diversified financial landscape in Ghana. Also, the IMF discussion with the government of Ghana may be concluded in early 2023, and the economy may stabilize, which may see investors begin to see how they can leverage the hosting of the AfCFTA headquarters in Ghana.

Conclusion

There is enormous potential for Islamic finance in Ghana, looking at the Muslim population of about six million and coupled with the government's drive to attract foreign direct investment into the country to weather the current economic storm and to make Ghana the financial headquarters of financial services in West Africa. It is expected that the government of Ghana will take a keen interest in developing a regulatory framework to assure investors of the smooth operations of Islamic finance in Ghana. Islamic finance development can help Ghana's economic recovery, and the government should prioritize it.

Islamic finance in India: Taking root through greater community participation

Ahmad Bilal Khan *is the assistant professor at the Rizvi Institute of Management Studies and Research, Mumbai, India. He can be contacted at bilalkhan@rmi.rizvi.edu.in.*

There are mainly three financial authorities in India which regulate the banking and financial sector. They are the Reserve Bank of India (RBI) for banking, the Securities Exchange Board of India for capital markets and the Insurance Regulatory and Development Authority of India for insurance. Over the years, RBI has been framing policies for financial inclusivity and ease of access to banking services. In 2008, it had sensed the need to introduce Islamic banking to extend inclusion to the community which comprised a large section of the unbanked population.

During the tenor of the previous government, Dr Raghuram Rajan, the then-RBI governor, conceived a framework to introduce interest-free banking in a phased manner. The idea was to initially open an Islamic window in conventional banks whereby they would accept deposits from the public which would not be engaged in conventional finance activities. Instead, they would be deployed on the basis of Islamic financing modes for equity and trade financing.

Unfortunately, the idea could not take root with the advent of the current government and its ideology. Since the political will has been missing, pleas to RBI regarding the installation of Islamic windows fell on deaf ears. As a result, certain economically disadvantaged strata of society have been denied access to Halal banking products and services. Likewise on the other hand, not paying heed to Dr Raghuram's recommendations has robbed the country of a substantial amount of domestic savings as well as foreign investment cash flows, which could have been infused into key projects and the growth and development of the country.

Review of 2022

Access to the conventional financial system has improved over the years due to continuous efforts from the government to promote technology. The government is also promoting policies to cater to the needs of unbanked rural communities. In the union budget of 2022–23, it announced the launch of a digital currency which will soon be possibly known as the 'Digital Rupee'.

Presently, efforts are on to make mobile banking the primary banking channel in the country. In that regard, RBI has taken several steps to strengthen digital transactions. As a result, the total number of mobile subscribers has crossed 1.15 billion. In July 2022 alone, mobile payments recorded 6.28 billion transactions worth US$133.41 billion.

India has become the fifth-largest economy by overtaking the UK during the last quarter. Subsequent close analysis has however revealed that India overcame the UK not because its economy performed extremely well but because the UK's economy has been reeling under recession for quite some time. With the aforementioned factors and the Russia–Ukraine conflict, the UK's economy has been hit very hard. So, it can be perceived here that India's growth story is not as organic as it seems to be.

Fewer Muslims in India operate a bank account compared with other faiths. At 7.4%, the Muslim community's share of bank deposits and loans is lower than the national average of 80% as they end up keeping money at home.

Despite all that, Islamic non-banking financial entities and Shariah compliant financial products can be found in India's private space in the form of non-banking finance companies (NBFCs), cooperative societies and funds.

A handful of Islamic NBFCs and a couple of dozen cooperative societies have been set up and their numbers, particularly those of the latter, are on the rise. Islamic NBFCs face regulatory hurdles and the growth of most has been muted or erratic.

Though Islamic cooperative societies have been around since the 1970s, during the last decade, the growth of the Islamic (interest-free) cooperative societies segment has received a big boost due to the establishment of a specialized cooperative societies promotion and facilitation organization set up by a community religious movement.

Venture funds began to be set up only in the latter part of the first decade of this century and the sector has made slow but steady progress.

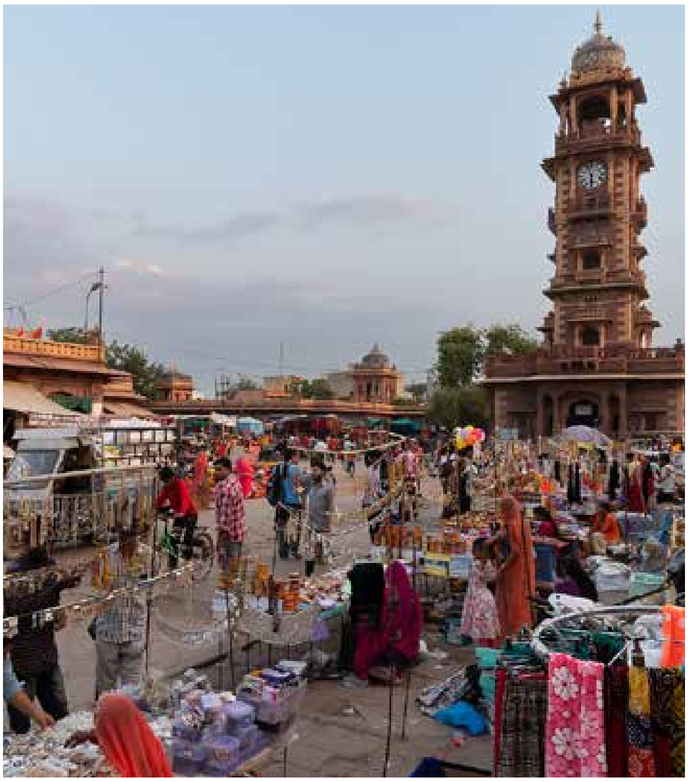
About 1,500 compliant stocks are listed on the two premier stock exchanges of the country though the number of investment quality stocks among them would probably be about 300 to 400. Retail (individual) Shariah investment in this segment has been growing well both in the primary market as well as the secondary market, particularly over the past decade. This is the fastest-growing segment of Shariah investment in the country, but it is difficult to put a finger on even an approximate number for it due to the paucity of systematic data and the dispersed nature of the universe.

Shariah stock investment under professional investment advisors and fund managers too has been growing at a respectable rate both under the small case as well as the PMS format. The organized mutual fund segment is dominated by a single fund started in the closing years of the last century by a reputed business house, though a couple of other offerings too have been around for more than a decade. With assets under management of just under INR15 billion (US$184.18 million), it is the largest player in the Shariah investment space in the country across all verticals. With the stock market booming in recent years, it has done exceedingly well in the past couple of years.

Preview of 2023

According to a UN report, India's population will surpass that of China by next year. Out of the total, the human capital in the age group of 15–64 years accounts for around 67.5%. That means India puts a lot of hope in its working population, which again is one of the largest in the world. Whether those hopes will be vindicated or not will depend to a great extent on the government's ability to provide its burgeoning population with adequate job opportunities. Unfortunately, the past record has not been too encouraging.

This country is also home to the third-largest Muslim population, currently standing at 195 million, which is all set to overtake Indonesia by 2050 and become numero uno.



During this year's G20 summit in Bali, Indonesia handed over next year's presidency to India which will play host to the group of 20 world leaders whose countries' digital transformation has been chosen as one of the main items on the agenda by Prime Minister Narendra Modi.

The government is seriously considering digitizing transactions in the country. It recently launched the 5G network for faster internet services and also established the GIFT City in the state of Gujarat in order to give wings to start-ups especially of the fintech genre.

Institutional arrangements for producing human capital for Islamic finance in India have always been ahead of the requirements. Avenues for its deployment are, however, very limited, as there are not many institutions which can absorb it. We can only hope that in the coming years India will see a U-turn in the current policies and consequently open its doors to the sidelined community as well as allow additional avenues to emerge in the Shariah banking sector.

Conclusion

From a US$3 trillion economy, in just 25 years, India is estimated to become a US$40 trillion economy by 2047 and to be ranked among the top three economies of the world.

From the aforementioned developments which are taking place, India seems to be missing the bus in the US$2 trillion Islamic finance industry as a large part of this pie is taken up by the Middle Eastern and Southeast Asian countries.

The world population has surpassed eight billion this year and India is poised to become the No 1 most populous country by surpassing China next year. With the highest population, particularly in the working-age group, India has a lot to offer to the global economy if it utilizes its full human potential. For this to materialize, it will have to stop neglecting the needs of certain sizeable segments of society and make the environment conducive enough to fuel the economy. Only then can it fulfill its destiny and become a superpower.

The challenges of Indonesian Islamic finance

Irwan Abdalloh *is the head of the Islamic Capital Market Division at the Indonesia Stock Exchange. He can be contacted at irwan.abdalloh@idx.co.id.*

There were two situations that were expected to occur during 2022 when the COVID-19 pandemic is over and the economy begins to recover. In fact, the pandemic still exists and is still infecting many people; however, almost all countries have decided to revoke their pandemic status, in the hope that business activities will return to normal. Indonesia is one of the countries that made this decision.

According to an OECD report, as of the second quarter of 2022 year-on-year, the Indonesian economic growth was 5.6%, higher than the G20 countries' 2.8% and OECD countries' 3.7%. This prediction gives hope to the market that the Indonesian economy is doing well.

Review of 2022

The inflation rate that continues to rise (5.95% as of September 2022) and the decision of Bank Indonesia to increase the interest rate, even though business activities have not recovered to the levels as before the pandemic, will have an impact on the performance of Islamic banking. The merger of three state-owned banks into Bank Syariah Indonesia, in early 2021, has not yet had a significant impact on Islamic finance.

During 2022, Islamic banking is not expected to experience significant growth as there is a tendency to slow down. As of July 2022, Islamic banking assets grew by 3.9%, almost the same as the previous year's performance.

In contrast, the Islamic capital market showed attractive growth. As of September 2022 year-to-date, the return on the Indonesian Sharia Stock Index was 8%, higher than the JCI stock composite index. The number of Shariah investors consistently grew by 8.5% to reach 114,000 investors, while the transaction value of stocks by Shariah investors increased by 24%. The Islamic capital market has the largest market share in the Indonesian Islamic finance industry.

Government Sukuk, both local and sovereign, are still the main driver of increasing Islamic financial assets in 2022. As of September 2022, government Sukuk assets increased by 14.5% with a market share of 20% of total government securities.

2022 was crucial as it transitioned from the pandemic to the new normal. If the foundations are prepared in accordance with market expectations, then the pressure on Islamic finance in Indonesia will not have a significant impact in the following year.

Preview of 2023

The shadow of a recession is a real threat that the world will face in 2023. Although it is predicted that Indonesia will not be one of the countries that will experience a recession, it is still important to take this condition into account for 2023.

The level of public consumption, which had begun to grow in the previous year, will slow down in 2023. The inflation rate, which is likely to continue to rise, is one of the factors. The performance of the Islamic capital market is likely to be disrupted because more public funds are saved, in addition to rising interest rates as well as a precaution against a recession.

Fortunately, Indonesia has a competitive advantage since as a country dominated by a young population, the foundation of the Indonesian market is retail. Evidently, over the last 10 years, the main driver of the growth of Indonesian Islamic capital market has been retail.

The spin-off Shariah business units of conventional banks into Shariah commercial banks, as mandated by law, will be a main issue in the Islamic banking industry in 2023. Bank Syariah Indonesia, the largest Islamic bank, will still face internal consolidation issues as a result of the merger. Therefore, the performance of Indonesian Islamic banking will not be much different.

Another thing that becomes a challenge is the low optimization of technology in the Islamic finance industry. There will still be a significant gap in the use of technology between the conventional and Islamic finance industries.

Conclusion

According to the Asian Development Bank report issued in September 2022, the Indonesian economy is estimated to grow 5% with the inflation rate remaining high in 2023. It means that even though the economy is predicted to grow, inflation and interest rates are expected to remain high.

Catching up in technology in the Islamic finance industry is another challenge that will also be faced in the new year. Financial technology is one of the keys to increasing the efficiency and level of deepening of the Indonesian Islamic capital market.

The low level of Islamic financial literacy and inclusion is still a major challenge that must be solved. Therefore, education is the main thing that needs to be done continuously by all stakeholders of Indonesian Islamic finance.

In addition, sustainable finance is still an issue in the development of the Islamic capital market. It could be that the existence of an ESG-based Shariah index will be one of the drivers of sustainable Islamic finance in Indonesia.

The Indonesian Islamic finance industry will face a challenging year in 2023.

Iran's Shariah compliant financial system: Toward realization

Majid Pireh *is the secretary of the Shariah committee at the Securities and Exchange Organization of Iran. He can be contacted at majidpireh@gmail.com.*

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. Apart from this, Shariah compliant insurance services protect market players against risks and damages which might harm them.

2022 was a year in which the financial system witnessed many fluctuations; while the around 40% inflation rate affected many businesses in Iran, the central bank debuted some initiatives to implement suitable fiscal policies such as strengthening tax-related plans, smoothing sovereign Sukuk issuance as well as the development of the Sukuk market and Shariah compliant derivatives.

Review of 2022

One of the main issues the Iranian capital market initiated in 2022 was changing the profit payment structure in some floating rate Sukuk such as Manfa'ah or Musharakah. It is noteworthy that profit calculation and payment in Iran follow a traditional structure in which issuers announce a provisional profit rate at the beginning of the Sukuk issuance and mid-term profit payments will be equal to this rate.

At the maturity date, the issuer will release the audited calculations and if extra payable profit remained, the issuer will settle with the investors. However, if the final profit rate is less than the provisional previously paid profits, the difference will be considered as a gift by the issuer for the investors.

The aforementioned structure is visible both in capital market Sukuk and deposits which banks accept. However, in 2022, the financial system tried to reorganize the previous structure and attempted to pay calculated and audited profit amounts to the investors or the deposit holders.

The new policy has brought some challenges for the issuers since they were using the previously announced profit payment mechanism and changes will usually result in some challenges at the beginning.

This realization of the profit is one of the main objectives which Shariah has always emphasized and we hope to see it in the new year.

Another notable issue that the Iranian financial system welcomed in 2022 was Shariah aspects of crypto assets. Herewith, due to its investment attractiveness, many people are looking to see how the crypto asset market will be in the future. This is still an issue on the table for Shariah experts and after some negotiations, some security-based tokens and coins were approved by Shariah scholars. However, in terms of payment coins or utility coins, there are still some challenges which hopefully the market will find a clear answer to in 2023.

In the capital market, 11 investment banks and five data processing companies have received operation licenses 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-private banks were actively providing services to their clients. Additionally, two Qard Hasan banks are technically operating in the field of Shariah compliant microfinancing.

Preview of 2023

The establishment of Shariah compliant crypto asset funds based on utility coins will attract much attention in 2023 for Iranian market players. The negotiations and meetings are still taking place to see how the experts will conclude.

Modifying some regulations in relation with Sukuk issuance will lead to some changes in Iran's capital market. Herewith, profit payments will be modified based on real audited amounts instead of the provisional rates. Moreover, critical changes in embedded options will result in the fundamental modification of profit calculations.

Like the previous year, the issuance of sovereign Sukuk and Islamic treasury notes will provide financing vehicles for the government. However, the market is proposing new Shariah compliant derivatives such as profit rate futures contracts to conduct a more rational behavior for the payment policies. It is not yet finalized in the country, but market activists expect the new risk management vehicle to assist them in planning.

Conclusion

In the aforementioned paragraphs, I mentioned some facts about what happened in 2022 and discussed some plans for the new year. 2022 passed with all the lessons it had for financial policymakers 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.

Hope is a key word in this regard and it is a great opportunity for officials to provide better services for the people. God bless all in the new year of 2023 and with great wishes for the development of Islamic finance and banking globally.

Iraq: A land of lost opportunities

Wissam Jarkassi *is the chief risk officer at the International Development Bank, Iraq and the founding director of B Perception Risk Consulting. He can be contacted at w.jarkassi@idb.iq.*

The Islamic financial sector has vast potential to perform efficiently in Iraq due to the unbelievable wealth the country retains, but unfortunately all the resources are unexploited and/or mismanaged. Iraq is a country with high financial potential, being rich in oil, gas and natural resources including phosphate, sulphur, water and many others. The country also has a high proportion of the young generation and is a pivotal site for historical archaeology and religious tourism, being the origin and shrine of many Muslim scholars and the righteous. However, all these potentials are not well exploited due to obvious reasons of political instability and corruption. Thus, I can easily say it is the country where opportunities continue to be lost. Iraq has all the elements to be a leading country in the MENA region, and the banking sector could be flourishing.

Review of 2022

Despite all the negative circumstances that have been prevailing over the past years, the annual revenues of oil sales alone reached US$75 billion, enabling Iraq to settle the war reparations to Kuwait and decrease public debt to 52% of GDP which was 344% in 2004. It is worth mentioning here that the Central Bank of Iraq (CBI) was able to rebuild its foreign currency reserve amounting to US$87 billion by the end of September 2022 and it may exceed US$100 billion by the end of this year. On the other hand, other surrounding countries are bleeding, witnessing currency depreciation and declining 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 the country, out of which 30 banks are Islamic and only one is state-owned.

The total banking assets were estimated at US$109.2 billion as of the end of 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 counterparts in the conventional sector. It should be noted here that in Iraq, state-owned banks are the major players in the 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 the end of 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, 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 which act as a treasury function with no real banking activities.

Other challenges to the banking sector in general are a 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 laundering concerns and underskilled human resources.

Preview of 2023

In this regard, the 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 that of the Shariah board, internal and external Shariah audit and Shariah compliance.

In an attempt to enable investment and liquidity management tools, the CBI also issued Islamic financing controls, drafts of Takaful insurance regulation and the Islamic investment Sukuk law. Also, the CBI has been engaging with local and international Islamic organizations such as the AAOIFI and the IFSB.

Conclusion

Finally, it is obvious that Islamic banks have a stronger financial position than conventional banks. However, this is due to a low risk appetite and the lack of an investment strategy. On the other hand, they have been gaining more public momentum as shown by the exponential growth in deposits. They also have the support of the regulator who has been initiating 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 like to follow to practice real banking. It is also crucial that political management is set on the right track to decrease the international and domestic effects on the whole country.

Islamic finance growth slows down in 2022, but the future is still bright

Maurizio Pastore *is the head of debt listing – international primary markets at Euronext. He can be contacted at mpastore@euronext.com.*

In 2011, the Irish government set out to establish Ireland as a center of excellence for Islamic finance. Changes to tax laws and regulations were implemented to ensure they were Shariah compliant and double taxation treaties were signed with Gulf states. Since then, Shariah compliant financial certificates (Sukuk) have been successfully listing on Euronext Dublin (formerly the Irish Stock Exchange). Listings started in 2012 where four Sukuk issuances were listed. The first Sukuk listing was in May 2012 for US$500 million by Dubai Islamic Bank; Qatar Islamic Bank issued two Sukuk that same year. To date, there is no retail Islamic bank operating in Ireland. Since 2020, there have been 48 new listings totaling US$30.7 billion on Euronext Dublin alone.

The financial infrastructure in Ireland, both at a national competent authority level (Central Bank of Ireland) and for listing (Euronext Dublin), are knowledgeable in reviewing Islamic finance issuing documentation and experienced in handling and approving Sukuk applications. This marks Ireland as among the world leaders in attracting and supporting the issue of Sukuk.

Review of 2022

With regards to Sukuk listings, the cost of living crisis, coupled with the Russia–Ukraine war and rising oil prices, has led to rising interest rates and concerns over economic growth. This has had a direct impact on funding costs for issuers which has led to a slump in issuances.

This has also impacted Islamic finance, just like conventional finance, where the Sukuk market in 2022 was affected by the global macroeconomic environment with Fitch Ratings reporting a fall of 14% in the third quarter (Q3) along with a 27.5% drop in Q2.

As can be seen from Chart 1, Sukuk listings have also fallen in 2022 when compared with both 2020 and 2021.

Fitch also report that Sukuk listings, while slow, are building up. The macroeconomic climate will continue to influence the need for oil-rich countries to issue Sukuk. Any need to raise funds may be dampened by increased liquidity from high oil prices, while oil prices, specifically, may play a larger part in the Sukuk market than they do in the conventional market. These prices are linked to the broader geopolitical situation and economic fallout.

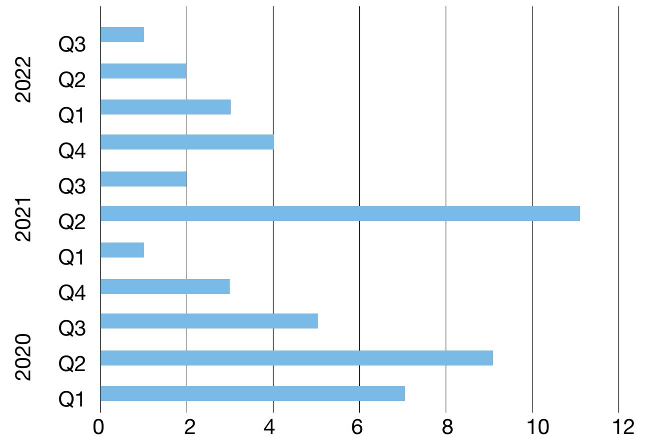
The Islamic finance sector in Ireland will be directly impacted by these global macroeconomic pressures. Increasing interest rates and currency fluctuations — particularly in the US dollar — will also play a major role in the Islamic finance issuing pipeline specifically for the first half of 2023.

Preview of 2023

ESG in 2023

An area of growth that has yet to really materialize for Sukuk issuers in Ireland is ESG. GCC issuers, for example, have issued

Chart 1: Euronext Dublin's new Sukuk listings



Source: Euronext

conventional ESG securities; however, growth in Islamic finance ESGs has not mirrored the growth of conventional ESG securities. The IsDB issued US$2.5 billion ESG trust certificates in 2021 where the proceeds were to be used for health and economic impacts of the coronavirus outbreak and the recovery from the pandemic in its member states.

Despite this example, market sentiment seems to be more 'wait and see' with regards to ESG regulation and its role within Shariah compliant finance. However, this does appear to be a major growth opportunity for 2023. To highlight this potential growth market, 88 ESG securities have listed in Ireland year to date but none of these listings have been Sukuk.

Role of fintech

Fintech also continues to be an area for development for all sectors. We would likewise expect to see this continue in Islamic finance; however, there is likely to be a limited impact on the retail level in Islamic finance in Ireland. The introduction of innovations such as distributed ledger technology is being widely examined; however, it is hard to ascertain with any degree of certainty when any developments in this area will become mainstream.

Conclusion

Euronext is the world leader in listing debt securities with more than 52,000 bonds listed in its markets. An important part of this debt financing flow is coming from Islamic finance. Most of our listing activity is directly linked to the macroeconomic conditions that affect the general bond issuing pipeline, and this is also true for Islamic finance.

At present, due to market volatility, interest rate hikes and high oil prices, the market for Islamic finance and Sukuk listing in Ireland is underperforming compared with previous years.

The activity we have seen in this sector mirrors that of the conventional finance sector and although the macroeconomic factors that impact Islamic finance may differ from those affecting conventional finance, the long-term outlook is that once the economic environment settles, the Islamic finance market in Ireland will be well positioned to bounce back.

Green light for Islamic finance in the Ivory Coast

Abbas Cherif *is an independent consultant for the IsDB. He can be contacted at abbas.cherif6@gmail.com.*

2022 has been very rich in the Ivory Coast and can even be considered as a fairly decisive turning point in the evolution of Islamic finance, a year marked by several training and awareness initiatives, strengthening the regulatory framework and also international cooperation with encouraging prospects for the year to come.

Review of 2022

The Central Bank of West African States, BCEAO, has submitted for consultation to the Islamic financial institutions of the UEMOA [West African Economic and Monetary Union] including those of the Ivory Coast, a draft instruction relating to financial statements, accounting and the prudential system applicable to Islamic financial institutions in the region. An initiative that marks the very clear intention of the regulatory authorities to strengthen the regulatory framework for Islamic finance activity.

On the 23rd and 24th July 2011, the Abidjan Takaful Conference was held in the Ivory Coast. An annual event which was in its first edition and which aims to promote Takaful in Africa and in the UEMOA zone. This conference brought together stakeholders from across the industry to discuss the development issues of this new type of insurance in the region.

On the 4th August 2022, an awareness-raising workshop on Islamic finance was held in Abidjan-Plateau with the theme 'Islamic Finance at the service of the State: Interaction between the State and the Islamic Finance Industry' organized by the Financial Sector Development Program (PDESFI) of the Ministry of Economy and Finance in partnership with Islamic Finance Intelligence and Management.

Siaka Fanny, the executive secretary of PDESFI, said that the workshop should allow participants to know the potential of Islamic finance for the Republic and to highlight the contribution of Islamic finance to the Ivorian economic development and finally, for economic operators, to better understand the advantages of using Islamic finance.

Minister of State and Minister of Agriculture and Rural Development of the Ivory Coast Kobenan Kouassi Adjoumani on the 19th October 2022 received a delegation from the IsDB led by Cheick Amadou Diallo, the head of operations for Guinea and the Ivory Coast.

Diallo marked his commitment to support the Ministry of Agriculture for the financing of the development program for cassava value chains, the Cassava Value Chain Program, amounting to XOF30 billion (US$47.1 million) and the development program of the rice sector with around US$100–150 million with a start envisaged in 2023. The minister of agriculture welcomed the commitment of the IsDB to finance agricultural research, in particular the rehabilitation of the National Research Center in Agronomics from 2023.

The president of the IsDB Group, Dr Muhammad Sulaiman Al Jasser, on his working visit in the Ivory Coast on the 26th and 27th October 2022, said he was present "to expand cooperation with the Ivory Coast". He had high-level meetings with the Ivorian state authorities, talks with the minister of planning and development, the prime minister, the vice-president of the Republic and finally Alassane Ouattara, the president of the Republic.

The chairman of the IsDB mentioned that: "The Ivory Coast is a very important country for the IsDB. Today, we have a portfolio that exceeds US$2 billion, in terms of financing. We have 56 operations ongoing in the field. Nialé Kaba, the minister of planning and development, on her part, said: "The level of the bank's commitment alongside the Ivory Coast has a portfolio of projects which increased from US$250 million from 2002 to 2010, to US$1.6 billion in 2020, to reach US$2.1 billion in 2022."

The Regional Council for Public Savings and Financial Markets had his Council of Ministers adopt on the 30th September 2022 a draft decision amending the General Regulations relating to the organization, operation and the control of the regional financial market and a draft regulation relating to Islamic financial securities, self-managed Sukuk issuing companies (SPVs) and the Sukuk Issuing Fund in the UEMOA. The adoption of these texts aims to create an appropriate legal anchor for the introduction of Islamic financial instruments into the regional market including the Ivory Coast.

Preview of 2023

2023 should see the instructions relating to accounting, reporting and the prudential system officially published and implemented by Islamic financial institutions in the Ivory Coast.

Consultation should also take place on draft contracts and Shariah governance guidelines for Islamic financial institutions in the Ivory Coast.

Conclusion

The Ivory Coast is firmly committed to fully playing its leading role in the development of the Islamic finance industry in the region. The authorities are now taking initiatives that are accompanied by Islamic donors. In such a context, there is no doubt that the year 2023 will be full of accomplishments.

Japan continues to prioritize macroeconomic stability and global growth

***Serdar Basara** is the president of Japan Islamic Finance. He can be contacted at basara@japanislamicfinance.com.*

The macro environment

The macro impediments affecting the Japanese economy are:

- Political instability following former prime minister Shinzo Abe's assassination
- Ongoing monetary easing program by Bank of Japan (BoJ) targeting a stable 2% inflation rate
- Weakening yen
- Rising import prices and, consequently, consumer prices
- Trade deficit due to a surge in imports, and
- Low wages.

Review of 2022

Can Prime Minister Fumio Kishida overcome the post-election crisis?

After a landslide victory in the July 2022 Upper House elections, Prime Minister Fumio Kishida's cabinet approval rate has gradually declined due to the political instability following former prime minister Shinzo Abe's assassination. The Japanese public, media and opposition parties have focused on the investigation of the Unification Church and its relationships within the governing Liberal Democrat Party.

Daishiro Yamagiwa, the minister responsible for economic and fiscal policy, new capitalism and economic revitalization, had to step down after his unsatisfactory responses to questioning by the Opposition. Kishida's plans to create double asset-based income through a new form of capitalism might be affected by this unexpected cabinet change.

BoJ's long-awaited '2% inflation target' with weakened yen

As I wrote in a previous report, one of the main assumptions beyond 'Abenomics', Japan's monetary expansion policy to revive the economy, is that "a weakened yen will boost the global demand for Japanese products, such as motor vehicles, machinery and consumer electronics. An increase in exports will save those struggling industries and make them more profitable. Those profits will eventually be reflected to households as pay rises".

In 2022, the yen hit the lowest level in 30 years (1 US$ = JPY145–150), helping the BoJ surpass its inflation target of 2%. The weakened yen showed its immediate impact as record trade deficits in the first half of fiscal 2022 reached JPY11.01 trillion (US$78.5 billion), due to high energy and raw material costs. Long-term positive results might be expected with export-led growth and surging tourism revenues after more than two years of COVID-19-related border closures. However, the shipments to the US, Japan's main US dollar export partner, might decrease if the US economy goes into a recession.

On the other hand, the Japanese government showed its determination not to stand still against speculative exchange rate fluctuations and carried out record currency intervention spending of JPY6.35 trillion (US$45.28 billion) between the 29th September and the 27th October.

Effects on households and individuals

Due to the weakening yen and the ongoing crisis in Ukraine, raw material costs for food and energy have increased significantly, which has been reflected in rising consumer prices for electricity, gas and wheat flour, among other items. Kishida recently announced a US$200 billion stimulus plan to reduce households' utility costs by approximately US$35 per month. The redistribution of wealth and efforts to increase household income continue to be important policy topics of the Japanese government.

Remarkable Islamic finance achievements by Japanese institutions in 2022

Japanese financial institutions showed strong interest in both institutional and retail Islamic finance markets. For example, SMBC International Bank jointly led Al Rajhi Bank's commodity Murabahah facility, with the total amount exceeding US$1 billion. In the retail field, major Japanese financial institutions have continued to participate in Southeast Asia's lucrative Islamic finance markets. AEON Credit Service's Islamic digital bank in Malaysia, MUFG's MUFG Bank (Malaysia), Sumitomo Mitsui Banking Corporation (SMBC)'s SMBC Malaysia and BTPN Syariah in Indonesia enjoy strong support from their parent companies in Japan.

Preview of 2023

Opportunities for Islamic finance industry in 2023

Having profitable relationships with the Islamic world continues to be a strategic priority for Japan. In particular, energy procurement from the Middle East has become more important due to the crisis in Ukraine and deteriorating relations with Russia. Therefore, large-scale capital investment projects in energy and infrastructure fields as well as sustainable energy and raw material procurement will continue to be Japan's main concerns.

Two initiatives I recommend are: Japan Bank for International Cooperation (JBIC)'s investments and Kishida's commitments to invest in Africa. Further involvement by JBIC and other public and private institutions in hydrogen and fuel ammonia energy supply chain construction is expected in 2023. For JBIC's strategic action plan, please refer to the **Fourth Medium-term Business Plan** (FY2021–FY2023).

At the Tokyo International Conference on African Development or TICAD8, organized in Tunisia in August 2022, Kishida made the commitment to invest US$30 billion as the sum of public and private financial contributions over the next three years in Africa, creating another opportunity for the Islamic finance industry.

Participating in Africa's development as a partner has been Japan's strategic priority for decades. However, the lack of human resources to source, develop and execute projects is a barrier for Japan in becoming a more proactive player in the region. Islamic finance institutions can collaborate with Japanese counterparties to achieve the ambitious US$30 billion investment target set by Kishida.

Conclusion

The Japanese economy is experiencing drastic changes, such as energy supply chain reconstruction. The government must take leadership in this change while collaborating with private institutions. The Islamic finance industry can take advantage of opportunities to partner with the Japanese government and public institutions in large-scale infrastructure and energy projects in Islamic countries, as well as development projects in Africa.

Islamic banks aid Jordanian economy to overcome ordeal of pandemic

Dr Hussein Mahmoud Alshgairat *is the manager at Dart Aleghwan for studies and research. He can be contacted at wadyalhoor@hotmail.com.*

Jordan's geographical and political location between the Arab and Islamic countries provides it the opportunity to outperform many countries in the Middle Eastern region in several fields including, for example, governance. International economic and banking institutions are currently looking at Islamic economic concepts, and are seeking to know the extent to which they help in avoiding crises and economic regression, especially after the world as a whole went through a general economic crisis resulting from the COVID-19 pandemic. The Islamic economy overcame that ordeal with wisdom and success that led to the world as a whole reconsidering the Islamic economy.

Jordan is currently characterized by the presence of banking institutions that operate according to the Islamic economic concept and have a distinguished banking presence. Perhaps what Jordan needs in this field is to develop economic management systems and tax laws in accordance with Islamic finance concepts so that the problems of poverty, collecting Zakat and combating corruption are confronted by employing the Islamic religious dimensions that help the poor. The emphasis on work and prohibition of corruption achieve good management of society's affairs and its development according to Islamic economic systems that western countries are seeking to implement.

Review of 2022

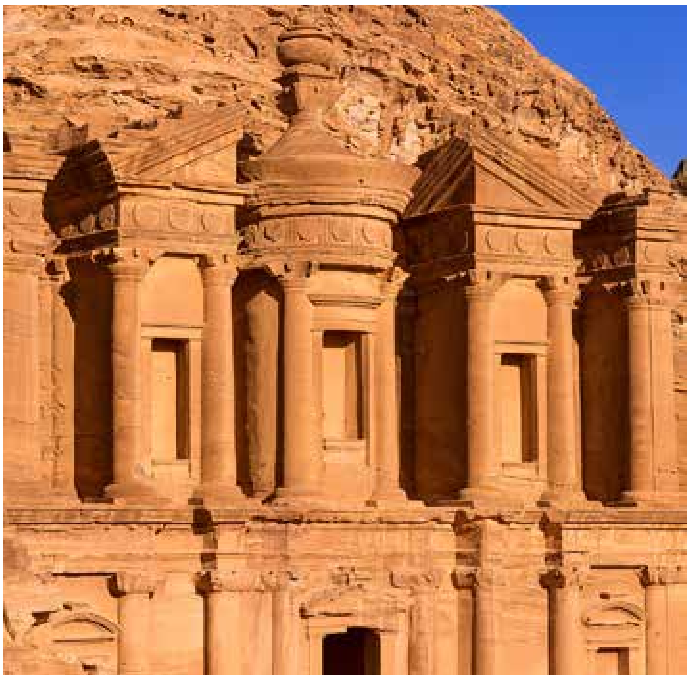
2022 was considered the year of recovery from the effects of the COVID-19 pandemic, as the Jordanian economy gradually returned to growth. Despite the Jordanian economy suffering from indebtedness and weakness in attracting foreign investments, Jordan is distinguished as an economic country that has openness and cooperation with many international institutions through global trade and free trade agreements.

These help Jordan to play a pioneering role through its Islamic banking tools that have developed to a remarkable level which have taken root in the Jordanian banking system. The banking system has witnessed remarkable growth and stability in the past few years despite the difficulties that left their effects, including the global economic and financial crisis resulting from the COVID-19 pandemic. The Jordanian economy still needs to transform into an Islamic economy in all forms of economic work.

Preview of 2023

It is possible to start providing government financing for the private sectors through the surplus liquidity in Jordanian Islamic banks and the countries of the Islamic world. This will reduce the level of interest, thus stimulating the growth rates, and possibly attract more investments into the Islamic banking sector that are compatible with Islamic law and achieve the aspirations of savers.

For those who believe in the feasibility of saving through Islamic banks, and the possibility to benefit from legislation supporting the Islamic economy which extends to include small- and medium-sized companies, and who are supportive of any economy and the level of individuals living within it, the importance of Islamic banking



increases due to the significant shift in investor attitudes toward Islamic banks and the tools that have succeeded in continuity.

This is in addition to the characteristics of Islamic financing and savings methods such as distributing risk and avoiding high fines as well as exorbitant interests, apart from the existence of banking financial institutions that deal with the Islamic banking concept that is taught within courses provided at universities, and it is also dealt with interest and published in the media, which will lead to the existence of non-banking economic institutions that operate within the concepts of Islamic economics.

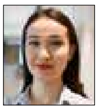
Therefore, 2023 will be a greater opportunity for the success of the Islamic economy in Jordan, and it is likely that Jordan will succeed in attracting major investments to operate within the Islamic economic system, where global investors have become fully convinced of the superiority of the Islamic economy over other economies.

Conclusion

The Islamic economy aims to achieve a good and dignified life, and material and moral well-being for individuals and societies. Therefore, the Islamic approach to investment works to control and rationalize the movement of investment activity within the framework of societal priorities.

Jordan is distinguished by the availability of a talented, educated and proficient human element in matters of technology that enjoys global awareness. Jordan is one of the countries distinguished by its high rate of education and various specializations of human cadres who enjoy accumulated experiences that enable them to contribute to the success of an Islamic economy in an effective way. These contribute to getting Jordan out of the impasse of indebtedness and eliminate unemployment, albeit relatively, by providing work opportunities and reducing the widening gap of social disparities as well as the rate of poverty, which contribute to achieving a decent economic and social life for the Jordanian citizen, and help governments to overcome the problem of accumulated indebtedness.

Islamic finance in Kazakhstan and AIFC: Potential for growth

***Madina Tukulova** is the head of the Islamic Finance & Business Hub at Astana International Financial Centre. **Ulzhan Issakhova** is the senior manager at the Islamic Finance & Business Hub at Astana International Financial Centre. They can be contacted at m.tukulova@aifc.kz and u.issakhova@aifc.kz respectively.*

Islamic finance is a fast-growing and promising segment in the world which is known for its sustainability in the market. The volume of this segment in the world is US$3.6 trillion, and it is growing annually by 15%. Kazakhstan was one of the first CIS [Commonwealth of Independent States] countries in 2009 to introduce Islamic finance legislation. After the first amendments to the legislation, the first Islamic bank was opened in the country.

Today, Kazakhstan has developed Islamic finance legislation covering Islamic banking, Takaful, Ijarah and Sukuk markets. In addition, several Islamic financial institutions provide Islamic financial services in Kazakhstan.

The Astana International Financial Centre (AIFC) is a financial hub in Kazakhstan. Geographically, it is a large defined zone within the city of Astana wherein the center's participants may be located and, from there, carry on their business activities. Islamic finance is one of the core pillars of the AIFC.

With the support of international organizations such as the IsDB, Asian Development Bank, IFSB, AAOIFI and the General Council for Islamic Banks and Financial Institutions, the AIFC has established a regulatory framework following Islamic financial practices and standards.

Review of 2022

Kazakhstan's demand for Islamic finance products and services is increasing every year. Therefore, the AIFC is developing an Islamic finance ecosystem. Islamic banks, Islamic financial companies, Islamic asset management companies, Islamic brokerage dealer companies and Islamic insurance companies (Takaful and re-Takaful) can become AIFC participants. The AIFC provides favorable conditions for Islamic financial institutions.

Thus, until November 2023, the minimum requirements for the authorized capital for Islamic financial institutions have been reduced. In addition, the AIFC provides an exemption from corporate income tax and value-added tax for licensed financial service providers, including Islamic banking institutions, Islamic non-banking institutions and Takaful and re-Takaful companies.

Moreover, recently adopted rules on currency regulation and provision of information on currency transactions in the AIFC allow Islamic banks, Takaful companies and companies managing a restricted profit-sharing investment account based on Islamic financial contracts to provide financial services to residents of Kazakhstan (individual and corporate) in any currency.

As of 2022, the AIFC registered several Islamic financial and non-financial organizations from Malaysia, Bahrain, Qatar, the UK and the US. The list of companies includes Islamic banks, non-banking financial institutions, Shariah consulting companies, Islamic fintech and crowdfunding companies. The AIFC continues to support the development of a viable and competitive Islamic capital market.

In 2022, the AIFC developed products for retail investors, such as Islamic exchange-traded notes (ETNs) and gold ETNs that comply with the principles of Islamic finance.

Financial literacy in the field of Islamic finance is critical. Therefore, the AIFC carries out several Islamic finance activities and events with international partners during Astana Finance Days, World Investor Week and such.

As a result, according to the Global Islamic Economy Report 2022, Kazakhstan has entered the top 15 countries with a developed market for Islamic finance.

According to the Global Islamic Fintech Report 2022, Kazakhstan has increased its position from 27th to 24th. Kazakhstan has been leading the CIS countries in the development of Islamic finance since 2017.

Preview of 2023

Islamic finance is a fast-growing segment; the percentage of annual growth of Islamic financial assets in the world is 15–20%. The AIFC is actively establishing the Islamic finance industry for Kazakhstan and Central Asia.

The AIFC was identified as an economic platform connecting the countries of the Central Asian region, as well as with foreign investors.

The financial regulators of Central Asia (the regulator of the AIFC — Astana Financial Services Authority, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan) adopted a joint declaration confirming the possibility of using the potential of the AIFC for the joint development of the financial system.

The AIFC implements recommendations of the Islamic Finance Master Plan, developed with the support of the IsDB. For example, the AIFC plans to expand the global and regional base of investors and market players at the AIFC and increase the number of local Islamic financial institutions.

The arrival of new players in the Islamic finance sector will provide more investment and partners for existing players.

The Islamic securities market is also gaining popularity. The Astana International Exchange is ready to welcome Sukuk and expects regional and local issuances.

The AIFC continues to increase awareness of Islamic finance via different events (seminars, lectures and webinars).

Conclusion

In conclusion, it is essential to mention that for Kazakhstan, the development of the Islamic market is significant due to the rising demand. The Islamic finance industry in the AIFC, offering various financial and business solutions for the domestic market and the Central Asian region, will improve the competitiveness and dynamism of the financial center.

Islamic finance: A new frontier for project finance in Kenya?

Mbula Mulu *is a senior partner at Mulu & Abuja Advocates. She can be contacted at mbula@muluabujalaw.com.*

Despite 2022 having been a year of highly contested presidential elections, Kenya retained its position as a leading economic and financial hub in East Africa. In the wake of a disputed presidential win, the Supreme Court of Kenya moved swiftly to determine the presidential petition, thus cushioning the country against negative economic effects. As a result, the faith of local and foreign investors was quickly restored in the maturing democracy as a sound and safe destination for global finance. Accordingly, a year that started on a 'watch and wait note' has quickly turned around to an eventful close.

Review of 2022

Having pointed out that the months of January to August 2022 were a speculative period for many businesses, it is surprising that Islamic finance in Kenya made significant strides, all factors notwithstanding.

One of the most remarkable partnerships in Islamic finance this year was between Kenya's giant telecommunications company Safaricom and the Islamic Gulf African Bank (GAB). To put this partnership into perspective, Kenya is a renowned global leader in mobile money innovations with the leading financial digital platform being Safaricom's Mpesa.

Through Mpesa, users are not only able to transfer money to each other in real time through a mobile phone, but they are also able to save money through bank linked e-accounts. Users can also remotely and instantly access credit and overdrafts through mobile phones without any collateral. The services are accessible with or without internet, meaning that Mpesa's financial outreach is extremely wide, thus registering a revenue of approximately US$2.8 billion in 2021.

Through this 2022 partnership, GAB sought to tap into this digital financial market by initiating the first ever Shariah compliant digital savings platform dubbed Pesa Halal. This platform is accessible to both Muslims and non-Muslims whereby users can access micro savings and credit solutions through their phones.

Pesa Halal users can access instant interest free credit with a repayment period of up to 30 days, with a 5% commodity Murabahah margin. Thus, Muslims in Kenya finally have an Islamic-conscious digital platform through which they can comfortably take advantage of digital finance. Companies offering these digital platforms are also able to tap into Muslims' booming microbusinesses that have remained untapped for ages.

In Kenya's North Eastern Province where the population is predominantly Muslim, 2022 saw more of the traditionally unbanked population access Islamic compliant financial services such as interest-free loans, savings and insurance services through Crescent Takaful Sacco, which is a pioneer Shariah compliant savings and credit cooperative (sacco).

In a country where saccos in 2021 accounted for approximately US$5.64 billion in deposits and US$5.55 billion in borrowings, it is clear that they are preferred to banks by individuals and small to medium businesses due to flexibility in accessing credit and their lower interest rates. Thus, establishing a Shariah compliant sacco is a significant step in guaranteeing financial services access to the Islamic population amounting to approximately five million people.

Given the novel nature of Islamic finance in Kenya, capacity-building is key for the players in understanding the intricacies of the industry. Against this background, the Kenya Institute of Monetary Studies also introduced a course in Islamic financial services to equip individuals to take advantage of this fast-growing global industry.

Preview of 2023

Even though Islamic finance is becoming well-rooted in the country's private sector, the Kenyan government is yet to take full advantage of Islamic finance as a source of foreign direct investment to fund government infrastructure and projects. The IsDB, for example, has been a major financial partner in some African countries. The bank has continuously shown interest in penetrating the African market as a senior lender, through public–private partnerships and through provision of grants.

This is a good example of how Kenya as a country can take advantage of Shariah compliant international finance for its economic growth as compared with commercial loans coupled with exorbitant interest rates. 2023 being a year characterized by a new government with potentially new infrastructural initiatives presents a great opportunity for any Islamic lender seeking entry into the market to make their impact. The year also presents an opportunity for commercial banks to continue refining their Shariah compliant products to tap into a wider market.

Conclusion

Despite 2022 being a slow year for business due to elections, there has been significant movement in Islamic finance, which presents an opportunity for more investors to play in that space. Despite this growth, Kenya as a country is yet to fully benefit from Shariah-backed international finance, and the year 2023 presents a good opportunity to tap into Islamic development banks for infrastructural development. In conclusion, the substantial movement in Shariah-based finance points out to a purposed and continuous move toward inclusive finance in the country.

Kuwait: Resilient performance out of the pandemic shadows

***Ajai Thomas** is the general manager – financial control and planning/CFO of Kuwait International Bank. He can be contacted at athomas@kibkw.com.*

The GCC's banking systems have proven resilient to past regional shocks, as affirmed by global rating agencies. The Gulf War of 1990 was one of the rare instances where private sector domestic deposits showed instability.

Historically, large outward remittances have limited the accumulation of more confidence-sensitive deposits, while confidence-boosting actions from public sector entities have helped reduce domestic funding volatility during shocks. Increased corporate activity and consistent population growth have supported customer deposit expansion and offset outflows, while the GCC's relative safe-haven status has attracted stable funding from higher-risk geographies.

Kuwait remains among the largest Islamic banking markets. Shariah compliant/Islamic finance in Kuwait is dominated by the five Islamic banks: Kuwait Finance House (KFH), Boubyan Bank, Ahli United Bank and Kuwait International Bank (KIB) and Warba Bank.

KFH was established in 1977 as one of the pioneering Islamic financial institutions in the world.

Islamic financing in Kuwait is primarily offered through five Shariah compliant banks which are regulated by the Central Bank of Kuwait (CBK): KFH, Boubyan Bank, Ahli United Bank, Warba Bank and KIB. KFH and KIB are allowed by CBK to offer property valuation services.

Takaful insurance is also gaining market share in Kuwait dominated by affiliates of Shariah compliant banks like KFH and Boubyan.
Islamic finance companies also play their part in expanding Shariah compliant offerings but are relatively small compared with the size and reach of Islamic banks in Kuwait.

An analytical study by the General Secretariat of Arab Banks ranked Kuwait fourth in terms of the number of banks that entered the list of the largest 1,000 banks in the world, with seven Kuwaiti banks on the list, topped by the National Bank of Kuwait followed by KFH.

Review of 2022

Fitch Ratings affirmed the long-term issuer default rating on all Islamic Kuwaiti banks at 'A' in 2022, with a stable outlook. Fitch noted that Kuwaiti Islamic banks' financial metrics were resilient during the year. Islamic banking assets grew by 8.5% year-on-year in the first half of 2022 (H1 2022) (roughly in line with conventional banks) and still made up 45.5% of sector assets. Islamic banking in Kuwait benefits from the country's Muslim majority, with substantial demand for Islamic products. The average operating profit/risk-weighted assets ratio improved to 2.4% in H1 2022.

S&P Global Ratings said it believes that the earnings performance of banks in the GCC will recover almost to pre-pandemic levels in 2022, thanks to the economic recovery supported by buoyant oil prices.

Kuwaiti Islamic banks continue robust asset growth and profitability in 2022

Islamic banks in Kuwait reported a 22% increase in net profits for the nine months ended the 30th September 2022. The cost-to-income ratio for Islamic banks stood at an average of 38% as of the 30th September 2022. Financing income growth stood at KWD209 million (US$679.48 million) for the nine months of 2022 (9M 2022) at 20%.

KFH reported the highest return on average assets (ROAA) and return on average equity (ROAE) of 1.2% and 12.8% respectively among all Islamic banks in Kuwait followed by Boubyan Bank with an ROAA at 0.9% and an ROAE at 9.1% as of the 30th September 2022. Boubyan Bank reported the highest capital adequacy ratio and common equity Tier 1 ratio among all Islamic banks in Kuwait at 19.2% and 15.2% respectively, followed by KFH at 17.7% and 14% respectively as of the 30th September 2022.

Islamic banks registered a growth of 6% (KWD2.4 billion (US$7.8 billion)) in total assets during 9M 2022. Total financing portfolio of Islamic banks grew by 10% (KWD2.4 billion) during 9M 2022. Total customer deposits with Islamic banks grew by 2% during 9M 2022.

Consolidation: Mergers and acquisitions

KFH completed its acquisition of Ahli United Bank in October 2022, creating one of the largest banks in the Gulf region. The combined strength makes it one of the largest banks in the region with over US$118 billion in assets and a presence in 12 countries.

Gulf Bank received the approval of the Central Bank of Kuwait regarding the engagement of McKinsey & Company as the bank's consultant to carry out the feasibility study of the acquisition of Ahli Bank of Kuwait. Both banks had signed an MoU in August after receiving a proposal submitted by the major shareholders of Gulf Bank and Ahli Bank of Kuwait suggesting the acquisition of one of the banks by the other, with the possibility of converting one entity to a Shariah compliant bank.

This could tilt the balance of banks in Kuwait in favor of Shariah compliant banks currently equally divided between conventional and Islamic.

Preview of 2023 and conclusion

The size of the global Islamic finance industry is expected to reach US$5.9 trillion by 2026 compared with US$4 trillion in 2021, driven by Islamic banks and Sukuk, according to the 2022 Islamic Finance Development Index issued by Refinitiv. Assets of the Islamic finance sector in Kuwait amounted to US$153 billion in 2021, ranking the country sixth in the world. The value of the assets of the Islamic banking sector in Kuwait amounted to US$134 billion in 2021, which ranked Kuwait fifth in the world. The growth of Islamic banking assets in Kuwait is expected to exceed that of conventional peers in the medium term.

Kyrgyzstan set to be regional center for Islamic economics and finance in Central Asia

Daniyar Mamyrov *is the partner at Sarakhsi Islamic Finance and Legal Advisory. He can be contacted at dmamyrov@sarakhsi.org.*

Islamic banking has only 1.5% of the total market share of the overall banking sector in Kyrgyzstan. The National Bank of the Kyrgyz Republic (NBKR) is the main state regulator that is responsible for the strategic actions regarding the introduction and development of the Islamic banking industry in Kyrgyzstan. In 2017, NBKR issued a strategic document for the period of 2018–22 whereby it was defined a targeted indicator for Islamic banking industry development: the share of Islamic banking assets in Kyrgyzstan should grow 5% by 2022 from the current 1.5%.

Kyrgyzstan's banking and finance sector is made up of commercial banks, state commercial banks and non-banking financial–credit organizations, including a specialized financial–credit organization (FCCU OJSC), microfinance companies, microcredit companies, microcredit agencies, credit unions and exchange offices.

Numerically, the industry, as of the 22nd March 2022, consists of 23 commercial banks; three of them being state-owned. Five major banks hold 55% of banking sector assets and 49% of the credit portfolio. All banking institutions in Kyrgyzstan are universal in terms of the type of business.

Regarding information on non-banking financial–credit organizations, there are nine microfinance companies, 87 microcredit companies, 38 microcredit agencies, one specialized FCCU OJSC, 92 credit unions and 387 exchange offices.

Islamic banking

In order to provide much-needed competition, NBKR allowed conventional banks and conventional non-banking financial institutions to operate in the framework of Islamic windows. According to NBKR, as of October 2022, the following financial institutions are operating on Islamic principles in the territory of the Kyrgyz Republic:

1. One pilot Islamic bank: EcoIslamicBank.
2. Three Islamic windows of conventional banks: Bakai Bank, JSC Kyrgyzstan, OJSC Aiyl Bank.
3. Two Islamic windows of a conventional microcredit company: MBulak MCC, MCC Baylik Finance.
4. Four fully-fledged Islamic microcredit companies: Kompanion-Invest MCC, Ak Karzhi MCC, Bereket Finance MCC and Ak Nur Capital MCC.
5. One Islamic leasing company: CJSC Leasing Company Kyrgyzstan.

Review of 2022

In 2022, NBKR planned to increase indicators reflecting the availability of banking services; increase the level of financial intermediation of the banking system, ie banking system assets should account for 55 % of GDP; and to also increase the share of financing based on Islamic principles up to 5% of the total loan portfolio in the banking sector.

According to 2022 year-end results, OJSC Aiyl Bank received a license to conduct Islamic banking operations through an Islamic window in national and/or foreign currency. The board of NBKR adopted the corresponding decision on the 26th October. At present, OJSC Aiyl Bank is taking appropriate measures to prepare for the practical launch of the Islamic window in its activities. Financing on Islamic principles will be provided by OJSC Aiyl Bank for various purposes: consumer, business development, construction, agricultural development, the purchase of cars, motor vehicles and equipment.

The two conventional banks, OJSC RSK Bank and OJSC Aiyl Bank, have been conducting preparatory work to obtain a license from NBKR according to Kyrgyzstan's Cabinet of Ministers's approved project, 'Lending to the Agro-Industrial Complex', as the government has allocated KGS10 billion (US$118.44 million) for the purpose of issuance of soft loans and financing, including in accordance with Islamic principles. It is also reported that the Shariah board and the Department of Islamic Finance have started operations in OJSC RSK Bank.

These banks will be able to carry out financing operations in accordance with Islamic principles, including within the framework of the 'Lending to the Agro-Industrial Complex' project, after obtaining the appropriate license from NBKR.

The main goal of the project 'Lending to the Agro-Industrial Complex' is to support the agricultural sector in the development of agro-industrial clusters (clusters of milk, meat, fish, sugar, chicken eggs, vegetables, fruits, vegetable oil, cotton, cereals and legumes) through concessional lending and financing and leasing including through Islamic principles.

Preview of 2023

2023 promises to be more interesting in the Islamic finance sector since the Ministry of Economy and Commerce has proposed a draft concept for the development of the Islamic economic platform in Kyrgyzstan for 2022–27.

The document was developed to ensure accelerated growth through the achievement of sustainable and efficient functioning of the Islamic economy and finance sectors. According to this concept, the population of Kyrgyzstan will be able to receive services and products in a competitive environment.

The draft concept sets out a purpose and vision for the formation of Kyrgyzstan as a regional center for Islamic economics and finance for the 2022–27 period, and declares the place and role of the Islamic economy as an alternative model in the development of Kyrgyzstan and forms a meaningful framework for improving the regulatory legal framework.

Conclusion

To achieve this goal, the government of Kyrgyzstan plans to solve the following tasks:

- systemization of Islamic economics and finance
- raising awareness and training
- systemization, identification of the Halal industry and assistance in further development
- strengthening the Islamic financial sector
- launch of Islamic securities (Sukuk) and Islamic insurance (Takaful)
- strengthening the management system in accordance with Shariah
- systemization and development of Islamic mortgage housing finance
- systemization and assistance to the development of Islamic leasing
- promoting the growth of the Islamic fashion industry and Halal tourism, and
- systemization of the state Zakat and Waqf system.

The Lebanese banking sector: A total collapse or hidden restructuring?

Emile Khoury-Hélou *is the senior associate at ASAR Al Ruwayeh and Partners – Kuwait. He can be contacted at ekh@scplaw.info.*

Lebanon, a country with a modest area of 10,452 square kilometers, had the most prestigious conventional banking services and innovative products for many decades and a very promising Islamic banking sector since 1996. Lebanese banks were acting as the Middle East's banking center with high liquidity and reputed security. During this golden period, Lebanon was among only seven countries in the world where the value of the stock markets increased in 2008 ('Lebanon 'immune' to financial crisis'. BBC News. 5th December 2008 (Archived from the original on the 30th September 2009. Retrieved on the 28th January 2010)).

However, in the third quarter of 2019, and as a result of the Lebanese liquidity crisis, due mainly to corruption of the political class, as well as recent events, the banks operating in Lebanon, whether conventional or Islamic, have been fundamentally and materially destabilized. The liquidity crisis that banks have had to face is mainly due to the Lebanese government's inability to repay its debts, most of which are debts to Lebanese banks.

It is pertinent to note that conventional banks lent the Lebanese government through treasury bills and eurobonds, while Islamic banks, which recently joined conventional banks, concluded commodity Murabahah arrangements with the central bank to avoid Riba (interest).

Review of 2022

During 2021–22, and due to the liquidity crisis, the banks literally stopped all banking services and only focused on the process of reimbursing clients' deposits. At present, Lebanon is a cash-based economy with self-financing as banks no longer grant loans (retail or corporate), checks are not accepted for deposit and all letters of credit/letters of guarantee/banker cheques, prior to issuance, must be fully covered by cash collateral.

It goes without saying that the process of reimbursing clients' deposits was and continues to be anarchic and illegal. The Lebanese economy is dollarized and most of the Lebanese have accounts in US dollars. After the crisis, there were three exchange rates for the US dollar; an official rate approved by the central bank, a rate for banks and a black market rate, which is the rate adopted in business.

The banks have run out of dollar banknotes and are refunding their clients in Lebanese pounds, although the deposits are in US dollars, at the rate of LBP8,000 for each US dollar, while the black market rate is five times higher. In such an event, the banks have adopted a haircut without any legal frame.

Further, banks have limited the withdrawal of funds from accounts, whether in Lebanese pounds or rarely in US dollars, which has also aggravated the situation and resulted in a complete loss of trust in Lebanese banks. The World Bank defined the economic crisis in Lebanon as one of the worst in the world since the 19th century (Lebanon - World Bank).

Preview of 2023

We believe that this strategy, which in appearance gives the impression of a total collapse of the banking sector in Lebanon, is in a way a cleanup of the banks' balance sheets in anticipation of any possible restructuring.

In the absence of a legal framework to establish any capital control and/or haircut, as well as in the absence of any national economic and political strategy to restore the Lebanese economy and recover the confidence in the banking sector, we believe that during 2023 the banks will maintain their strategy in order to reduce their liabilities and have a positive balance sheet for any possible restructuring of the banking sector.

We believe further that the restructuring of the banking sector will be based on mergers between banks or the acquisition of several small and medium-sized banks by larger banks. However, merger and/or acquisition transactions under current laws are not feasible for many reasons, including financial and tax reasons.

If we take for example the transfer of the real estate portfolio from one bank to another bank, in the context of a merger transaction, the acquirer would have to pay taxes based on the real value of this portfolio, which represents a considerable amount.

Thus, a special law should be enacted to deal with all fiscal and financial problems and make possible and inexpensive any merger between banks and to encourage investors to participate in the restructuring process and inject fresh funds.

That said, the promulgation of a special law for the restructuring of the banking sector as well as laws and regulations to revive the economy in Lebanon need political stability, which unfortunately is not currently available. The Lebanese cabinet resigned following the legislative elections of May 2022, and a new cabinet has not yet been formed, the mandate of the president of the Republic ended on the 31st October 2022 and the parliament does not seem able to elect a new president.

Consequently, the crisis will continue to develop and the banks will continue with their strategy for the upcoming period outside of any legal framework where in the end, depositors will be the only victims of political corruption and discords.

Conclusion

This uncertainty about the future of banks in Lebanon is faced by a strong desire of the private sector to move forward and not fall under the pressure of the crisis and the corruption of the political class, and the hope is very high in this regard given the experienced human resources available in the market, the willingness of investors to inject new funds and the determination of the Lebanese people to meet the challenges.

Digitalization and Islamic finance: A key thrust in Malaysia's agenda to accelerate recovery of and path to achieving sustainable and inclusive economy

Siew Suet Ming *is the chief rating officer at RAM Ratings. She can be contacted at suetming@ram.com.my.*

Malaysia has formulated various policies to drive its economic development and transformation toward becoming a high-income and sustainable nation. The Shared Prosperity Vision 2030, which was introduced in 2019, has underscored Islamic finance and an Islamic digital economy as among the key economic growth activities. The country weathered the unprecedented COVID-19 pandemic, transitioned into endemicity and is now moving toward a recovery phase, with digitalization as the key thrust.

Review of 2022

The COVID-19 era emphasized the need to pivot toward and capitalise on the digital trend for a broader market reach and to spur economic growth, with 2022 witnessing a number of initiatives laid out by financial regulators to stimulate economic recovery post-pandemic. The common theme in those initiatives is the strategic role that Islamic finance plays in accelerating the move toward a sustainable and inclusive economy via digitalization and financial technology (fintech).

As a start, in January 2022, Bank Negara Malaysia (BNM) launched the Financial Sector Blueprint 2022–2026, a five-year strategic plan that reinforces Malaysia's proposition to serve as an international gateway for Islamic finance, augmenting the Malaysia International Islamic Financial Centre agenda.

To support the recovery of economic activities and reduce inflationary pressures, BNM has increased the overnight policy rate thrice this year, from 1.75% in March to 2.5% in September. In addition, the Malaysia Islamic Overnight Rate or MYOR-i — the first global transaction-based Islamic benchmark — was introduced in March 2022 as a risk-free alternative reference rate for overnight ringgit interbank placements. BNM also debuted the Standardised Base Rate as a main reference rate for new retail floating-rate loans and financing facilities, to replace the Base Rate, effective August 2022.

In April 2022, BNM awarded digital banking licenses to five successful consortia, two of which are Islamic digital banks. Meanwhile, Bank Islam launched 'Be U', its digital banking application, in July 2022. To create a holistic digitalized financial sector ecosystem, the central bank released a discussion paper on the Licensing Framework for Digital Insurers and Takaful Operators early this year.

Digital insurance licences are expected to be issued by 2023. Digital licenses recognize the importance of digitalization and fintech — with Islamic finance playing a primary role — as key enablers to reach wider market segments to bolster greater financial inclusion and economic resilience. Fintech in Malaysia has grown exponentially, with 33% of the world's fintech companies headquartered in the country.

In June 2022, the Malaysian Takaful Association launched the Value-based Intermediation for Takaful (VBIT) Roadmap — an extension of the VBIT Framework and the earlier VBI for the banking sector introduced in 2021 and 2017 respectively — to help unlock the Takaful industry's potential for achieving a sustainable finance ecosystem while increasing Malaysia's Takaful industry penetration to more than 19%. According to the 2021 VBI Full Report, Islamic banks intermediated RM146.6 billion (US$31.56 billion) in VBI-related financing, investments and deposits, and distributed RM65.2 million (US$14.04 million) using Islamic social finance instruments such as Zakat, Waqf and Sadaqah between 2020 and 2021.

The Islamic money market in Malaysia marched ahead with the introduction of the first ESG Islamic repurchase agreement in June 2022, inked by CIMB Islamic and Standard Chartered Saadiq. This landmark deal will contribute toward the development of the Islamic repurchase market, which registered a volume of RM39.4 billion (US$8.48 billion) in 2021, and encourage more sustainability practices that are aligned with the VBI agenda.

Malaysia remains a dominant global Islamic capital market (ICM) hub, with Sukuk issuance making up 45% (US$51.1 billion) of global issuance, supported by a healthy growth of outstanding Sukuk which accounted for US$262.8 billion or 38% of global outstanding Sukuk as at the third quarter of 2022.

Meanwhile, Shariah compliant securities had a market capitalization of RM1.15 trillion (US$247.58 billion) as at May 2022. The ICM has already developed an encouraging track record in the sustainable finance space, evident from sovereign and corporate sustainability Sukuk issuances.

For the first half of 2022, RM2.48 billion (US$533.92 million) of SRI Sukuk comprising green, sustainability (combination of green and social) and sustainability-linked (proceeds for general purposes and not solely for green, social, sustainable purposes, but linked to sustainability performance targets) Sukuk were issued.

The launch of the SRI-linked Sukuk Framework by Securities Commission Malaysia (SC) in June 2022 will further drive the national agenda to help businesses, especially those in high-emitting industries, to transition into a low-carbon or net-zero carbon economy. SRI funds also charted impressive growth, with 60 such funds issued as at the 13th September 2022 (31st December 2021: 39), of which 20 (33%) are Islamic SRI funds.

Bursa Malaysia's upcoming Voluntary Carbon Market, coupled with SC's anticipated SRI Taxonomy Framework — to be launched by end of 2022 — will encourage a larger capital allocation for sustainable initiatives. The framework will shape transparency on climate risk management and transition financing, broaden stakeholder engagements and nurture continued ESG-aligned economic activities and sustainability adoption.

Preview of 2023

The outlook for global growth next year will be more challenging amid high inflation and intensified geopolitical tensions, which have fueled global food and energy security concerns. These challenges, in addition to global recession fears, will pose hurdles to green and climate transitions.

Nonetheless, the strategic national initiatives put in place are expected to enable the Islamic finance industry in Malaysia to weather the shocks. The game changer for the industry in 2023 will continue to center on the following three themes, as in 2022, but with more concerted efforts from different stakeholders:

- **Digitalization** by embedding fintech into the current financial system.
- **Sustainability** by embracing sustainable, responsible and impactful investing and financing approaches in line with the VBI, ESG and SDGs.
- **Inclusivity** via the integration of social finance within the core offerings of Islamic financial institutions.

Conclusion

All sectors of the industry are making big strides toward achieving a prosperous, sustainable and inclusive economy while leveraging on digitalization and fintech to escalate progress. This is a testament of Malaysia's leadership in advancing Islamic finance, parallel to modern trends and global agendas, without compromising Shariah requirements.

Islamic finance transition from pandemic to endemic

Dr Aishath Muneeza *is the chairperson of the Shariah Advisory Council, Capital Market Development Authority, Maldives. She can be contacted at muneeza.aishath@gmail.com.*

2022 was seen as a year where the economy of the Maldives is recovering from the COVID-19 pandemic effects. For Islamic finance, not much progress was seen. However, there were a few significant developments that happened which have brought some remarkable positive changes to the Islamic finance industry in the Maldives. The most notable example in this regard was the implementation of the first Shariah governance framework by the Maldives Monetary Authority (MMA). The Maldives was ranked 10th in the Islamic Finance Development Indicator published in the latest 2021 Islamic finance growth indicator report by Refinitiv. In the report, the Maldives was ranked third for Takaful, while for corporate social responsibility activities and corporate governance it was ranked fourth.

Review of 2022

In 2021, the Shariah Council of the MMA constituted four members and in the same year, the MMA finalized the Shariah Governance Framework for Islamic financial institutions regulated by the MMA which came into effect on the 1st January 2022.

In 2022, the International Islamic Trade Finance Corporation signed a US$189 million trade financing agreement with the State Trading Organization — the corporation's largest syndicated Murabahah trade financing agreement. The Maldives Member Country Partnership Strategy (2022–2025) titled 'A Resilient and Sustainable Life, and Diversified Economy for Maldivians' was launched by Ibrahim Ameer, the minister of finance of the Maldives and Dr Muhammad Al Jasser, the president of the IsDB on the sidelines of the 47th Annual Meeting of the IsDB Group in Sharm El-Sheikh, Egypt.

The Housing Development Finance Corporation (HDFC) celebrated its 10th year of Islamic operation via HDFC Amna. New listing rules were published by the Maldives Stock Exchange in 2022 effective from the 30th June 2022 and Chapter 3C deals with Sukuk listing. One major change found is in Rule 36(c), where it states that all Sukuk listed on the official list shall be tradeable in the secondary market.

In Rule 1.4.3 of the old Listing Rules effective on the 21st December 2015, it was stated that: "Notwithstanding anything in the rules to the contrary, the requirements of the Sukuk agreement shall be complied with all Sukuk transactions conducted through the exchange. Sukuk may be exchanged off market in so far as provided in the Sukuk agreements."

Amana Takaful Maldives, the only fully-fledged Takaful company operating in the Maldives under a conventional insurance license, recorded the highest dividend ever in the history of the company in 2022.

Preview of 2023

2023 is anticipated to be a hopeful year for Islamic finance. SME Development Finance Corporation will operationalize its Islamic window and offer Shariah compliant solutions for nano, small, micro and medium enterprises. Further, the Capital Market Development Authority will revise the regulation on registration of Shariah advisors to increase the number of Shariah advisors.

In order to strengthen the Islamic finance industry in the Maldives, it is hoped that the MMA would consider implementing a separate legal framework to regulate Takaful in the Maldives as currently there is no separate Takaful license issued in the Maldives and the same legal framework applicable to conventional insurance is also applied to Takaful.

Apart from this, there is also a need for the MMA to regulate General Takaful and Family Takaful separately by providing clear guidelines to do so. With Industry 4.0, there is also a need for the Maldives to introduce modes of financing options by introducing crowdfunding for Gen Z and Gen Alpha to participate actively in the finance industry.

Further, in 2023, there is potential for Islamic financial institutions to adopt technology to provide convenience to customers and create synergy between Islamic commercial finance and Islamic social finance while paving the way for financial inclusion. Islamic wealth management is also a concept that could be promoted in society where Islamic financial institutions could provide for retail customers who are in need of such services.

Conclusion

In 2022, though the Maldives did not see major developments in Islamic finance, it is good to see the Maldives further developing the existing infrastructure for Islamic finance by adopting good governance practices to achieve Shariah compliance. It is hoped that in 2023, the Maldives will strive toward taking Islamic finance to new heights.

A glimpse of the Islamic banking and finance industry in Mauritania

***Vatimetou Mokhtar Maouloud** is a PhD holder in Islamic banking and finance from the International Islamic University of Malaysia and is currently a lecturer at the University of Nouakchott-Mauritania. She can be contacted at fatismed95@yahoo.fr.*

In reference to Mauritania, the banking sector represents roughly 88% of the overall financial system. Banking sector assets are estimated to be US$2 billion (Amendola et al., 2016). There are only 18 banks, four of which are Islamic. The banks' headquarters are in the capital city, Nouakchott. Most conventional banks have Islamic windows to offer Islamic products. The financial inclusion rate is only about 22% of the entire population, below the average of 42% in African countries (World Bank, 2021). An estimated 40% of funds circulate in the 'grey market', which is outside the banks.

Review of 2022

The development of Islamic banking and finance in Mauritania has been divided into three stages. The first appearance of the term 'Islamic banks' dates back to September 1985 with the establishment of the Al-Baraka Islamic Bank of Mauritania, known as 'BAMIS' and owned by Al Baraka Banking Group (50%), private individuals (40%) and the Central Bank of Mauritania (CBM) (10%). However, the bank faced many challenges in terms of management and governance, which ultimately led to the withdrawal of foreign investors.

After this unprecedented and unsuccessful experience, no license was given to an Islamic bank for nearly 20 years in spite of the Mauritanian financial market development. At the beginning of the millennium, there were timid attempts to reintroduce Islamic banking products and services by means of specialized channels such as windows, etc. Some local banks attempted this during the year 2000; to name a few, the popular bank of Mauritania, Bank Muamelat Sahiha, and then the Islamic Bank of Mauritania, and reached its climax at the end of the same decade with some banks launching a network of agencies specializing in Islamic products and transactions.

In the second stage, a group of conventional banks was in the process of converting to Islamic banks. The National Bank of Mauritania announced the gradual transformation of its operations in compliance with the rules of principles of Shariah. Despite allocating a building for Islamic transactions and opening new branches in the Islamic way, the idea did not materialize; hence, the bank is still in a traditional state from a legal point of view and in a state of double-standards practicality.

In the third stage comes a group of conventional banks with Islamic windows that provide Islamic products, mainly Murabahah. Since Mauritania is a 100% Muslim country, most, if not all, conventional banks have Islamic windows to attract customers, particularly those with religious barriers that impede them from using non-Islamic products and services.

Preview of 2023

Despite all this, Mauritania still lacks a real Islamic banking system, as the traditional usurious nature dominates its banks in terms of practice. From a legal perspective, Islamic banks still suffer from the problem of harmonization with the CBM because

it does not provide any specific rules for Islamic banks. The lack of a regulatory and legislative framework caused the failure and bankruptcy of some Islamic banks in Mauritania, with only four Islamic banks remaining from the original number of eight.

Another main challenge of Islamic finance is the absence of a formula that organizes Islamic windows or even verifies their actual existence at conventional banks. Islamic banks are not competitive compared with conventional banks due to their poor and relatively recent experience. The lack of trained employees on the mechanisms of Islamic finance and the absence of long-term investments are serious obstacles to the development of the Islamic banking and finance industry. Lack of transparency and the absence or weakness of Shariah supervision inside Islamic banks have led to a lack of trust among the public.

On the other hand, the CBM has become a member of the Malaysian stock exchange, which gives it access to the commodity exchange platform that supports issuance operations. The national currency, Ouguiya, was also accepted among the currencies traded on the stock exchange of this market. The Sukuk of the public treasury have been strengthened as they exceeded more than MRU1.5 billion (US$39.42 million), representing more than 22% of the total public bonds.

Conclusion

In 2018, a new banking law was introduced to set the regulatory framework for Islamic finance, establishing a Shariah compliance committee, an Islamic refinancing system and Sukuk for the public treasury. However, this new regulation has not yet been applied in reality. The CBM will implement this regulation with technical assistance from the IMF (IMF, 2021).

The CBM should organize the relationship with Islamic banks regarding refinancing rules. Moreover, every Islamic bank or branch should have a Shariah supervisory board to ensure the conformity of transactions to Shariah and enhance financial transparency. Shariah training for the practitioners of Islamic banks is also indispensable to preserve the principles of Islamic finance. Diversifying products and expanding the outreach of Islamic banks are necessary to meet Mauritanians' needs.

2022 the year of Sukuk revolution and the beginning of insurance in Morocco

Douhaoui Mohamed Amine *is the deputy director at Al Akhdar Bank. He can be contacted at med.amine.douhaoui@gmail.com.*

Since its formal launch, the Moroccan Islamic banks have gone into business without insurance to cover their clients and their financing against risks, in particular in the event of death. The customers of Islamic banks had signed up to obligations to conclude Takaful insurance contracts as soon as this came into force. The Moroccan Islamic banks ran into some difficulties after their customers had died in the absence of insurance, causing the bank to deal with the beneficiaries to the point of canceling the profits and paying only the value of the property capital.

Review of 2022

After spending approximately nine months amending the Moroccan Insurance Code to comply with the requirements and objectives of Shariah law, the Second Chamber of the Parliament approved a draft legislation amending the insurance law.

The products of Islamic finance in Morocco, including Takaful insurance, are supervised by the Shariah committee on participatory financing of the Higher Scientific Council, Bank Al-Maghrib and the Moroccan Capital Market Authority and the Authority for the Control of Insurance and Social Reserves.

As a qualitative addition, Takaful insurance is seen as a further step in the process of achieving a participatory funding system in Morocco.

Furthermore, after many adaptations, Takaful insurance will contribute to allow Morocco to match the pace of the Islamic financial system by covering the risks. Indeed, the licensed products provide coverage for both default and death risks.

In addition, the Takaful insurance will be able — although delayed — to address the problem of risks to the benefit of the clients and the banks, and it will enable the growth of participatory banks.

Also, the funding of the participatory banks, which currently is approximately MAD6.5 billion (US$605.04 million), needs to be covered.

As well as death and disability cover, Family Takaful insurance products provide education, Hajj and pension insurance products, whereas general insurance products cover business risks.

Takaful insurance is seen as one of the most important social protection schemes in the Islamic economy, mainly because of its contribution to achieve a kind of fairness between the segments of society, in particular the most vulnerable ones who are unable, within their capacities, to deal with all potential risks.

The emergence of Islamic finance in Morocco was done under difficult conditions, and the chapters are still continuing. The stakeholders of this financing were awaiting the completion of the regulatory path toward insurance in order to be able to minimize risks and to work within an organized circle.

The completion of the Islamic finance system entails the addition of the remaining financial and other investment products that are in accordance with Shariah law, such as securities investment funds and Takaful investment funds.

In addition to these problems, there are significant pressures which lead to the breakdown of the system. There is resistance from a so-called 'lobby' that advocates its stance, and "some conventional banks have gotten greedy ... and indeed there is some competition to Islamic finance".

Takaful insurance is expected to contribute to the recovery of Islamic finance, and to motivate people to really embrace the services of participatory banks, as observers see that participation is still low compared to the expectations which accompanied the commitment to this type of financing in Morocco.

While some observers attribute the lower participation rate to the new nature of the project, some believe that take-up of participatory banking remained low.

The insurance services in Morocco cover about 3.5%, compared with 14% in a country like South Africa, and this represents promising opportunities to increase the level of financial inclusion in Morocco, and offers a lot of scope for the development of Takaful insurance.

Preview of 2023

In a series of ministerial decrees published last summer in the official bulletin, the Ministry of Finance specified the technical procedures for issuing and operating several types of Sukuk products, other than Sukuk Ijarah, the only type of Sukuk admitted until now.

A real revolution went unnoticed this summer. It is about widening the scope of the possible in terms of issuing Sukuk with now the possibility of issuing Sukuk Murabahah, Sukuk Salam, Sukuk Istisnah or even Sukuk Mudarabah, Sukuk Wakalah and Sukuk Musharakah by market operators.

For each of these new categories, the legislator provides specific conditions of issue and negotiation published in the official bulletin.

Previously, only Sukuk Ijarah, for which an inauguration took place in 2018, were possible in Morocco. Sukuk certificates are of paramount importance for the development of participatory finance in Morocco. They will allow the various players in crowdfunding to manage their liquidity and optimize the management of their resources. These certificates serve as a reference for financial players in general and crowdfunding players in particular.

For the Kingdom, this instrument makes it possible to diversify its sources of financing and broaden its base of investors. It is also at the moment the one and only issuer in this market with the placement in October 2018 of MAD1 billion (US$93.08 million)-worth of Sukuk Ijarah.

Conclusion

Despite all these problems, the launch of Islamic finance in Morocco remains important and successful and requires a greater investment effort for banks, especially in the aspect of communication and awareness to reduce the dissemination of misleading data that makes an important segment of citizens reluctant to deal with this experience.

Fintech innovation can enable financial inclusion for Muslims in New Zealand

Paul Apolony *is the general manager of Australia and NZ at SaaS cloud banking and financial services platform Mambu. He can be contacted at paul.apolony@mambu.com.*

With a diverse but tiny total population of fewer than five million people, New Zealand has a Muslim population of just over 1% of the total population (around 62,000 people) (*Massey University NZ, Ethnic Profile, 2018 Census data*).

With such a small Muslim market, Islamic businesses have been hesitant to launch in New Zealand, with the business case a challenge to envisage. And while the Muslim population is growing, it is not growing quickly, with the latest projections estimating that the number of Kiwi Muslims will reach 3% by 2050 *('4 facts about religion in NZ', Pew Research Center, March 2019)*.

However, alongside this slow-growing Muslim population, there is also a global shift toward more ethical banking and financial solutions, particularly among younger demographics, which may increase the number of people — not necessarily Muslims — seeking Islamic finance solutions in New Zealand.

There are currently very limited financing options for Muslims in New Zealand to access. None of the major banks offer Islamic products and it is not seen as a priority area by the Ministry of Finance of New Zealand.

Consequently, it has been reported that many Kiwi Muslims are either unable to purchase a home, as they cannot access Shariah compliant lending services in New Zealand, or they must choose financing that goes against their faith.

Review of 2022

While the New Zealand fintech industry overall has experienced a significant boom in recent years [jumping 15 places to be ranked No 30 in the Global Fintech Rankings 2021*(IT Brief NZ: 'Fintech innovation exploding, NZ jumps in rankings', June 2021)*], Islamic fintech innovation has been somewhat slower off the mark. Despite this, there are a few innovative Islamic finance solutions available in New Zealand today.

June 2022 saw the launch of the New Zealand chapter of the **National Zakat Foundation**, which uses the latest fintech solutions to offer a modern Zakat calculation and collection service, as well as transparent local distribution, helping to meet the need for financial assistance being experienced by many due to rising inflation.

EFCO — a financial services company that has offered a limited range of Islamic financial services to Kiwi Muslims since 2016 and received formal Shariah certification in 2021 — has continued to grow, and now offers its customers a range of Shariah compliant Murabahah products for personal and business needs.

Amanah Ethical is another organization offering Islamic finance to Kiwi Muslims, with its Shariah compliant investment products and a Shariah compliant retirement savings account.

Across the ditch, 2022's big news was the launch of Australia's first Islamic bank, **Islamic Bank Australia** (IBA), which was granted 'Restricted Authorised Deposit-taking Institution' authorization in July 2022. IBA hopes to be authorized as an (unrestricted) 'Authorised Deposit-taking Institution' and be fully operational by 2024.

IBA's CEO, Dean Gillespie, has expressed a desire for the bank to eventually service New Zealand as well.

"Even though we are based in Australia currently, we receive many enquiries from Muslims in New Zealand," explains Gillespie. "Much like in Australia up until now, New Zealanders of the Islamic faith have been forced to bank with conventional banks, meaning they have had to take out loans that carry interest in order to buy a home. "While we are obviously focused on Australia for the next couple of years, we absolutely want to help Muslims in New Zealand, as well as other countries; we are building our tech-stack so that we can potentially lift-and-shift into other markets easily. Ideally, I'd like to see us enter New Zealand within the next five years, after we have obtained the necessary regulatory approvals."

Preview of 2023

Considering New Zealand's growing reputation as an innovative fintech hub, the country appears to be ripe for disruption when it comes to Islamic fintech and finance.

Worldwide, there has been a significant surge in new fintech innovation providing Shariah compliant financial services, with the global Shariah compliant fintech industry estimated to be worth upwards of **US$128 billion by 2025**. With the cost-effectiveness and agility enabled by next-gen technologies, there is no reason that New Zealand cannot also see an increase in activity in the Islamic fintech space.

Conclusion

New Zealand has been deemed a challenging prospect for Islamic fintechs and financial service providers to date. However, as New Zealand's Muslim population grows, and the **case for ethical finance becomes more mainstream**, there is a growing opportunity for Islamic fintechs and tech-enabled financial service providers to capture a consumer market that is crying out for culturally-appropriate financial services.

By capitalizing on application programming interface-first, cloud-native and composable technology, Islamic providers can attract Kiwi Muslims with personalized, Shariah compliant products and services delivered where, when and how consumers want them.

Onto higher grounds...

Hajara Adeola *is CEO/managing director of Lotus Capital. She can be contacted at hajara.adeola@lotuscapitallimited.com.*

The year 2022 had many positives for the Nigerian Islamic finance industry, as players and regulators strived to ensure that the industry continued its growth trajectory. The achievements are commendable in light of the difficult macroeconomic terrain that characterized most of the year. If this level of vigor continues in 2023 which is also an election year, the industry would definitely prove its resilience against the typical headwinds of a developing market.

Review of 2022

During the year, the Nigerian economy experienced a shift in investment appetite as investors fled risky assets for safety in the wake of the spike in fixed income yields. This was as a result of rising inflation, which was stirred in part by the global impact of Russia's invasion of Ukraine, as well as significant exchange rate pressure caused by historically low oil-export earnings. The impact of these events reverberated in the financial system, which compelled the Central Bank of Nigeria to raise the benchmark lending rate thrice within a five-month period, to the highest level in 16 years.

A few state governments which anticipated rising rates at the beginning of the year were quick to enter the debt markets and successfully issued Sukuk in the first quarter. This came on the heels of the fourth sovereign issuance which closed only after the repricing of its rental rate to compensate a demanding market.

A wider variety of issuers followed, led by the largest housing fund in sub-Saharan Africa with a US$46.5 million second series Sukuk offer. This quasi-government entity plans to deploy the proceeds from the issue toward the funding of its social housing initiative of developing 500,000 affordable homes for low-income households in Nigeria. The market also saw the return of the country's first private commodities exchange to the market in September to complete the second tranche of its Shariah compliant commercial paper, alongside a fresh Shariah compliant input financing note to facilitate the supply of inputs such as fertilizers and chemicals to farmers.

Other corporations commenced private Sukuk raises, mainly for company expansion, working capital management and real estate development. Notably, in October, Taj Bank issued the first Sukuk offer by a non-interest bank, using the Mudarabah structure, which is testament to the increased adoption of non-interest models to address corporate financing needs. However, as the market became tighter, the yields on each of these instruments equally continued to rise.

The non-interest fund management sector also received a boost with the launch of new Shariah compliant mutual funds, which increased the size of investments to US$116.3 million during the year. Islamic fund managers are also developing new products to increase their investments in sectors like real estate and commodities, to assist investors with hedging against inflation and exchange rate fluctuations.

In the Takaful sector, one of the prominent players, Noor Takaful, successfully raised additional capital through a rights issue and private placement to expand its business. This also demonstrated investor confidence in the segment.

In addition, industry operators and associations were active in creating broader awareness about the industry. The Non-interest Finance Institutions Association of Nigeria hosted the general public to quarterly webinars with discussions by seasoned Islamic finance professionals, and also met with various stakeholders including regulators.

The regulators also played their part in their bid to ensure stability and standardization of the industry. To foster understanding of Shariah interpretations on Islamic products and services, the Financial Regulation Advisory Council of Experts of the Central Bank of Nigeria issued a compendium of resolutions that provide guidance on Islamic finance contracts including Istisnah and forward Ijarah. The Securities and Exchange Commission (SEC) also issued an exposure draft rule to regulate Shariah advisors in the capital market. A major highlight within the draft is the registration requirement of individual and corporate Shariah advisors, as well as the specification of their qualifications.

Preview of 2023

Although the non-interest finance industry has thrived in spite of the current macroeconomic upheavals, it is essential for market players to become more creative in developing products that provide investors with some protection against the headwinds, competitive returns and cutting-edge technology.

In an election year like 2023, business activities are likely to slow down until its conclusion in the second quarter of the year. However, more corporates are expected to rely on Sukuk to meet their funding requirements, including the federal government of Nigeria, despite the uptick in yields.

Conclusion

The development of more liquidity management instruments for the industry should take center stage, as well as the continuation of sensitization activities to improve public knowledge and awareness on Islamic finance.

Finally, to improve Shariah governance and strengthen the market, the SEC should conclude on its framework for Shariah advisors.

Offshore centers remain in favor notwithstanding unstable economic conditions

Manuela Belmontes *is a partner in the corporate and finance teams at Maples and Calder, the Maples Group's law firm in Dubai. She can be contacted at manuela.belmontes@maples.com.*

The rating agencies have reported a decline in Islamic capital market activity from the core Sukuk-issuing nations, due in part to higher oil prices and interest rates. Notwithstanding unstable economic conditions, offshore centers, such as the Cayman Islands, Ireland, Jersey and Luxembourg, continue to be regularly used for Sukuk issuances and investment structures enabling the expansion of Islamic finance.

Review of 2022

Global public Sukuk issuances in 2022, although much fewer than 2021, continued to feature SPVs formed in the popular offshore centers of the Cayman Islands and Luxembourg.

The year was peppered with global issuances focused on sustainability. At the start of 2022, we witnessed debut issuances of sustainable Sukuk by two Saudi banks. Both Saudi National Bank and Riyad Bank issued US$750 million-worth of sustainable Sukuk using Cayman Islands SPVs, with the latter's issue reported as the first global additional Tier 1 capital sustainable Sukuk issue and the first Sukuk to be listed on the Irish Stock Exchange's Sustainable Bond Market.

In March, Infracorp listed US$900 million in exchangeable hybrid (perpetual) Sukuk on the London Stock Exchange also through a Cayman Islands issuer, being the first green Sukuk issuance by a Bahraini entity.

Dubai Islamic Bank (DIB) returned to the markets in November (after a benchmark issue in February) with a debut sustainable Sukuk issue, being the first sustainable Sukuk by a UAE financial institution. DIB's US$750 million Sukuk facility was issued through a Cayman Islands company, DIB Sukuk, set up as an orphan entity, with its shares held on charitable trust by an independent trust company, MaplesFS.

Other notable issues in 2022, all using a Cayman Islands issuing vehicle, include:

(i) Out of the UAE, First Abu Dhabi Bank's US$500 million Sukuk in March, the Sharjah Finance Department's US$750 million Sukuk in April and the Private Development of HE Sheikh Mohammed Bin Khalid Al Nahyan's US$300 million Sukuk in September

(ii) Out of Kuwait, Boubyan Bank's US$500 million Sukuk in April, and

(iii) Out of Saudi, Dar Al-Arkan's US$400 million Sukuk in July.

Two international organizations made significant issuances this year, both with a Luxembourg-domiciled issuer. The IsDB issued in both the second and fourth quarters (US$1.6 billion and US$1 billion respectively) and the International Islamic Liquidity Management Corporation reissued a total of US$1.12 billion in short-term Sukuk in different tenors.

Preview of 2023

Sukuk issuances in 2023 will certainly continue to utilize the reliable offshore centers. A focus on ESG will remain and we will surely see further developments in this area involving such popular financial centers, as was the case in October 2022 when the Dubai Sustainable Finance Working Group, formed in the Dubai International Financial Centre, launched an ESG tool to assist companies with measuring their ESG practices and achievements against global standards, including the UN's SDGs.

Offshore centers will continue to be favored for the establishment of Islamic investment funds and investment funding structures. GCC-based Shariah compliant financial institutions are creating master Islamic investment platforms for the quick deployment of capital into various asset classes. Prominent fund managers from the US and elsewhere are setting up similar structures to attract investment into their funds by large Islamic investors. These structures typically utilize companies and/or partnerships formed in offshore centers, such as the Cayman Islands and Jersey, which are internationally recognized for their effective regulatory regimes, sophisticated business environment and tax efficiency.

Fitch estimated in early 2022 that the growth of Islamic mutual funds had outpaced that of the global mutual fund industry, a trend that is expected to continue. Offshore centers, such as Jersey, Luxembourg, Ireland and the Cayman Islands are reliable domiciles for Shariah compliant funds. Fitch's report mentioned Jersey's flourishing Islamic exchange-traded fund market and Luxembourg's wide Islamic fund base (reported as the leading Islamic fund center in the EU).

Ireland and the Cayman Islands will carry on as popular Islamic fund domiciles. IFN recently reported on four Irish Islamic funds managed by Principal Islamic being introduced to the Brunei market, and a new Cayman Islands Asia Pacific-focused Shariah compliant fund formed from a partnership between Sidra Capital and BlackRock.

The sustained growth in Islamic fintech will continue to be fueled by the offshore centers. Cayman Islands and British Virgin Islands companies are often used as holding companies for investment into fintech start-ups. Their flexible corporate regimes enable the smooth completion of seed and Series A/B funding rounds, with their tested judiciaries providing additional comfort to global investors. Further east, Labuan continues to expand into Islamic fintech with the recent launch of Labuan Financial Services Authority's Islamic Digital Asset Centre initiative.

In order to grow Islamic finance, further collaboration is required across industries for its promotion, such as we have witnessed recently in the Maldives where First National Finance and Amana Takaful signed an MoU agreeing to, among other things, facilitate the structuring of Islamic finance instruments and create greater awareness of Islamic finance.

Conclusion

Amid this uncertain economic environment, one thing can be certain — the continued reliance on offshore centers for the structuring of Islamic products, enhancing the growth of Islamic finance in the years to come.

This article is intended to provide only general information for the clients and professional contacts of the legal services division of the Maples Group. It does not purport to be comprehensive or to render legal advice.

Omani Islamic finance industry in 2023: From strong to stronger still

Asad Qayyum *is a partner at MAQ Legal. He can be contacted at asad.qayyum@MAQLegal.com.*

Changes to the Omani regulatory landscape, possible Islamic bank consolidations, new Islamic REITs and changes to Takaful are expected to herald in a new age of Islamic finance in the country.

The pace at which Islamic finance has grown in Oman has been widely celebrated with Islamic banks and windows accounting for US$14.7 billion or 16% of total assets held by the country's banking sector as at the end of June 2022. This achievement is mirrored in terms of Shariah compliant transactions which achieved an impressive 11% growth for the same period resulting in Islamic banking accounting for almost 20% of all banking transactions in Oman. Total deposits in Islamic banks have also increased by 12.8% by June 2022, rounding to a figure of OMR4.7 billion (US$12.17 billion). These growth figures are particularly impressive given that this has been achieved in only 13 years and despite the global slowdown caused by the COVID-19 pandemic and other economic and geopolitical factors.

Review of 2022

Overall, 2022 was a good year in terms of growth of the Omani Islamic finance sector. The year saw the government of Oman return to the capital markets when it issued an oversubscribed OMR150 million (US$388.54 million) Sukuk in the domestic market and then later reach out to the international capital markets to buy back US$1.75 billion of its bonds and Sukuk.

The year also saw the establishment of the Oman Investment Authority and Oman Telecommunications Company-backed Pearl Real Estate Investment Fund (REIF) and the launch of its IPO on the Muscat Stock Exchange; the IPO is expected to be the first and the largest such issuance by an Islamic REIF and should create liquidity within the Islamic capital market in Oman.

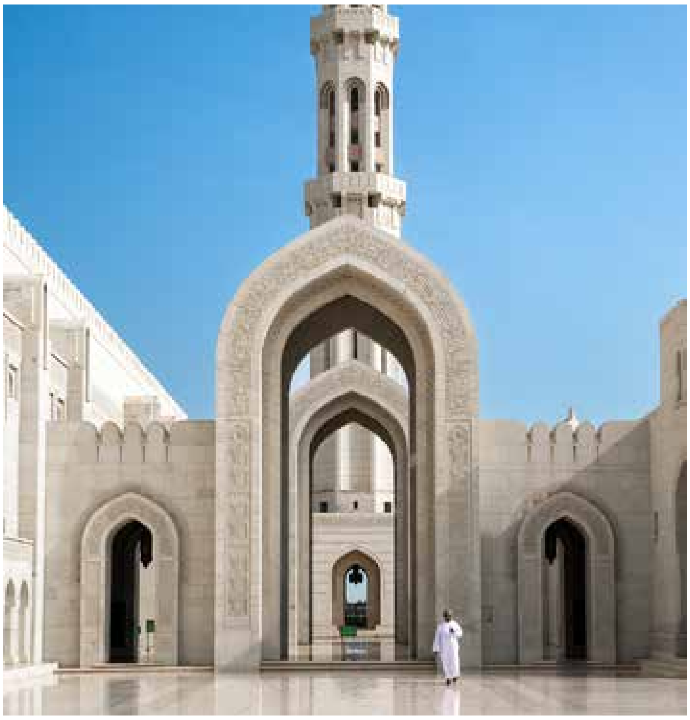
The tail-end of 2021 had seen the Omani Capital Market Authority (CMA) introduce its Rules for Crowdfunding Platforms (Decision No E/153/2021) which culminated in the CMA granting two crowdfunding licenses in Oman; first, to Malaysia-based EthisX and shortly thereafter to Dubai-based Beehive Technologies.

As part of the crowdfunding initiative, Beehive executed a tie-up with Ahli Bank through which the bank is expected to provide Islamic finance opportunities to the SME sector in Oman. Among the transactions highlighted above and numerous other project financings, the most notable perhaps has been news of the Sohar International Bank and Bank Nizwa merger, the commencement of due diligence of which was approved by the Central Bank of Oman (CBO) earlier in 2022.

As the Islamic finance sector awaits the outcome of the Pearl REIF IPO and the anticipated merger between Bank Nizwa and Sohar International Bank, there is a lot more to look forward to in 2023.

Preview of 2023

The CBO announced in October 2022 that it is introducing several Shariah banking initiatives which should address long-standing



liquidity concerns of Islamic banks and windows. According to reports, these initiatives include the launch of infrastructure through which Shariah compliant liquidity products are being developed and will be offered to the market. These products are expected to include the offering of remunerative deposit accounts and the highly anticipated treasury Sukuk.

The CBO is also undertaking a review of Oman's Islamic Banking Regulatory Framework which has served the industry well and has provided the launching pad through which its current growth has been achieved. The review is expected to focus on and enhance the Shariah governance framework for Islamic banks and windows and strengthen their external Shariah audit guidelines.

The review of the sector also involves the CBO possibly introducing guidelines to address ambiguities between the treatment of Islamic banks and windows post their merger with a conventional lender. Another important initiative of the CBO includes the development and introduction of a framework for rate of return calculation on Islamic banking deposits, accounts and products in line with international best practices.

The CMA is currently finalizing new regulations relating to the issuance of bonds and Sukuk. These regulations are expected to introduce international best practices within Oman and also set out a framework for the issuance of green/ESG capital market instruments. This initiative by the CMA is in addition to regulations relating to crypto assets it is expected to introduce by the end of 2022 to the beginning of 2023.

Conclusion

2023 promises to be an exciting year for Omani Islamic finance with all eyes firmly poised, for the time being, on the completion of the Pearl REIF, the potential merger of Sohar International Bank and Bank Nizwa and the introduction of new products and regulations by the CBO and the CMA.

Islamic finance of Pakistan: On a growing path

***Muhammad Shoaib Ibrahim** is CEO and managing director of First Habib Modaraba. He can be contacted at shoaib@habibmodaraba.com.*

Globally, Islamic finance has been performing well despite the shock from the COVID-19 pandemic and unstable and depressed economic scenarios. Driven by the pandemic, digitalization and fintech collaboration are enabling the industry to innovate, connecting issuers and investors to have better access to existing and new markets more efficiently. Likewise, in Pakistan, the Islamic finance services industry is also progressing in a gradual manner on a sound footing with proficient processes and efficient delivery channels.

The economy of Pakistan did well in 2021–22 by attaining GDP growth of 5.97%. This strong economy growth is due to the sound monetary and fiscal stimulus measures initiated by the State Bank of Pakistan (SBP) and the government of Pakistan. However, this growth created issues of high trade and a current account deficit due to a high import bill.

Presently, the economy of Pakistan is going through a difficult time due to some external and internal shocks. The recent floods due to torrential rain have also impacted growth and disrupted several crops including the supply chain. The economy of Pakistan has been affected by widespread destruction due to extreme flooding.

Review of 2022

Despite various challenges on the economic front, the Islamic finance services industry has maintained growth momentum. Islamic banking is the major contributor for the overall Islamic finance services industry and the Islamic banking sector has made remarkable progress by widening its footprint in the banking system of the country.

Currently, 22 Islamic banking institutions comprising five fully-fledged Islamic banks and 17 conventional banks with stand-alone Islamic banking branches are offering Shariah compliant products and services through a wide network of branches across Pakistan.

According to an SBP Islamic banking bulletin, the asset size of Islamic banking witnessed an all-time high and crossed the six-trillion mark to reach PKR6.78 trillion (US$30.05 billion) on a year-on-year basis, while assets and deposits of Islamic banking were up by 41.4% and 27.1% respectively. The market share of Islamic banking in assets and deposits in the overall banking industry stood at 19.5% and 20.5% respectively.

On the banking side, the SBP has invited applications for the issuance of a license for digital banking and as reported, around 20 applications have been received by the central bank. It is expected that Islamic banks may also show their interest in the said segment to further increase outreach at the country level.

Faysal Bank is also very close to completing the requirements of converting into a fully-fledged Islamic bank. The said conversion into

Islamic banking will add one more bank as a fully-fledged Islamic bank in Pakistan. Recently, U Microfinance Bank received a license as an Islamic microfinance bank. This new entry will also add great value to address the issue of financial inclusion by catering to the Shariah-based banking needs at small levels.

In the second quarter of 2022, the Federal Shariat Court (FSC) of Pakistan had given its decision for the elimination of Riba (interest) from the entire banking system. The court gave five years to implement an interest-free banking system in Pakistan. It ordered that such a system should be implemented in Pakistan by the 31st December 2027.

Subsequently, the SBP and the National Bank of Pakistan filed an appeal to review the decision since the five-year period is very short to implement the decision. However, later, the finance minister ordered both the banks to withdraw and review their applications and start working to implement the FSC's verdict.

The Islamic Finance Department (IFD) of the Securities and Exchange Commission of Pakistan (SECP) is also playing a vibrant role in the promotion of Islamic finance within the non-banking and capital market segment. The IFD provides dedicated support to lead the efforts of the SECP for further progress of Islamic finance within the regulated sectors. Within the non-banking segments such as Takaful companies, Islamic mutual funds, Islamic REITs and Modarabas, there has also been a satisfactory performance despite the often difficult operating environment due to the pandemic.

However, there was some uneasy movement in the Modaraba sector since the government of Pakistan withdrew the tax exemption from the said sector last year. Due to this, a few Modaraba companies have decided to exit from the said sector. According to the 2022 yearbook of the SECP, out of the total listed securities, 258 securities are available on the stock exchange as Shariah compliant securities.

Within the mutual fund industry, around 110 mutual funds and 30 pension funds are managing Shariah compliant assets of a combined value of around PKR475 billion (US$2.11 billion). Furthermore, 22 General Takaful and seven Family Takaful companies are also operating in the Pakistani market.

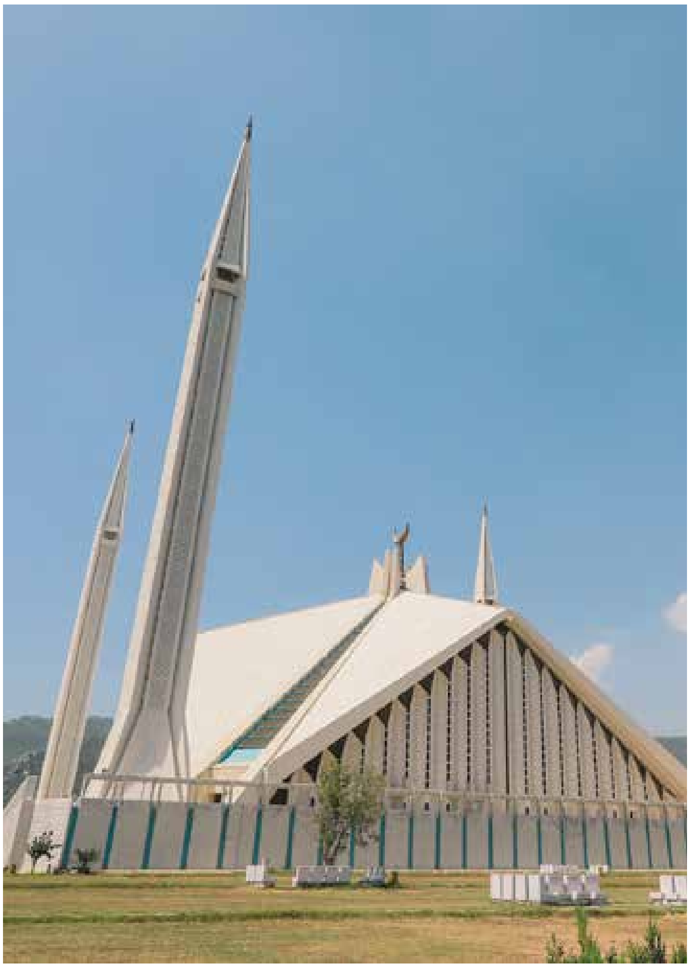
A landmark decision was also made by the IFD in July 2022 by setting up a committee for the promotion of Islamic finance within the non-banking segment. The committee is mandated to identify bottlenecks and opportunities for the development of Islamic finance within non-bank Islamic financial institutions.

The committee comprises representatives of Islamic asset management, Islamic banks, Modarabas, the capital market and academia. The committee will concentrate and focus on the existing regulatory framework, study of international best practices, greater financial inclusion, product innovations and implementation of Islamic financial standards.

Preview of 2023

If we look at the statistics of the last five years, Islamic banking has made remarkable progress. The overall asset size has almost increased three times and the branch network has approximately doubled compared with the figures of December 2017.

Likewise, there are significant increases in the asset size of Islamic mutual funds, Modarabas, Islamic REITs and Takaful companies. It shows that the pace of growth of Islamic finance overall in the Pakistani market is accelerating due to better awareness, appropriate regulation and efficient processes which ultimately push and encourage the demand for Islamic products and services.



The remarkable decision of the FSC for the conversion of the entire banking industry into Shariah compliant banking by 2027 will further boost the Islamic finance services industry with the fastest growth in the said segment. Furthermore, in the advent of digital banking in Pakistan, this also motivates new market players in Islamic banking to engage in new segments through digital platforms to reach out to the masses and offer Islamic products and services.

Conclusion

The achievements made by the Islamic finance services industry in Pakistan during the last few years are remarkable. The SBP and SECP have full determination and commitment to establish a robust and sustainable Islamic financial system which can reach out to the masses. Islamic fintech and digital banking are important segments to address the issue of financial inclusion in Pakistan.

Many other emerging economies have used the digital route for further expansion and Pakistan is no different. Pakistan has the second-largest Muslim population in the world with very low banking penetration. The government of Pakistan is fully determined to increase financial inclusion through promoting Islamic finance, as part of the National Financial Inclusion Strategy.

Moreover, capacity-building and raising awareness in the masses are critical to the progress of Islamic banking and finance which also needs concentrated efforts by the government and market players. There should be a consensus among all stakeholders with a well-defined roadmap which fosters the further growth of Islamic financing while ensuring the creation of value in attaining an equitable and sustainable Islamic financial system. The Islamic finance services industry is on the path to fully capitalizing on the potential of Islamic finance to reach out to the unserved and underserved segments of society.

Revisiting Islamic finance in the Philippines

Rafael A Morales *is the managing partner of Morales & Justiniano. He can be contacted at ramorales@primuslex.com.*

Undoubtedly, the COVID-19 pandemic disrupted the development of Islamic finance in the Philippines in 2022, particularly in stalling the aimed-for expansion of market players in the Islamic banking sector. The anticipated entry of foreign Islamic banks into the country failed to materialize as business expansion outside one's jurisdiction was generally at a standstill. However, the Bangko Sentral ng Pilipinas (BSP) was unfazed as it continued to issue circulars that provide further guidelines in the area of Islamic banking, not to mention the BSP's entry into cooperative arrangements with pertinent institutions in the field.

Review of 2022

2022 welcomed the signing of an MoU between the BSP and AAOIFI as part of the BSP's program to promote Islamic banking in the Philippines.

The MoU envisages the adoption of relevant AAOIFI standards by the local banking and finance industry, as well as AAOIFI's cooperation in capacity-building and technical matters.

The MoU dovetails the associate membership of the BSP in the IFSB which issues global prudential standards for the Islamic financial services industry not only in banking but also in capital markets and insurance.

After months of consultation with the local banking sector, the BSP issued Circular No 1139 (Series of 2022) titled 'Guidelines for Reporting Islamic and Finance Transactions/Arrangements'.

Under the circular, the rules on reporting and standards of conduct prescribed by the BSP for conventional banks are made applicable to Islamic banks as well as Islamic banking units of conventional banks. The circular clarifies that the funds of the Islamic banking units must not be invested in or commingled with the other funds of the conventional bank of which the Islamic banking unit is a part.

Equally important, Islamic banks and Islamic banking units must always consider "the substance and economic effects of their transactions (rather than their form)" albeit the guidelines on the treatment of specific accounts unique to Islamic banking operations must be considered.

Earlier, the BSP issued Circular No 1134 (Series of 2022) which confirms that Islamic banks can accept foreign currency deposits in accordance with Shariah principles. For this purpose, an Islamic bank must apply to the BSP for a 'Type C license' that will allow it to establish an Expanded Foreign Currency Deposit Unit (EFCDU) in which the deposits will be made. Deposits in the EFCDU will bear no return. Savings and current deposits may be based on Qard (loan) or Wadiah (safe custody) while time deposits may be structured as commodity Murabahah (Tawarruq).

One other significant development is the mandate to the Philippine Deposit Insurance Corporation (PDIC) under its amended legislative charter to "establish separate insurance funds and insurance arrangements or Takaful that take into consideration the peculiar characteristics of Islamic banks".

Equally important is the issuance by the Bureau of Internal Revenue of more detailed guidelines on the tax treatment of Islamic banking arrangements. This is in line with the tax-neutrality principle whereby Islamic banking transactions are not to be taxed more heavily or more lightly than their conventional counterparts.

Preview of 2023

2023 will see renewed efforts on the part of the BSP to welcome the entry of foreign Islamic banks into the Philippine banking sector. In addition, the BSP will continue to provide enabling guidelines on the operations of Islamic banking.

Further, 2023 will witness the implementation of the mandate of the PDIC to provide insurance cover to Islamic banking products and arrangements classified as deposits by the BSP. Hopefully, there will be more clarity on the long-awaited issuance of sovereign Sukuk.

Conclusion

As the pandemic continues to subside, the momentum toward a viable Islamic banking and finance system will hopefully be rekindled. Currently, there is only one Islamic bank in the Philippines. Before long, more participants are expected to enter the system, as the BSP is ready for this development.

Qatar delivers on its World Cup promise

Amjad Hussain *is a partner at K&L Gates. He can be contacted at Amjad.Hussain@klgates.com.*

The Islamic finance industry in Qatar has played a pivotal role in the development of the infrastructure which was key for FIFA World Cup Qatar 2022. It is estimated that over US$250 billion was spent by Qatar in the 12 years from the award of the right to host the World Cup to the closing ceremony of the event.

The World Cup has acted as a catalyst to fast-track the development of the country, its institutions, hard and soft infrastructure and, most importantly, its people. Qatar is now one of the leading economies in the region and among the largest exporters of liquefied natural gas (LNG) globally.

With the rapid growth of the economy over the last few decades, we have seen the creation, growth and maturity of a number of Islamic institutions. The development of local talent, improvements in the quality of life and the growth outlook of Qatar's leadership have been key drivers in creating a vibrant banking sector which is set to continue to grow and expand within and outside of the State.

Review of 2022

Following the easing of restrictions around COVID-19, Qatar has witnessed an uptick in economic activity over the last year. Although much of this activity was anticipated, due to the remaining World Cup commitments of the State, the wider geopolitical situation in Europe has accelerated the pace of growth in the local economy and the speed of investment activities across the region and outside. The demand for Qatar's LNG across the globe has led to a windfall in the short term and is likely to lead to a continued increase in revenue due to the medium-term increase in production capacity in the country.

Companies listed on the Qatar Stock Exchange reported a net profit of QAR39.41 billion (US$10.74 billion) for the first nine months of the year, which is an increase of 19.29% from the same time in 2021. A number of the Islamic banks made significant contributions to this outcome. Qatar Islamic Bank reported net profits of QAR2.85 billion (US$776.82 million), the net profit of Masraf Al Rayan (MAR) amounted to QAR1.36 billion (US$370.69 million) and Lesha Bank, formally known as Qatar First Bank, disclosed net profits of QAR63.6 million (US$17.34 million).

Islamic banks in Qatar have focused upon continuing to benefit from the digital transformation that was forced upon the sector as a result of the pandemic. Many of the Islamic banks in Qatar have been recognized for their digital offering in the region. For example, QIIB was awarded the 'Best Islamic Digital Bank in the Year of 2022' following the expansion of its presence in the digital sphere by being the first bank in Qatar to issue virtual debit cards through both online banking and mobile app platforms.

A global trend which has received greater attention this year in Qatar is a more focused approach to creating platforms for investors who are looking for higher levels of ESG. There are obvious synergies between Islamic banking and ESG principles and we are seeing Islamic banks now take advantage of these to attract a wider range of investors.

Earlier this year, MAR launched the first Shariah compliant green deposit and Islamic sustainable financing framework in Qatar. The initiative behind this framework aligns well with the Qatar National Vision 2030 as it presents ESG-related funding opportunities to investors and the proceeds generated would finance projects that fulfill ESG objectives, such as SME financing and renewable energy.

Preview of 2023

According to the World Bank, Qatar's economy is expected to grow by 4.9% in 2023. This will, in large part, be propelled by the increased pricing for and demand in LNG, a commodity which Qatar will continue to produce for many years.

Given that the capex and opex costs associated with the World Cup are now in the rear view mirror, Qatar is likely to focus on the National Vision 2030 goals. These include creating a sustainable knowledge-based economy. To do so, Qatar will continue to drive forward initiatives that are aimed at diversifying the economy, promoting the SME sectors and increasing foreign direct investments.

Islamic banks in Qatar will continue to play a key role in financing the ongoing projects that are being planned for the country and in providing access to liquidity to foreign investors who come to town. The Free Zones Authority is working hard to increase the growth of the light industrial sector and this will require bank support.

Additionally, the Investment Promotion Agency of Qatar continues to provide a whole range of support across most sectors to investors who are looking to establish a presence in Qatar. Many financial institutions have already benefited from the incentives that are on offer. This trend is likely to continue in 2023.

Conclusion

Qatar has delivered upon its promise of hosting the World Cup and now enters into a phase where there will be greater focus on domestic needs and the National Vision 2030. This will see the acceleration of the diversification from hydrocarbons while attracting foreign investors. The Islamic banking benefit is likely to be a net beneficiary in the new world order of Qatar as financing procured on an Islamic and ESG-friendly basis continues to grow.

New geopolitical situation promotes Islamic finance development in Russia

Dr Ilyas Zaripov *is a member of the Participating Banking Working Group of the Central Bank of the Russian Federation and the head of the Islamic Finance Educational Program of the Plekhanov Russian University of Economics. He can be contacted at iliyas888@yandex.ru.*

Sanctions from western countries were the triggers pushing Russian governmental authorities and corporations to urgently search for alternatives of financial recourse and business partners. The stable and prosperous partners of Russia are traditionally countries in the Middle East and Southern Asia preferring Shariah compliant transactions.

The absence of Islamic finance legislation was the main obstacle in the development of the Islamic finance and Halal industry in Russia. Thus, legislators have tried to solve this problem by creating two drafts of the law devoted to Islamic finance in Russia.

Big Russian state banks and banking corporations including Sberbank and Vnesheconombank continued to enlarge their Islamic product line within Russia and abroad, offering more Shariah compliant instruments for their customers

Review of 2022

The main event in 2022 was the introduction of new federal laws devoted to Islamic finance and full-scale public discussions of these laws among Islamic finance experts, policymakers, legislators and regulators. According to these laws, new legal entities — institutions for participating (Islamic) financings (IPFs) — will be formed, which will have special licenses from the Central Bank of the Russian Federation to carry out all Shariah compliant transactions. The drafts of the laws include a number of terms and provisions of Shariah compliant products and instruments adapted to the current Russian legislation. Islamic financial resources should be separate from conventional funds and the mechanism of special Islamic accounts is one of the points of the draft.

According to the drafts of the laws, within the first two years, the IPFs will work only in four Muslim regions (Tatarstan, Bashkiria, Dagestan and Chechnya). If positive results are seen in these pilot regions, the laws will be expanded to other regions of Russia.

The biggest state bank in Russia, Sberbank, has become a flagship of Islamic finance in Russia. Sberbank has 12 Halal products in its pipeline, including Mudarabah, Musharakah and Ijarah. A special department of Islamic (participating) finance, established about six years ago, has now implemented projects in Islamic financing for a total amount of more than RUB20 billion (US$329.43 million). This department of Sberbank is now ready to sign agreements with customers for an additional RUB20 billion. At the end of the year, Sberbank opened its first Islamic window in Kazan City, the regional capital of Tatarstan.

The volume of transactions with new Islamic stock indices which were invented by the Moscow Exchange in the previous year continued to grow; however, there are still no signs of any Takaful operations development in Russia in the last three years.

The Islamic finance educational programs by leading Russian universities have attracted many students and qualified teachers from different countries and regions. Islamic finance soon will be included in many educational profiles of universities for economists and legal advisors.

Preview of 2023

Several factors will impact the development of Islamic finance in Russia. On one hand, it depends on the general terms and quality of the economic trends in Russia which will hinge on the geopolitical situation as well as the proper monetary and fiscal policy response of the Russian authorities.

On the other hand, Islamic finance has become very attractive in Russia as a real alternative to the western usurious model due to its stable and low-risk activity that attracts conservative private and corporate investors. Adopting the special laws about institutions of Islamic (participating) financing will create a stable legislative base and promote the growing demand for Islamic financial instruments in Russia in 2023.

Traditional and new forums dedicated to Islamic finance will be held in Moscow and Muslim regions which will increase participation from Islamic finance experts worldwide.

The increasing number of Islamic finance educational programs in Moscow and other regions will become more specialized and advanced with more variants and options for students of different levels to participate in. The number of joint programs of several foreign universities will continue to attract respectable international Islamic organizations such as the IsDB or AAOIFI as constant partners.

One of the growing trends in Russia will be the production of Halal food and beverages especially grain, corn and meat. Russia will enlarge its global share as a Halal food exporter to other countries.

Conclusion

New laws devoted to Islamic finance will provide a strong and transparent legal framework for Islamic financial institutions in Russia, with equal conditions for SMEs and big banking corporations. The Central Bank of the Russian Federation together with the Russian government will continue their efforts in promoting the steady development of Islamic finance in Russia by attracting local and foreign customers, investors and partners.

The laws together with the new policy of the Russian authorities give us hope for the acceleration of Islamic finance growth and for better demand among the Russian community and businesses.

Joint efforts of the Muslim Ummah together with state authorities and business units can overcome obstacles that slow down the development of the Shariah compliant sector.

Islamic financial institutions should use the current situation in Russia and their growing attractiveness to highlight their advantages such as their stability and double-risk control to occupy more business share in the national financial market. They need to intensify the popularization of Islamic finance and Halal industry advantages to attract more customers, hence enlarging the volume of transactions and replacing western partners and investments in Russian companies and financial institutions.

Saudi Arabia to witness further growth in 2023

Nabil A Issa is the managing partner of the Middle East offices at King & Spalding. He can be contacted at nissa@kslaw.com.

Osama Zaid is an associate at the Law Office of Mohammed Al-Ammar (in cooperation with King & Spalding) in Riyadh in the Corporate, Finance and Investments practice. He can be contacted at ozaid@kslaw.com.

One of the most attractive markets for Islamic finance investors is the Kingdom of Saudi Arabia (the Kingdom), which is taking further significant legislative, social and economic steps to encourage regional and international investments. The Saudi Arabian regulatory and legislative system continued to witness substantial reforms in 2022 and reflect the new-found confidence Saudi Arabia is experiencing from attracting some of the leading investment groups for the first time. These reforms were aimed at the social and economic domains in a serious endeavor to diversify from oil, but also to take advantage of the high oil prices currently. The Kingdom is achieving record revenues in terms of both its oil and non-oil revenues, with a 43% increase in the first half compared with the first half of 2021.

Global investors have made investments or announced planned investments including GLD, Reef Technology, BlackRock, EIG, Western Union, Air Products and many others. The Kingdom has also continued to invest through the Public Investment Fund in various sectors, including real estate, aviation and entertainment, while announcing the newly established Saudi Downtown Company, RIA Airlines and Savvy Games Group. Most recently, the Kingdom's Crown Prince and Prime Minister Mohammed Salman Al-Saud announced the 'National Gaming and Esports Strategy' under which the Kingdom had invested in global video gaming companies.

Review of 2022

The Kingdom has issued many laws and regulations and in the following we highlight some examples in the Saudi market in 2022:

Evidence Law: The Ministry of Justice has launched the new Evidence Law (the Evidence Law) which came into an effect on the 8th July 2022. The Evidence Law applies to both civil and commercial dealings by allowing the parties to agree on specific means and procedures of evidence on different subject matters or agreements. The Evidence Law aims to limit judges' discretion in determining matters relating to evidence. Most importantly, the Evidence Law allows and recognizes electronic and digital evidence submissions with the same statutory recognition as written evidence. Thus, parties will have more confidence when entering into contractual arrangements governed by Saudi Arabian law.

Companies' Law: The new Saudi Companies Law (the Companies' Law) has been enacted by Royal Decree (M/132) dated the 30th June 2022, which will come into full force in January 2023. The Companies' Law introduced a new form of companies called the simple joint stock companies, which enjoy the flexibility to accommodate increases in share capital to facilitate the needs of entrepreneurs and venture capital investments.

Additionally, the Companies' Law permits companies to consider as binding the shareholders' agreements, joint venture agreements and/or family charters to regulate such companies' governance system as long as they do not conflict with the principles of the Companies Law, articles of association or bylaws of such companies. Furthermore, the Companies' Law allows the split of a company into two or more companies as per the terms of its articles of association or bylaws.

The Companies' Law has set out three categories of punishable actions related to white-collar crimes including gross felonies and violations. In general, gross felonies are related to the willful misconduct by a board member, corporate director, auditor or trustee of a company for their interest directly or indirectly, and punishments can reach up to SAR5 million (US$1.33 million) and five years' imprisonment.

Judicial Costs Law: Historically, the judicial system has provided litigants with free-of-charge adjudication and litigation services. Recently, the Kingdom issued the Judicial Costs Law (the Costs Law) to regulate the expenses of lawsuits filed before Saudi Arabian commercial courts to raise the efficiency of the judicial system, promote alternative dispute resolution mechanisms and reduce frivolous claims. The Costs Law came into force on the 17th March 2022.

The general principle of judicial costs on lawsuits is that it will equal 5% of the value of a lawsuit, with a cap of SAR1 million (US$266,295). Nevertheless, the Saudi Arabian courts will allow lawsuits to be brought before them and make their decisions, whether such costs have been paid or not. Certain lawsuits have been exempted from the Costs Law including (on a high-level) administrative and bankruptcy cases and personal status and criminal lawsuits.

Preview of 2023

The level of confidence only continues to grow in the Kingdom at all levels. Saudi Arabia is further investing in sports with further excitement following the World Cup victory over Argentina and Shariah compliant entertainment options. The Kingdom appears to continue investing in various sectors in evident efforts to diversify the economy and create new sectors within the Kingdom. Sponsored by a strong economy, the country will continue to invest in traditional sectors such as real estate including the giga-projects such as Neom, Alula and Red Sea and through entities such as Roshn, Al-Akaria and others.

There is a continuing focus on middle-income housing to ensure the average Saudi national can acquire a home. The Kingdom is also aiming to invest in new arenas such as e-gaming, automotive, circular economy, entertainment, tourism and aviation. We also expect noticeable capital market activity, including IPOs and other financial products, during 2023. Despite the growth, we also are seeing parties taking advantage of the new Saudi Bankruptcy Law and are often using Shariah compliant instruments in relation to a successful restructuring.

Conclusion

Despite the global economic slowdown and increased interest rates in 2022, the Kingdom saw considerable economic activity and continued to carry out multiple legal and social reforms in the last year to enhance the market attractiveness for foreign investments. We expect the Kingdom to witness further growth in 2023.

2022 the year of revival for the Islamic financial ecosystem in Senegal

***Sonhibou Diop** is the head of the Shariah Department at Islamic Bank of Senegal. He can be contacted at souhaibou14@gmail.com.*

Most experts have shown in their research the timidity of the development of Islamic finance on the African continent and its small share of the total Islamic financial industry balance sheet — less than 2%. As for the West African Economic and Monetary Union (WAEMU), member countries have lagged because they have long been reluctant to adopt Islamic instruments to finance the real economy. Secularism has been pointed out as the real cause of this hesitation. Indeed, some regulators, such as the Central Bank of West African States (BCEAO), have repeatedly stated that they did not want to create a legal or regulatory dualism situation that could be interpreted as discriminating against one system or another.

This situation persisted until 2018 when the BCEAO published the first regulatory texts to govern Islamic finance activity within banks and microfinance institutions. Therefore, we note that before the appearance of these texts in 2018, Islamic financial activity was regularly exercised in Senegal only by the Islamic Bank of Senegal as a derogation, and by PAMECAS which exercised it without any regulatory framework.

Thus, 2018 was a turning point for the Islamic financial industry in West Africa and Senegal in particular. One year later, more precisely in October 2019, the first regulatory texts related to Takaful insurance operations to be applicable in the member countries of the Inter-African Conference on Insurance Markets were issued.

Review of 2022

The premises of an appropriate regulatory framework and the interest shown by the Senegalese population have aroused the interest of stakeholders, which could explain the proliferation of training courses leading to a diploma and certification in Islamic finance at the higher education level. However, this dynamic has been hampered by the COVID-19 pandemic which has slowed down all public, para-public and private activities. In this sense, we consider 2022 as a genuine revival of Islamic financial activity in Senegal.

We should recall that, until the end of 2021, the private segment of the Senegalese financial system was characterized mainly by the presence of four players which offered Islamic financial instruments: Islamic Bank of Senegal, the only bank in Senegal with an exclusively Islamic offer; Coris Bank, the only conventional bank in Senegal with an Islamic window; PAMECAS, the only conventional microfinance institution with an Islamic department; and SEN Assurance, the only conventional insurance company that offers Takaful. This trend seemed to have ended in 2022.

January 2022 marked the entry of a new player that stands as the first exclusively Islamic microfinance institution in Senegal — Taysir Finance launched its activities with a share capital of XOF1 billion (US$1.59 million).

Another major event that revolutionized the WAEMU financial market was the issuance in April of a Senegalese corporate Sukuk facility of XOF300 billion (US$476.36 million) and the raising of XOF330 billion (US$523.99 million) over a period of three subscription days, a coverage rate of 110%. This amount is, so far, the most significant amount ever raised in the WAEMU financial market, all instruments included. The transaction was also the first Sukuk to be arranged and structured entirely by national players, namely the Islamic Bank of Senegal, with the support of its international partners such as the Islamic Corporation for the Development of the Private Sector through its subsidiary called Tayba Titrisation based in Senegal.

The initiative of the Regional Council of Public Savings and Financial Markets of the WAEMU deserves to be mentioned. The council has worked on a regulatory framework development dedicated to the Islamic capital market within the regional financial market, the texts of which were submitted for validation on the 24th February 2022 in Togo.

Aware of the need to harmonize Islamic finance practices in the subregion, the BCEAO has proceeded, during 2021/2022, to circularize two draft texts to the players: a prudential and accounting system reserved for Islamic financial products and model contracts that the relevant institutions will be invited to use after they are validated.

Private initiatives have not been left behind either. Indeed, in addition to its advanced Takaful project, the Islamic Bank of Senegal has also publicly communicated on the imminent opening of an exclusively Islamic microfinance institution of which it will be the majority shareholder, and which will be the best capitalized Islamic microfinance institution in Senegal with a share capital of XOF5 billion (US$7.94 million).

Two other conventional banks operating in Senegal, BSIC and BNDE, have also announced their Islamic windows' imminent opening in 2022. It is important to remember that all these upcoming institutions already have their Shariah boards in accordance with the 2018 regulations.

In addition, training courses in Islamic finance and awareness workshops on the potential and development of the Islamic financial industry in Senegal have multiplied. Besides the 7th edition of the West African Islamic Finance Forum organized in Dakar in May 2022 by the African Institute of Islamic Finance (AIIF) and the holding of a scientific symposium on Waqf by the High Authority of Waqf (HAW) organized in the same period, investors and enthusiasts of Islamic finance have also been made aware of the two Islamic mutual funds promoted by the CGF-Bourse. The latter has initiated open days to popularize its products, and one of these days was dedicated to Islamic finance.

Preview of 2023

All the aforementioned initiatives have made 2022 a year of revival and would strongly contribute to opening beautiful perspectives for the 2023 horizon. We hope that with the implementation of all the ongoing projects, a true Islamic financial ecosystem, with all these compartments included, will be created in Senegal. Thus, establishing that ecosystem requires the existence of Islamic financial players in all areas to facilitate their interaction and ensure full Islamic compliance of their operations. Therefore, we believe it is necessary to pursue the initiatives undertaken for the establishment by 2023 of Islamic financial institutions such as microfinance isntitutions, Takaful insurance companies, banks and/or windows, mutual funds and such.

However, 2023 should also allow regulators to improve the regulatory framework to cover all aspects of Islamic finance. We should note that Islamic financial system players in Senegal and the WAEMU are experiencing many difficulties in developing their activities due to incomplete regulatory, fiscal and legal frameworks.

Conclusion

To conclude, we recall that establishing and developing the Islamic financial ecosystem in Senegal have two main challenges. First, we note the refinancing problem that remains despite the coexistence of several Islamic financial institutions that can promote the development of an Islamic interbank market; the BCEAO should necessarily consider creating an Islamic refinancing window. This refinancing window is the only guarantee for the compliance of the resources of Islamic financial institutions.

The second challenge that should be addressed to enable Islamic financial institutions to compete on an equal footing with their conventional counterparts is the taxation of products. Thus, the issue of the legal qualification of Islamic financial contracts in sales or financing contracts arises, and would not only allow the rules to be applied in the case of litigation but also, above all, to propose an adapted tax framework.

Singapore's Islamic finance: Growing demand and work in progress

Muhammad Ridhwaan Radzi *is the managing director of Islamic Finance Singapore, Singapore and* ***Zul Hakim Jumat*** *is a researcher at the Center for Islamic Economics and Finance, College of Islamic Studies, Hamad Bin Khalifa University, Qatar. They can be contacted at ridhwaan@islamicfinancesg.com and zhakim@hbku.edu.qa respectively.*

Singapore scored a major economic boost when, despite the gloomy global economic forecast, it hosted the first Formula One car race after three years of COVID-19 pandemic lockdowns. Even though the racing event was important for the economy, the most conspicuous development was that the world's largest hedge fund, Bridgewater Associates, and Asia's second-richest person, Mukesh Ambani, moved to the city-state. Many family offices found Singapore as the best place to seek economic refuge in these uncertain times, with Russia and Ukraine at war; Europe coping with the energy crisis; the UK dealing with political turmoil; the US struggling with inflation; China's economic slowdown; and Hong Kong experiencing an exodus of finance professionals.

These developments secured Singapore's position as the top financial center in Asia and the third best in the world, according to the Global Financial Centres Index for 2022. All in all, the Singaporean government remains cautious and prudent in its economic and trade policies. This is evident in the Monetary Authority of Singapore (MAS)'s fourth tightening of its monetary policy in the last 12 months and the SG$1.5 billion (US$1.06 billion) support package to combat the running near 14-year high inflation, as well as its efforts toward supply-chain resilience via bilateral cooperation, such as the Singapore–Australia Green Economy Agreement.

Review of 2022

Singapore may be a major international financial hub, but its Islamic finance industry remains very much a work in progress. Key industry stakeholders have been observing increased interest and demand for Islamic financial products over the last year from both the Muslim and non-Muslim communities. This can be attributed to the population's higher disposable income and personal finance literacy advocacy efforts by the government and private sector. However, the retail market is still missing Shariah compliant mortgage facilities and insurance products, on top of the limited Shariah compliant investment options and vehicles.

The core impediment to the industry's progress is the need to increase Islamic finance awareness at the consumer level in order to organically foster robust retail demand to support the introduction of new products and spur MAS to formulate and integrate Islamic finance into Singapore's Financial Services Transformation Map. Table 1 summarizes the key developments in the Islamic finance industry in Singapore.

Despite the slow progress of its Islamic finance industry, Singapore is performing relatively well in terms of the Halal economy; as it climbed eight positions from 2021 to seventh place in 2022, according to the State of the Global Islamic Economy Report for 2022 by Dinar Standard. This was primarily due to the increase in modest fashion; media and recreation; pharmaceuticals; and

cosmetics exports to OIC nations. Additionally, Singapore scored well on the awareness sub-indicator, as numerous educational courses and events were held across all sectors.

Preview of 2023

The potential for Singapore to promote and support Islamic financial and banking operations is generally recognized for its global financial hub status, despite the country's relatively modest size of the Islamic finance industry. Furthermore, being located between three of the world's foremost centers in Islamic banking and finance (Indonesia, Malaysia and Brunei), the opportunities to serve an estimated 300 million Muslim population are enormous, along with the additional Muslim market from the Middle East, the US and Europe.

Moreover, amid the bleak backdrop of inflation and recession, 2023 is anticipated to be much more exciting than 2022 for Singapore's Islamic finance industry. Among the developments expected are the following:

- A hedge fund entity offering a Shariah compliant alternative to its existing fund
- An updated Shariah-screening methodology for stocks
- The operational commencement of the Singapore community Waqf (Wakaf Masyarakat Singapura),
- The launch of more Shariah compliant products.

While further developments are anticipated in the upcoming year, the details currently remain behind the scenes. However, much of the developments expected are ground-up initiatives and innovations, which appear to address specific needs and opportunities of Singapore's Islamic finance stakeholders. This includes (but is not limited to):

- Structural transformation on the industry level and coordinated efforts by market participants.
- Provision of structured Islamic finance educational programs for the community and professionals.

Table 1: Islamic finance industry developments in Singapore

Statutory board	Monetary Authority of Singapore (MAS)	• MAS updated its guidelines on the application of banking regulations to Islamic banking in July 2022. The updated guidelines apply to all Singaporean financial organizations that offer Islamic banking. • The guidelines aim to clarify MAS policy on Islamic banking by describing the regulatory treatment of specific Islamic structures. It also outlines MAS's general approach to regulating Islamic banking, including the admission framework for financial institutions intending to offer Islamic financial services and the regulatory treatment for Islamic banking products, including the capital treatment for such products.
	Islamic Religious Council of Singapore (MUIS)	• MUIS has grown its Waqf (Islamic endowment) assets from SG$150 million (US$106.27 million) in 2000 to more than SG$900 million (US$637.6 million) in 2022, distributing more than SG$4 million (US$2.83 million) in Waqf income in 2021. Also among the council's significant initiatives is the Singapore Community Waqf (Wakaf Masyarakat Singapura), announced in 2020 and meant to fund Singapore's Muslim community's long-term needs sustainably. • These needs are areas of religious teachers' development, religious institutions and community initiatives. The fund's advisory committee, formed last year, presented critical areas for the fund to succeed, including building an ecosystem for inclusive community participation.
Islamic asset management	Maybank Islamic Singapore	• Maybank provided the Royal Group of Companies the world's first Islamic green finance in the hospitality sector worth SG$250 million (US$177.11 million), which has yielded it the following honors from The Asset Triple A Islamic Finance Awards 2022 and ABF Corporate & Investment Banking Awards 2022: 1. Best Green Loan Award in the Category of Best in Sustainable Finance 2. Best Green Loan Award in the Category for Best Deals by Country-Singapore, and 3. The Green Islamic Deal of the Year. • Maybank launched Singapore's first Shariah compliant balanced fund, named Maybank Asian Growth and Income – Islamic Fund. The fund offers investors a diverse portfolio of Shariah compliant Asian equities, worldwide Sukuk and gold exchange-traded funds (ETFs).
	FAiWA	• The Montreux Healthcare Fund (MHF), registered under the MAS's restricted scheme and is available for accredited investors, has performed well relative to the broader market. The fund reported a return of +3% year-to-date to September 2022 despite a challenging investment environment where stocks and bonds have lost considerable ground this year.
	Walton	• Since the pandemic, Walton has had a potential distribution of US$2.8 billion to its global investors. One of them is Turner Meadows in Austin, Texas, where its investors received a distribution of 1.8 times their returns through its Shariah compliant pre-development land investment product in the third quarter of 2022.
	Franklin Templeton	• Franklin Templeton added a third Shariah fund for retail investors to its suite of Islamic fund offerings, named the Franklin Templeton Shariah Technology fund.
	IdealRatings	• FTSE launched a co-branded FTSE–IdealRatings Islamic Index series in July 2022. • The Index series encompasses global, regional and single-country indices, and is available for licensed fund managers for benchmarking and investment purposes.
	CGS-CIMB	• Launched the first Shariah compliant trading account in Singapore (iCash) designed for Islamic socially responsible investors in mind. • Awarded 'Best Broker' by The Asset, FinanceAsia, Alpha SEA and Securities Investors Association Singapore.
	Kapital Boost	• In line with its focus of "Funding Community Growth", Kapital Boost partnered with Indonesian crowdfunding platform Pedooli.id to help raise donations for social projects in Indonesia. Plan to launch a mobile app in early-2023 to simplify investing-on-the go and monitoring of investment portfolio.
Muslim-friendly financial consultant	TAQWA	• A group of Muslim financial advisors in Singapore, under AIA Singapore, is on track to win its third 'Top Team' in AIA in a row, beating 200 other groups. • It has also trained the most 'Million Dollar Round Table' consultants, which is the finance industry's most prestigious award.
	Ascent Islamic	• Ascent Islamic has assisted more than 3,000 Muslim families on their financial planning, started an in-house 'Wasiat' (Islamic will) writing service, and conducted Islamic estate planning classes at local mosques.
Islamic finance community	Islamic Finance Singapore Ltd (IFSG)	• IFSG, a community-focused organization, has received its company registration status, allowing it to perform more Islamic finance initiatives. • Since then, it has delivered three core foundations to Islamic finance, became the AAOIFI examination center in Singapore and published an Islamic finance Singapore directory.

Source: Author's own.

- Utilization of the CPF (Central Provident Fund — the local pension scheme) funds for Islamic home financing and Islamic investment products.
- The offering of Shariah compliant green, ESG or SDG financial products and investment portfolios.
- Re-introduction of robust Takaful products.

Conclusion

2022 has been a fascinating development for the Singaporean economy, not just as the preferred destination for conventional funds but also for its promising progress in the overall Islamic economy (Halal-driven growth).

Despite the grim global outlook, opportunities abound for Islamic finance, especially in the fintech and ESG space. However, more coordinated efforts must be made for Singapore's Islamic finance industry to stand as tall as its neighbors. The salient key to spurring much-needed progress and unlocking its potential is a structural transformation at the industry level, aided by MAS regulation support and coordinated efforts to increase consumer awareness of Islamic finance.

South Africa: A sound investment approach is essential in volatile times

Abdul Davids *is the head of research for Camissa Asset Management. He can be contacted at adavids@camissa-am.com.*

In 2022, global geopolitical and economic events cast a long shadow over developed and emerging markets, with standout events being Russia's invasion of Ukraine in February and the US Federal Reserve Bank's efforts to combat persistently high inflation through aggressive interest rate hikes.

Review of 2022

The South African economy has rebounded from the restriction-driven impacts of the COVID-19 pandemic; however, economic growth will remain muted due to structural imbalances in the domestic economy despite continued strength in the primary sectors (mining and agriculture).

South Africa continues to battle with excessively high unemployment levels and a large unskilled population, which increases social instability, particularly in the face of rising food, fuel and transport prices. Growth continues to be constrained by inadequate and acutely unstable electricity supply. 2022 was marred by a record number of blackouts and hours of electricity loadshedding since the first instances in 2007.

Other economic impediments include poor rail and road transport infrastructure that hamper the mining sector's ability to effectively benefit from elevated commodity prices (coal and iron ore) through increased export activity. In our view, the pandemic and concomitant lockdowns have resulted in permanently scarring the South African economy with persistently low business confidence.

For these reasons, coupled with the very large government debt burden, we remain pessimistic regarding the structural growth rate for the local economy, despite some signs of government movement toward economic reform. Additionally, there is a risk that lower future commodity prices (particularly platinum group metals, iron ore and coal) will result in an even weaker outlook.

Global markets are weak (down 25% in US dollar terms this past year) and volatile as central banks around the world sharply remove monetary stimuli in the face of inflation that has been absent for many years. Emerging markets are also down this year (27%), with the local equity market down 9.7% across the period in rand terms.

Industrials underperformed (down 17.8%), with particularly weak performances from Aspen (down 38.7%), Prosus (down 27.5%) and Barloworld (down 31%). Strong performances were delivered by Mediclinic (up 45.4%), Woolworths (up 22%) and British American Tobacco (up 16.2%).

Financials outperformed in relative terms (down 3.2%), with banks (up 2.4%) outperforming, while life insurers (down 16.5%) and listed property (down 16.9%) underperformed. RMI Holdings (up 36.3%), Absa (up 23.2%) and Nedbank (up 22.4%) outperformed, while Discovery (down 26.9%), Old Mutual (down 20.5%) and Nepi Rockcastle (down 27.3%) underperformed.

Resources were also weaker (down 8.9%), with notable highlights being Glencore (up 25.7%), BHG Group (up 22.4%) and Sasol (up

15.5%). Northam Platinum (down 25.1%), Anglo Platinum (down 20.2%) and Impala Platinum (down 18.4%) all underperformed.

Preview of 2023

While 2023 should see a reduction in inflation in South Africa, the effects of the substantial interest rate hikes by the Reserve Bank in 2022 will result in slower economic growth and pressure on disposable consumer income over the year. We therefore remain cautious on consumer-facing sectors such as banks and retailers.

We are selective within the basic materials sector where we have exposure to Anglo American and Exxaro, and maintain our holdings in low-cost, growing platinum group metal miners. We expect a sustained shortage in platinum group metals when global economic activity normalizes due to structural underinvestment in new supply, coupled with demand from tightened emission regulations, increased jewelry demand and a rapidly growing hydrogen energy sector. And we continue to hold a key position in Omnia, which is exposed to the buoyant mining and agricultural activity in South Africa.

Sukuk rates have increased in South Africa, in line with rising interest rates and the higher inflation environment. Longer-dated Sukuk are therefore now offering compelling, inflation-beating returns, yet we continue to bemoan the lack of diversity and competition in the domestic Sukuk market.

Conclusion

The economic events of 2022 marked a turning point for the global economy and after 14 years of highly stimulatory equity market conditions, we have seen a significant tightening in liquidity and steep interest rate increases in both developed and select emerging markets.

We believe that investors should therefore entrust their savings to investment managers that adopt a proven investment philosophy, backed by a sound investment process that can exploit the opportunities available under these market conditions.

A thorough bottom-up stock-picking approach that seeks to exploit mispricings between extreme pessimism already reflected in company share prices versus the cash flow generation prospects of these companies has proven to be a winning formula during these volatile times.

Progressive alternate financial services during volatility

***Shiraz Refai** is the head of Alternate Financial Services — LOLC Finance and head of Strategic Initiatives, International Operations (Middle East & North Africa) — LOLC Holdings. He can be contacted at shirazr@lolc.com.*

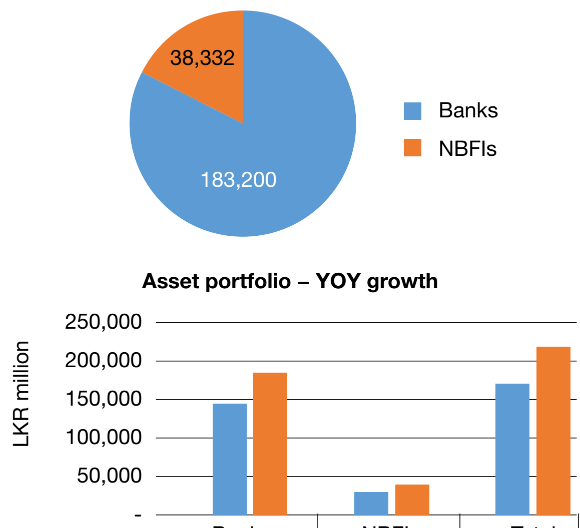
The Democratic Socialist Republic of Sri Lanka is a South Asian island-nation located in the Indian Ocean, separated from Indian subcontinent by the Gulf of Mannar and Palk Strait, and sharing a maritime border with India and the Maldives. Its legislative capital is Sri Jayawardenapura-Kotte and the commercial capital is Colombo.

Sri Lanka's population as per 2020 statistics is approximately 22 million. It is a multicultural nation with diverse ethnicities. Sinhalese make up the majority at 74.8%, Tamils 11.2% and Moors 9.2% while Malays, Burghers and indigenous communities comprise 4.8%. While Buddhism is the main religion, the cultural history of Sri Lanka is enriched by the influence of Hinduism, Christianity and Islam.

A developing country with a 92.9% literacy rate, Sri Lanka is ranked 73rd on the Human Development Index and 95th in the Global Innovation Index in 2021. With a recorded history of being the highest-ranked South Asian nation for development and the second-highest per capita income in South Asia, private sector contribution to GDP is about 85% of the economy while service, industrial and agriculture sectors are at 59.7%, 26.2% and 8.4% respectively.

The regulatory framework encourages Islamic finance within the banking, finance and insurance sectors. The industry comprises one licensed Islamic bank, six commercial banks and six non-bank financial institution (NBFI) window operators. The Association of Alternate Financial Institutes of Sri Lanka, a professional body guided by KPMG, has a practitioner membership to make collective references to the regulators to develop the Islamic finance industry.

Chart 1: Asset portfolio for financial year (FY) of 2021/22 (LKR million)



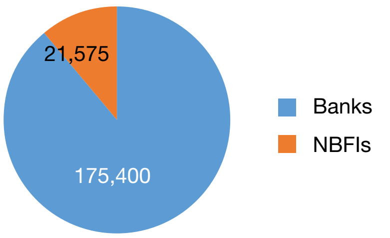
	Banks	NBFIs	Total
FY 2020/21 (LKR million)	146,500	27,779	174,279
FY 2021/22 (LKR million)	183,200	38,332	221,532

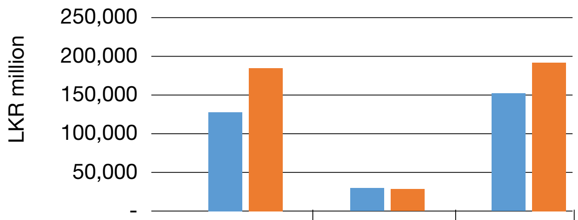
Source: Collated from available data on individual Islamic financial institutions as at FY 2021/22 ending the 31st March 2022.

Review of 2022

The Islamic finance industry has been enjoying a steady year-on-year growth, averaging approximately 20% in assets-based growth and 25% in deposits-based growth over the past decade.

Chart 2: Deposit portfolio for FY 2021/22 (LKR million)

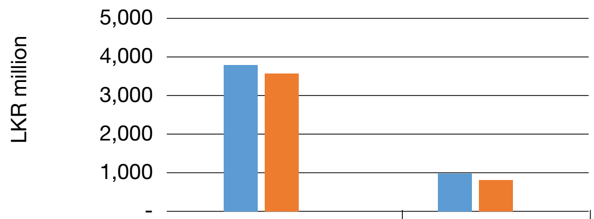




	Banks	NBFIs	Total
FY 2020/21 (LKR million)	128,500	20,758	149,258
FY 2021/22 (LKR million)	175,400	21,575	196,975

Source: Collated from available data on Islamic financial institutions as at FY 2021/22 ending the 31st March 2022

Chart 3: Gross written premiums as at 30th September 2022 (LKR million)



	General Takaful	Life Takaful
FY 2020/21 (LKR million)	3,825	1,007
FY 2021/22 (LKR million)	3,661	805

Source: Collated from available data on individual Islamic financial institutions as at FY 2021/22 ending the 30th September 2022.

2021/22 recorded a promising 27.11% growth in assets (see Chart 1) and 31.97% in deposits (see Chart 2) in both the banking and NBFI sectors collectively.

Assets controlled by banks stood at 82.69%, whereas NBFIs' stake was at 17.3%. The deposit base of banks was at 89.04% and services by the NBFIs were at 10.95%.

Nonperforming loans of the industry reduced to 2.93% from the previous year's 3.46%, improving the quality of the portfolios.

Further, the service-points of Islamic financial institutions increased to 426 from 390 and the customer base increased to approximately 426,000 from last year's 390,000.

Sri Lanka only has one Takaful provider and three Takaful window operators for general insurance. For life assurance, there are three service providers.

The industry's gross written premiums (GWPs) are expected to grow by approximately 27% for the general insurance sector and by approximately 7% in the life assurance sector by the close of the current financial year (see Chart 3).

Significant industry developments in the NBFI sector were the consolidation plan of the Central Bank of Sri Lanka and LOLC Finance's acquisition of Commercial Leasing & Finance (CLC) to become the largest NBFI in Sri Lanka earlier this year which paved the way for the strategic amalgamation of LOFC's Islamic window operation Al-Falaah with CLC's Islamic Business Division to create the largest NBFI operator in the Islamic finance industry, controlling over 60% of the NBFIs' Islamic financial services market share.

“Nonperforming loans of the industry reduced to 2.93% from the previous year's 3.46%, improving the quality of the portfolios”

Preview of 2023

Promoting investment opportunities to both local and international Sukuk markets, the Securities and Exchange Commission invited written submissions for a public consultation paper in the third quarter of 2022 titled 'Public Consultation on Proposal for Introducing Sukuk Products at the Colombo Stock Exchange' — an initiative activated under technical assistance from the Asian Development Bank.

New product variants are being developed and introduced by practitioners to support the growing demands of consumers. Wadiah as an alternate option for pawning and gold-based financings are gaining traction as an option for both consumer financing and microfinancing.

Demand for Takaful endowment products has seen an increase in the trend where Takaful providers are introducing options to cater to this niche. The average weighted prime lending rate-pegged instruments are being actively reintroduced by practitioners as a prudent measure to stabilize the balance of assets vs. liability pricing movements, and have become a common norm in the industry.

The industry invests substantially in technology and automation of conceptual methodologies which has given practitioners speed and efficiency on par with their conventional counterparts. Digital investments and savings accounts are introduced to the consumer and access to digital settlements of facility installments and rentals is becoming popular.

Conclusion

Sri Lanka has experienced certain economic adversities that are being improved over the last quarter with the authorities initiating prudent multiple programs to control the contraction of the economy and maintain stability. The Islamic finance industry with its proven productive economic sustainability traits is expected to contribute positively toward the country's economy going forward.

More optimism for Islamic finance in Tanzania

Salum Awadh *is CEO of SSC Capital. He can be contacted at sawadh@ssc.co.tz.*

Tanzania has seen remarkable strides in the development of Islamic finance over the past two years. Despite that fact that a lot still needs to be done, from a legal and regulatory framework to education and awareness, we must recognize and praise the milestones achieved so far. The years of 2021 and 2022 have been specifically remarkable in the development of new aspects of Islamic finance, with the main spotlight on the Takaful and Sukuk markets.

Review of 2022

Among the noticeable developments in 2021 was the official launch of Al-Barakah Banking, an Islamic division of CRDB Bank in Tanzania. CRDB is one of the two largest banks in Tanzania by all measures and its entry into Islamic banking was received with high optimism.

We also saw the maiden corporate Sukuk issued in the market by Imaan Microfinance, a Shariah compliant microfinance company in Tanzania, issued through a private placement. The Sukuk size was TZS2 billion (US$870,000); it was oversubscribed by 36%, generating total proceeds of TZS2.72 billion (US$1.2 million).

In 2022, the Islamic industry continued to see more strides being made by the industry, creating further optimism for industry optimists.

We saw Imaan Finance continue its series of corporate Sukuk, reaching a fourth issuance in a span of one year. The fourth Sukuk issuance targeting to raise TZS5 billion (US$2.14 million), was also oversubscribed by 106.4%.

The guidelines for Takaful were officially launched in May 2022 by the Tanzania Insurance Regulatory Authority, and this was cheered on by all industry players who have been pushing for the regulations for almost 10 years.

As if that was not enough, this year also saw the maiden public Sukuk issued by Sahl Bank, an Islamic banking division of KCB Bank Tanzania. The three-year Sukuk issuance was priced at 8.75% to be paid quarterly, with a target to raise TZS10 billion (US$4.3 million), with a greenshoe option of TZS5 billion.

Shirkah launches a mobile app

Shirkah, an investment platform that simplifies Halal investing in Tanzania, launched its Android app in 2022, with the iOS app to follow soon. The app allows its investors to invest in prescreened Halal investment opportunities across equities, Sukuk, real estate, commodities and start-ups.

Preview of 2023 and conclusion

We are very optimistic for 2023 to see bigger changes in the development of the Islamic finance industry in Tanzania.

We anticipate seeing initial arrangements for the government to issue treasury Sukuk as part of fulfilling its promises in its five-year development plan, which identified Sukuk as one of the potential instruments the government will use to finance its development projects.

We also hope to see a growing appetite in Halal investing as more education and awareness efforts are changing the people's mindsets, and turning more into Halal investors who seek to exit interest-bearing instruments for Halal instruments such as Sukuk.

We saw the launch of Takaful guidelines in 2022, but we are yet to see the first Takaful company launching in the market. Hopefully, in 2023, the first licensees will hit the market and start offering their services.

Islamic finance in Tunisia exploring new avenues, but still vulnerable to the macroeconomic crisis

***Mohamed Araar** is the director of control at the General Directorate of Corporate Services at the Central Bank of Tunisia. He can be contacted at med.araar@yahoo.fr.*

Tunisia is experiencing a lengthy and problematic process of negotiations over a third IMF bailout for a rescue package, in the context of mounting debt and diminishing foreign reserves in conjunction with inflationary pressures driven by a commodity price increase and local currency depreciation. Meanwhile, Tunisia's president is imposing a new constitutional and electoral order based on a referendum voted exactly a year after the constitutional crisis of the 25th July 2021 and new changes in voting of parliamentary elections to be held on the 17th December.

At least, a staff-level agreement on the requested access of US$1.9 billion is now subject to the IMF's executive board discussion and decision in December.

The economic policies and reforms to be supported by this new 48-month extended fund facility and other multilateral and bilateral financial loans are supposed to attenuate the damage caused by the direct impact of the COVID-19 crisis and the indirect impact of Russia's invasion of Ukraine, but Moody's Investors Service placed Tunisia's 'Caa1' ratings on review for downgrade, showing that "an economic recovery to its pre-pandemic level is not likely before 2024".

> Fitch Ratings considered that Tunisian banks are among the most vulnerable in Africa to the Russia–Ukraine war through second-order risks

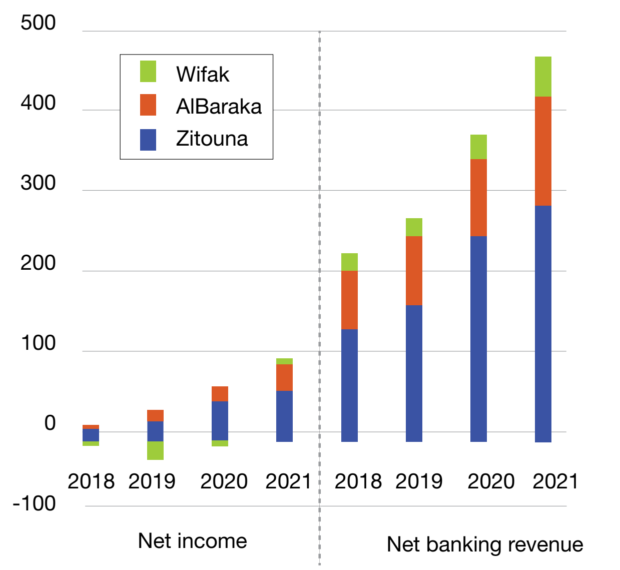
On the banking sector side, the rating agency expected profits to remain "subdued" and negatively affected by the current economic turmoil. Also, Fitch Ratings considered that Tunisian banks are among the most vulnerable in Africa to the Russia–Ukraine war through second-order risks. In the same way, S&P Global Ratings confirmed that the banking sector in the case of Tunisia is among the most exposed emerging markets to external funding stress through the indirect impact of potential failure of discussions with the IMF.

This comes in the context of continued expansion of the Islamic finance industry in 2021, but the macroeconomic crisis could affect Islamic banks' as well as conventional banks' performance.

Review of 2022

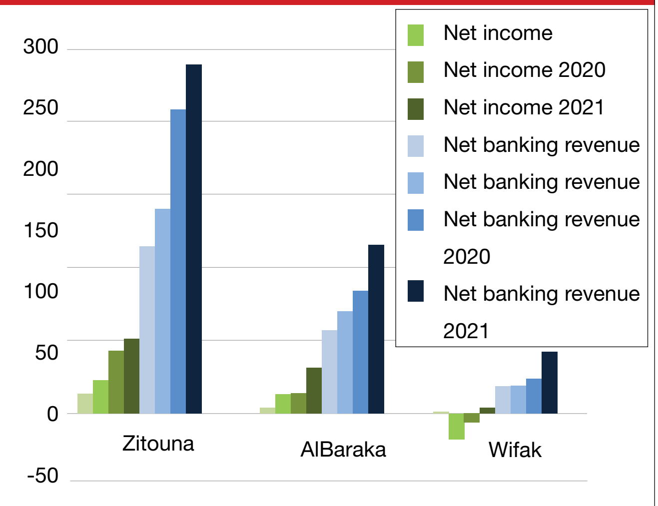
At the end of the 2021 financial year, Al Baraka Bank's net profit more than doubled to TND36.4 million (US$11.4 million), after being stable at TND16 million (US$5.01 million) in 2020 and

Chart 1: Islamic banking sector's performance



Source: Financial Market Council

Chart 2: Islamic banks' individual performance



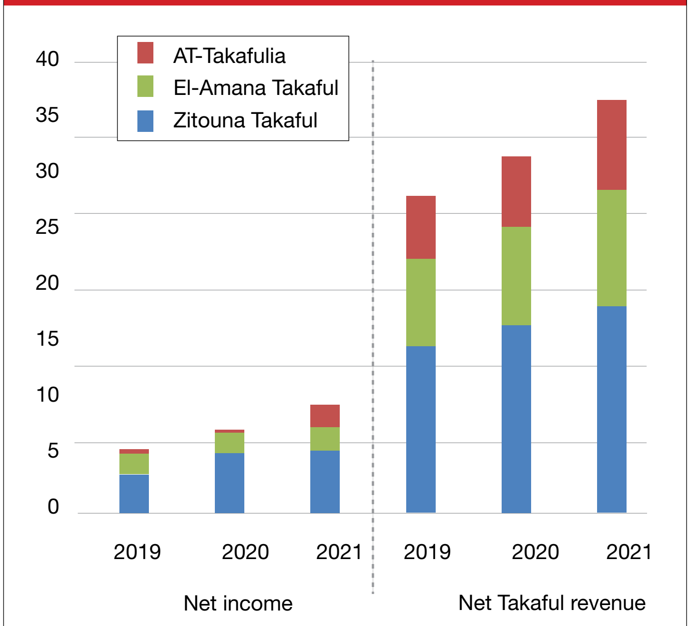
Source: Financial Market Council

TND15 million (US$4.7 million) in 2019, against TND4.2 million (US$1.32 million) generated in 2018 while net banking revenue rose by 37.5% reaching TND137.1 million (US$42.93 million) but remained about half as much as Zitouna Bank. The combination of profit margin improvement, risk and operational expenses control simultaneously contributed to this historical performance.

In the same way, but far from the historical growth of the previous year, Zitouna Bank's net profit continued its increase, by 17% to TND60.1 million (US$18.82 million) against TND51.4 million (US$16.1 million) in 2020 while the bank's net banking revenue grew by 15.2% to TND290.8 million (US$91.06 million) against TND252.4 million (US$79.04 million) a year earlier.

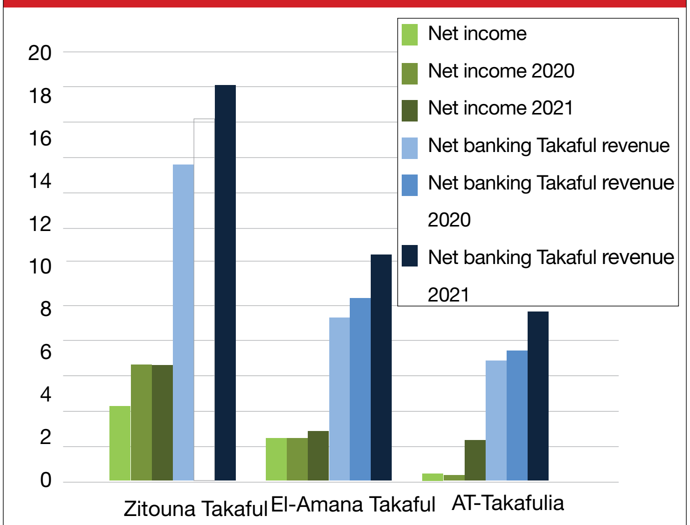
Finally, Wifak International Bank realized its first net profit of TND5.3 million (US$1.66 million) after the cumulated losses of

Chart 3: Takaful sector's performance



Source: Financial Market Council

Chart 4: Takaful companies' individual performance



Source: Financial Market Council

TND7.8 million (US$2.44 million), TND23 million (US$7.2 million) and TND3.8 million (US$1.19 million) incurred respectively in 2020, 2019 and 2018, caused by continued investment in opening branches and recruitment and also driven by its risk cost. The bank confirmed the signal of recovery thanks to a much better increase of its net banking revenue by 70% which stood at TND49.7 million (US$15.56 million).

Compared with the sector, Islamic banks relatively performed as well as their peers (16 banks having so far published their financial statements) which accumulated a net profit of TND1.26 billion (US$394.56 million), recording an improvement of 22.3% compared with 2020, but outperformed them compared with 2019 as their peers remained below 11.8% of profits generated in 2019.

On another note, the Takaful sector continued a slight but steady expansion and increased performance.

Moving to the Takaful sector, Zitouna Takaful's net profit became stable at TND5.6 million (US$1.75 million) in 2021, after an increase by more than half to TND5.4 million (US$1.69 million) in 2020 and the net Takaful revenue continued its increase by 9% to TND18.8 million (US$5.89 million) against TND17.2 million (US$5.39 million) in 2020. El Amana Takaful's net profit and net Takaful revenue grew by 21% and 35% to TND2.3 million (US$720,222) and TND10.8 million (US$3.38 million) respectively, after being stable at TND1.9 million (US$594,966) and around TND8 million (US$2.51 million) in 2020 respectively. At-Takafulia started to realize a net profit of TND2 million (US$626,280) and an increase of net Takaful revenue which grew by 31% to TND8.1 million (US$2.54 million) against TND6.2 million (US$1.94 million) a year earlier

Preview of 2023

The dynamic changes in the structure of Islamic finance are expected to continue, as shown by the 2022 trend through the creation of banks' subsidiaries: Al Baraka created, in addition to the first Islamic mutual risk fund (FCPR) ATID Fund launched in March 2009, its own venture capital investment company (SICAR) Al Baraka SICAR in 2021 followed by Wifak Bank (WIB) which created El Wifak SICAR in October 2022.

Moreover, following the approval of the General Insurance Committee, WIB also acquired 95.9% of the capital of At-Takafulia Insurance Company. In the same way, payment institution Zitouna Payment, which was approved by the central bank in November 2021 among four approved institutions (the last one in October 2022), launched its mobile payment application in 2022.

Other changes related to the ownership structure are supposed to move forward, after Hedi Ben Ayed Group became the reference shareholder in February 2022 by acquiring more than 30% of the capital of WIB, consequently exceeding the stake held by the Islamic Corporation for the Development of the Private Sector, reminiscent of the changes in Zitouna Bank's ownership structure in October 2018 followed by acquisition of its entire ownership by Majda Group in July 2019.

Conclusion

To cope with other challenges related to Islamic finance ecosystem gaps in terms of non-traditional channels of the Sukuk market, Zakat funds and including crowdfunding platforms and credit bureaus among other platforms, the long-awaited regulatory frameworks were finally published in the official journal implementing decrees and orders related to:

1. Credit bureau announced by the decree of the 4th January 2022
2. Management companies and the prospectus scheme (standard prospectus) in the event of a public offering of Sukuk implemented by the amendments introduced to the regulation of the Financial Market Council and ordered by the minister of finance dated the 16th May 2022, and
3. 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.

Thus, Islamic finance products are not expressly mentioned by the law except for Sukuk and it would be interesting to explore donation- and reward-based solutions in the case of Zakat collection as there is no legal base for Zakat in Tunisia and to explore also matters concerning credit bureaus.

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.

Hard work and dedication to welcome harvest time in Turkiye

***Fatma Çınar** is the director of the Participation Banks Association of Türkiye. She can be contacted at fatmacinar@tkbb.org.tr.*

Even though Islamic banking has a relatively modest size compared with conventional banking, it is developing both nationally and internationally, revealing its potential and taking on a structure that operates in different fields worldwide.

While it is noted that the global sector size at the end of 2021 was around US$3.4 trillion, this figure is expected to reach approximately US$5 trillion by the end of 2025. Additionally, it is stated in different sources that the number of interest-free banking institutions around the world is around 530. In the globalizing economic system, Islamic finance is gradually achieving appreciation, and most importantly, it is seen as a new investment area for the sustainable development of countries' economies.

Interest-free banking, in accordance with Islam, which entered Turkiye's system in the 1980s as 'Special Finance Houses', has shown remarkable development in 30 years. Participation banking, which has successfully increased its sectoral performance graph with this development, has succeeded in making a significant contribution to the Turkish economy and continues to work resolutely to make this success sustainable.

Review of 2022

Six banks, which are members of the Participation Banks Association of Turkiye, grew above the general sector dynamics in the past year. The year 2021, in which we celebrated the 20th anniversary of our association, was also a year in which we made special efforts to ensure that the participation finance model achieves sustainable growth and that the sector offers world-class financial products and services; our market share has reached 8.3%.

While the total assets of participation banks in Turkiye exceeded TRY716.5 billion (US$38.44 billion) in 2021, with an increase of 64% compared with the end of 2020, their equities rose to TRY36.3 billion (US$1.95 billion), with a 38% growth compared with the same period. Participation banks completed 2021 with a net profit of TRY5.7 billion (US$305.77 million) and financing support of TRY392.2 billion (US$21.04 billion) to the real sector, increasing its contribution to the Turkish economy daily.

By 2022, we saw that the total assets of six participation banks in our country exceeded TRY1 trillion (US$53.64 billion) as of August.

In 2021, participation banks reached TRY565.8 billion (US$30.35 billion) in the number of funds collected, while the size of the funds provided was TRY370.4 billion (US$19.87 billion). As of August 2022, this figure amounted to TRY556.4 billion (US$29.85 billion).

In light of this data, participation banks, which are rapidly increasing their contribution in Turkiye and the region, are creating significant opportunities for developing interest-free finance and reaching broader masses in the coming period.

Sukuk

In 2021, total global long and short-term sukuk issuances increased by 7.72%, reaching US$188.12 billion, the highest figure to date.

Our participation banks played an essential role in the allocation of Sukuk. The sum of Turkish lira-denominated Sukuk issuances by participation banks in Turkiye since 2010 was at the level of TRY278 billion (US$14.91 billion). Participation banks, which issued TRY96.9 billion (US$5.2 billion)-worth of Sukuk in 2021, also realized TRY51 billion (US$2.74 billion)-worth of Sukuk issuances in the first eight months of 2022.

> **“In 2022, participation banks surpassed four million active digital banking customers over six months”**

In line with the principles of participation finance, Kuveyt Turk made a global sustainable Tier 2 subordinated Sukuk issuance for the first time in Turkiye and the world. In addition, Emlak Participation Bank received the ‘Best Sukuk Issuance of the Year’ award at the IFN Deals of the Year Awards, with Turkiye’s first Mudarabah green Sukuk issuance through the Special Fund Pool Participation Account. Albaraka Turk, on the other hand, became the first participation bank to be included in the Borsa Istanbul Sustainability Index and achieved one of the highest rankings in the banking sector with its efforts within the scope of the Carbon Disclosure Project.

Preview of 2023

With the coordination of the Finance Office of the Presidency of Turkiye and the active participation of all relevant stakeholders, the Participation Finance Strategy Document 2022–2025 has been a valuable step on behalf of our industry. The strategy document, which is the first national strategy document in the field of participation finance, can be considered a roadmap for positioning Turkiye as the leading country of the participation finance industry. The strategy document was prepared for participation finance, which is one of the two pillars of the Istanbul Financial Center (IFC) project, to operate in compliance with the principles to produce applicable and realistic solutions to various structural problems to reach the place it deserves in the financial system, and to support the Turkish Economy Model effectively. During the preparation process of the strategy document, strategic steps and successful practices abroad were examined in detail, and a model specific to Turkiye was generated.

The strategy document, which was prepared with the vision of creating a financial model that will play a leading role in the world and effectively support the Turkish Economy Model, is aimed to implement an inclusive, sustainable and innovative participation finance system that operates according to the principles of participation finance and takes into account goal-oriented principles. The strategy document also aims to put forth the action items that will place the works in the field of participation finance carried out in Turkiye between 2022 and 2025 on a common ground, as well as the mechanism of the coordination committee and groups to manage the implementation, follow-up and evaluation processes of these items. In addition, many other studies and projects continue to be implemented to strengthen the participation finance system in the country.

As mentioned before, the Participation Banks Association of Turkiye, the umbrella organization of Turkish participation banking, updated the Strategic Roadmap covering the 2021–2025 period, taking into account the developing and changing conditions, in line with the consultations with its members and sector stakeholders, for participation finance to achieve the desired success both in Turkiye and on the broader geography. In the roadmap, six basic strategic goals were determined for the future: communication; ecosystem; product diversity; standards and governance; digital; and competency-building. As a result of these efforts, it will be much easier to reach a market share of 15% and an asset size of TRY1.77 trillion (US$94.95 billion), which is the target for 2025. By carrying out the Digital Research Report study last year, the actions the participation banks need to take were determined, and important steps were taken regarding digitalization.

Participation banks, which provide technology-oriented financial solutions with digitalization, have become more visible in the digital field in the banking sector. With the regulations and the transformation, the number of active digital banking customers of participation banks exceeded four million as of December 2021. In December 2020, this figure was more than three million. The combined annual growth rate in the number of active digital banking customers was 22%. In December 2021, the number of customers registered to the system on the internet or mobile banking channels was more than seven million, while the number of customers registered to the system and logged in at least once in the last year was more than five million.

In 2022, participation banks surpassed four million active digital banking customers over six months. Participation banks’ share of the total number of active digital banking customers in the sector was 5.1%.

Conclusion

Political and economic stability in certain markets; elimination of legislative gaps; capacity and competence development through growth; transition to economies of scale; increasing technological investments; and increasing the quality of operation are crucial for Islamic banking to exhibit the targeted development worldwide. In addition, examining all the instruments of Islamic banking in the world, ensuring the usability of participation banks’ products and diversifying their product structures can be counted as among the priority issues.

With Islamic banking, global risks can be protected, and by providing cheap and long-term funds to the local sector and investors, Islamic banking can contribute to the uninterrupted turning of the wheels of the economy and growth targets. In this direction, to boost the spread of interest-free financial instruments, it is critical to establish the right marketing strategies and support initiatives that will enhance the system’s reputation.

It is undeniable that Islamic economics and finance play a critical role in creating synergies between the private and real sectors and in sustainable development. In this context, finding an answer to how to use Islamic finance to reduce income and social inequality in society should be considered a priority agenda item.

Stability or uncertainty?

***Dr Scott Levy** is CEO of Bedford Row Capital. He can be contacted at slevy@bedfordrowcapital.com.*

Can the UK maintain its position as a leader in Islamic finance in 2023? The UK has an impressive depth of knowledge in Islamic finance which is exported around the world. October saw a combined effort between the Bahrain Institute of Banking and Finance and Coventry University around Islamic fintechs for example, in addition to very well-attended conferences in September which attracted people from all over the world.

However, 2022 has not been a good year and 2023 looks challenging despite the fact that the UK remains firmly embedded as a 'go to' destination for Islamic finance.

Review of 2022

Looking back, a helicopter view may provide some insight as to the challenges ahead.

The government

By the time this comes to print, who knows what the government will look like. Among the turmoil, there has been no room for the much-needed amendments to the Finance Act (to equalize the treatment of new Islamic P2P within the ISA and IFISA regime) let alone discussions around fair options for Shariah compliant pensions. All this despite the post-COP26 [2021 United Nations Climate Change Conference] discussions about ethics and SDGs which fit so neatly within the existing Islamic finance system.

ESG stays high on the agenda

Following from COP26, the CityUK and others have done an excellent job in promoting the importance of ESG and Islamic finance in an attempt not only to bring value to the Islamic finance community but also to try to attract the deeper pools of conventional capital. Education is key for both sides as there are still gaps in the understanding between conventional and Islamic finance but this appears to be narrowing; UK pension publications have been publishing articles about Islamic finance.

Consumer shortcomings remain

From a retail perspective, it is at least two steps backwards. Notable losses on the consumer landscape are Al Rayan closing its high-street branches, Rizq having to close accounts because of 'risk factors' and Wahed's SEC fine which all do nothing to help the business case for potential UK Islamic fintechs. 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

Retail consumers' problems aside, for private investors (including institutions), the UK real estate market continues to attract capital from all over the world. Yields have fallen to as low as 2.5–3.5% but with the sterling's weakness, there are short-term opportunities for cash-rich investors. UK real estate remains a gold standard asset class but inflation and non-zero interest rates will create challenges for commercial and residential investments.

Preview of 2023

Government initiatives

With the possibility of an election in 2023, it may be encouraging to

think that the pension legislation changes may find a way into a political party's manifesto. Millions do not have the same choices as conventional savers; although this may be a cheap tactic to garner votes, it is a problem which impacts millions of voters.

Green vs. ESG

The focus should shift from ESG to impact and green opportunities. The scale of investments needed for 'energy freedom' will be enormous. A green Sukuk facility from a UK issuer in areas like battery storage and hydrogen (as the new future green stars) is likely. The UK may look politically shaky but quality energy off-takers makes green Sukuk possibly the 'next big thing'.

Consumer financial choice remains limited

Will we see improvement in 2023 without a decent business case (or success story)? Will a bank or insurance company take steps to advance the situation for the millions of potential Shariah compliant financial consumers? Unlikely. Fintechs will push for market share and one or two new discretionary management offerings are in the market but these are targeted to high-net-worth individuals. Retail success seems elusive and likely to remain so.

Investment opportunities

Debt-free companies will fare better than debt-heavy companies caught between rising interest costs and the pressure of inflation. This will create opportunities for those looking to invest in traditionally attractive sectors like care homes. Social housing may return to the investment landscape; yields are above 5% (and inflation-linked) in most of the country (even London) and, coupled with impact investing, could offer attractive, sustainable returns.

Conclusion

The UK remains strong for the knowledge economy but bad for consumers. Government initiatives which started strong in 2021 have faded in the political chaos and this will not change quickly until the 'house is in order'.

The King has strong interfaith and sustainability views and we hope these are hallmarks of his reign but that will take time.
The reality is that London will remain popular with Islamic investors; billions of pounds will continue to flow into real estate deals, hopefully with less focus on trophy assets and more on impact investing. Stable or uncertain? Risky or safe haven? In many respects, 2023 will demonstrate the UK could be, at the same time, both.

State of the US Islamic financing and housing markets

Aijaz Hussain *is the executive vice-president of sales and a director at UIF Corp. He can be contacted at ahussain@myuif.com.*

The state of the US housing market in the fourth quarter of 2022 can be best described in two words: very challenging! While the current housing market is not in dire straits as it was during the financial crisis that unfolded in the 2008–09 period, echoes of concern linger in the industry. Currently, the problem has to do with excessive liquidity and inflation, not poor underwriting standards like last time. The US government's easy monetary policy that followed the great financial crisis and even more money printing as part of the COVID-19 pandemic response have boosted the prices of all assets.

Over the last few years, home prices in many US markets have risen 10–30%. All of this excess liquidity has given rise to the 'Inflation Monster'. This monster will not be tamed easily. To fight inflation that is impacting most Americans, the US monetary policy regulators have embarked on a path of excessive tightening by increasing interest rates and rolling back liquidity.

This has created volatility in the stock and bond markets while creating uncertainty on Main Street. Business owners and CEOs of large and small companies lack visibility and are mostly paralyzed until they see better economic conditions. Rising costs have crimped margins leading to losses in many sectors, most notably housing and related financing sectors. Supply chain issues have only added to the woes.

Review of 2022

Businesses have no choice but to cut costs and lay off employees as they prepare for a recession ahead in 2023. The businesses that serve the housing sector have a decision to make: either right size or die.

Many US companies borrowed excessively over the last two years and now with interest rates rising and business slowing, they have to make some very difficult choices. The home financing sector is at the forefront of this carnage. After record years of revenues and profitability, the home financing industry has slowed, with originations of new financings now at 25-year-low levels.

Many new start-ups in the home financing industry that operated in the non-qualified mortgage space (not backed by government-sponsored entities) have already gone out of business with more to follow soon. To make matters worse, clear battle lines have been formed in the home financing industry between two competing business models: direct lenders vs. the broker (wholesale) channel.

The direct lending model is where the financing company offers its services through its own sales staff. The broker channel is independent. It sells products offered by one or many independent mortgage companies. It makes commissions (or a fee) when it brings a customer to the wholesale mortgage lender. It very much operates like an independent realtor, making commissions when the deal closes.

Over the last year, a few direct lenders (eg Rocket Mortgage) and a few wholesale lenders (eg UWM) have gone public and raised capital in the public market while business conditions were

good. They now have strong balance sheets and can compete aggressively for new business while driving out smaller players in the industry. This price and ideology war between large mortgage companies is creating havoc for smaller mortgage companies.

The end result will be a shakeout that will transform the US mortgage industry forever. While the Islamic financing industry is not immune to economic conditions, we are much more insulated than other conventional lenders. The customers who want Islamic financing will seek it out and tune out the 'market noise'.

Also, an average Muslim consumer in the US is well educated and affluent. They can manage the economic downturn better than their non-Muslim counterparts. Regardless, the Islamic financing industry is preparing itself for the downturn and hoping to emerge stronger on the other side.

Preview of 2023 and conclusion

No matter how you look at it, 2023 will be a very challenging year for the US housing and financing industry. Islamic financing companies will have to confront the economic conditions that lie ahead. The US mortgage industry will shrink in volume from over US$4 trillion in 2021 to around US$2 trillion in 2022 and projected to be US$1.5 trillion in 2023.

This decrease in business volume in such a short period of time is testing business models like never before. Companies have to downsize fast, this is also known as 'right sizing' to make it sound more appealing to all concerned parties. Islamic financing companies will have to adapt to market conditions and if not, they too risk extermination. Some companies are much better positioned to deal with the downturn because of investments made over the years in technology, products and people.

Islamic financing companies with monoline business models will have a very challenging time surviving the downturn. With refinancing over as rates have increased, every home financing company is fixated on the purchase market. Companies equipped to take advantage of the purchase market and companies that have a broader product offering beyond home financing will not only survive but thrive in 2024 and beyond! In the meantime, we all turn to God and pray for better times to return again soon.

Uzbekistan opens for Islamic finance

Murod Khusanov *is an expert and consultant in governance and economic development programs management in the international development context in particular working with the Organization for Security and Co-operation in Europe (OSCE), Organization for Economic Co-operation and Development (OECD) and United Nations (UN). He can be contacted at murod.khusanov@gmail.com.*

Uzbekistan is a fast-growing country in Central Asia, with 34 million inhabitants, more than 90% of which profess Islam. Therefore, more and more people and businesses are concerned about finances and their origin. Various research shows that around 15–20% of the population refrain from using traditional financial tools due to religious concerns and among businesses these numbers are even higher. Islamic finance in one form or another is present in business relationships in Uzbekistan, eg in the form of Musharakah.

According to experts interviewed, the US$200 million received annually through the Islamic Corporation for the Development of the Private Sector satisfies only about 5% of US$10 billion demand for Islamic finance in Uzbekistan.

Traditional financial institutions try to adapt elements of Islamic finance in their financial products that need to comply with the national legislation, but the need for comprehensive regulations in this area is obvious for global Islamic finance outreach.

In the meantime, one could observe various businesses emerging that address the growing demand for Halal finance in Uzbekistan.

Review of 2022

In February 2022, Uzbekistan based start-up Iman, which focuses exclusively on Islamic financing and investments, attracted US$1million in venture funding in an 'A' round. The co-founder and CEO, Rustam Rakhmatov, sees a great potential for the expansion of Islamic financing and has an ambition to build the first digital Islamic bank in Uzbekistan. Iman has already distributed more than US$5 million through Ijarah and Murabahah products mainly for consumer products.

"We saw a great demand in the country for Islamic finance among the population and decided to establish our start-up to address low coverage (4.5%) with formal financial products in banks," Rustam opined. He sees the lack of a regulatory framework as one of the greatest obstacles for expanding Islamic finance in Uzbekistan.

During the opening of the 46th Annual Meeting of the Board of Governors of the IsDB Group in Tashkent, Shavkat Mirziyoev, the president of Uzbekistan, touched upon the need to expand Islamic financial instruments in the country.

In the meantime, the lack of infrastructure, regulatory framework and protection of deposits, as well as fiscal barriers, hinders the introduction of Islamic finance in Uzbekistan, according to the Ministry of Investments and Trade of the Republic of Uzbekistan, which leads the work on the development of a regulatory framework in Islamic banking to address the growing demand for such services. Another working group led by the Ministry of Finance is working on the law on Islamic capital markets.

Preview of 2023

Khusan Khasanov, the IsDB Group field representative in Uzbekistan, mentioned significant progress with regards to implementing Islamic finance regulations in the country based on signed agreements at the aforementioned meeting. With the help of the IsDB, two main regulations are foreseen to be in force in 2023.

"Those regulations should change the landscape and open the country's doors for global Islamic capital, so the players active in this area should already be seeking the ways to enter the Uzbek market," advises Khusan.

The IsDB also cooperates with the central bank on experimenting with Islamic windows in selected banks within a regulatory sandbox, to see how they can be multiplied throughout the country. Still, Khusan thinks that apart from the regulatory initiatives, much effort should be given by the government on expanding Islamic finance advisory and increasing public awareness.

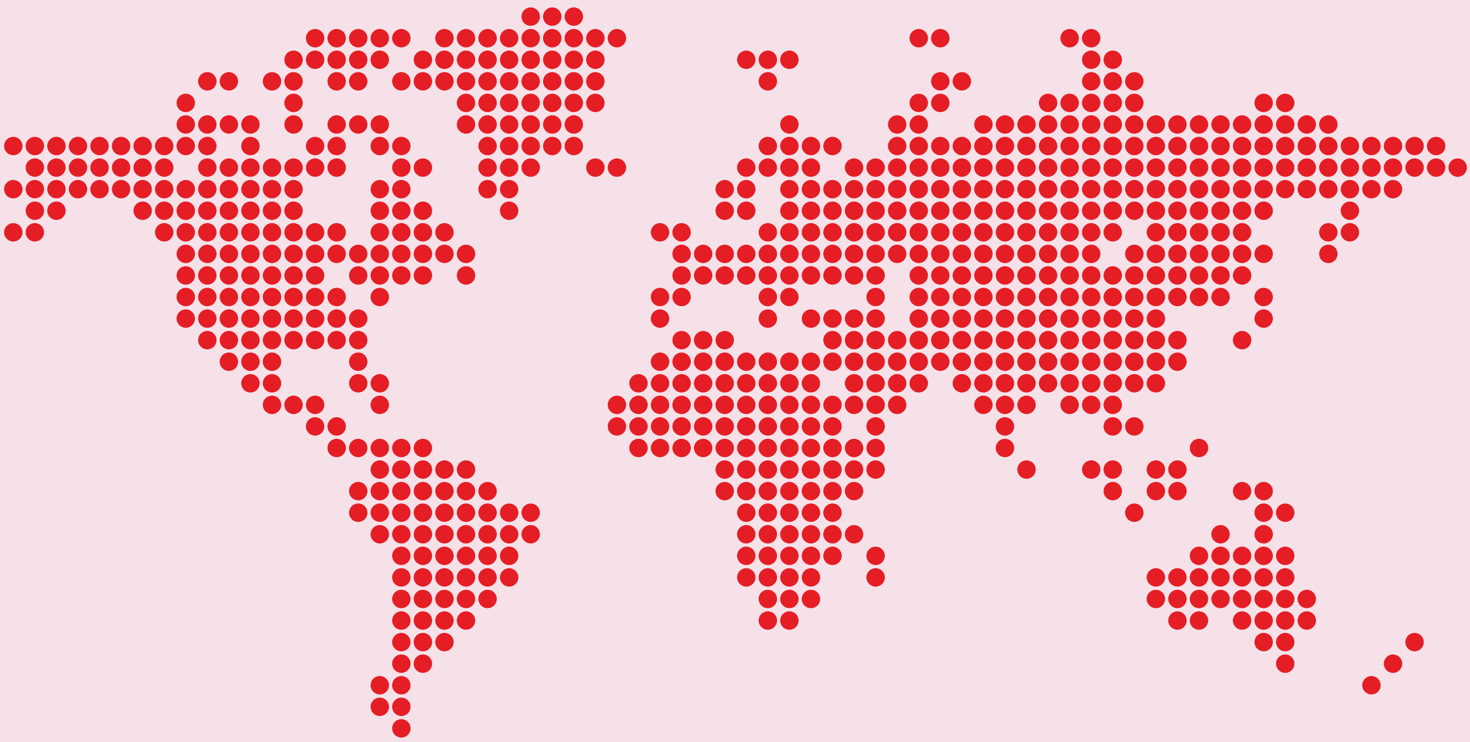
But what about businesses — how are their demands considered and addressed in terms of Halal financing? Bakhrom Numonov, the council chairman of the Islamic Finance and Takaful Association in Uzbekistan and the chairman of the board of directors of Apex Ijara Company which focuses on B2B transactions, is looking forward to the new laws. Bakhrom mentioned that the reforms should also cover the laws on banking activities and civil and tax codes and go beyond these laws for financial institutions to attract Sukuk financing.

"In order to attract Sukuk, we had to establish a company abroad as the national legislation doesn't allow such operations," says Bakhrom, while stating the challenges in attracting Islamic investments into the sector.

With this in mind and the regulatory reforms foreseen in 2023 to introduce Islamic banking and Islamic capital markets, financial institutions would be in a better position to reach out to global markets for Sukuk should their opportunities be expanded toward attracting Islamic investments.

Conclusion

In general, one should note that within the last three to four years, the landscape of Islamic finance has changed rapidly, creating opportunities for more private players and creating the ground for substantial reforms. Those positive dynamics, growing demand for Islamic finance and near-tectonic changes in the financial and capital markets that are foreseen are seriously worth considering in the coming years and 2023 will set some important milestones in this case, thus making it the right time to start investing in Uzbekistan.



REDmoney publication