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IFN Islamic Finance news
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The storm shall pass

Volatility is built into the DNA of the financial markets and while we may embrace and live by this truth, nothing could have prepared us for what 2020 unleashed.

To say that the COVID-19 pandemic ground the world to a halt is perhaps not an overstatement. Economies paralyzed, borders shut, governments scrambling to find a solution as the number of infectious cases and deaths continued to climb – such chaos at such a scale, is unprecedented.

One year on since the coronavirus bared its fangs, we are still navigating this "new" normal, with many still hoping to return to pre-pandemic normalcy – although that is unlikely, at least not for a few years as the damage caused has been so severe.

It has been a painfully challenging year, with lives and livelihoods lost. For the optimistic, it has been a period of real test of the industry's resilience; and resilient the industry has been.

If we look at the Sukuk asset class, the industry's poster child: we see that the market showcased encouraging figures with more Sukuk issued in the first three quarters of 2020 at US$130 billion against the same period in 2019. The return on investment-grade dollar Sukuk until November 2020 was about two percentage points higher than the average annualized return for five-year papers. And if anything, the pandemic has been a much-needed trigger to catalyze the growth of sustainable Sukuk, with governments (such as Malaysia and Indonesia) and multilateral organizations such as the IsDB going to market with landmark offerings designed specifically to combat the fallout of COVID-19.

For the Islamic banking sector, like its conventional counterpart, it has been wrestling with deteriorating asset quality and tighter liquidity. Yet, Islamic banks are still posting growth, albeit at a lower level. And more significantly, the pandemic has compelled Islamic banks to expedite their digital strategy, deploying and adopting technology at a pace which would not have been possible without COVID.

Despite a global oil price crash, a deadly virus, and messy geopolitical developments, Islamic funds have been impressive at garnering more traction: mid-November 2020 data shows that global Shariah funds assets under management grew above US$165 billion from 2019's US$105 billion. And as expected, at a time when risks and uncertainties have become center stage in our lives, the appreciation for Takaful insurance as a risk management instrument has deepened across many markets.

It is incredibly easy to focus on the bad rather than the good – it is almost human nature to do so. But to manage any calamity and turmoil, hope, optimism and gratitude are of crucial importance. Thankfully, the industry – which we have continuously engaged – is keeping its chin up, and is seeing rays of opportunity in this dark storm.

The industry has benefited from rapid digitalization and 'fintechization'; the role of Islamic finance – particularly philanthropic and Shariah social finance instruments – as a tool for financial inclusion and to meet development needs has been vindicated; and the confluence of ethical and Islamic finance has never been stronger.

Nobody is denying that 2021 will be another challenging year nor that it will be a long journey to recovery – as elaborated by the many experts who have authored and shared their projections for the industry in this seminal publication. But many, backed by historical data and recent performance, firmly believe in the value, resilience and solidarity of the industry; and together, we will weather this storm as we have always done.

Vineeta Tan
Managing Editor
IFN

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2021: Can the COVID-19 crisis help shape our economies for future growth?

Dr Bandar Hajjar *is the president of the IsDB Group.*

In last year's IFN Annual Guide, I wrote about how 2020 was shaping up to be one of the most challenging years. The COVID-19 pandemic had begun to strike countries around the world and economists were predicting a significant economic downturn.

Reflecting a year on, the scale of the outbreak has demonstrated that we were not prepared for large-scale pandemics. The crisis has already shattered capital markets and the picture for economic growth even as we approach the new year which looks bleak. Global supply chains have been disrupted, resulting in poor trading conditions. SMEs have been hardest-hit, especially in certain IsDB member countries and other developing nations — and will continue to deteriorate further.

But, looking beyond the headlines of rising cases and deaths, the COVID-19 crisis could actually provide us with a chance to develop our economies with more resilience. I believe this is an opportunity to shift toward actively shaping and creating markets that deliver sustainable and inclusive growth, rather than continue limiting our role at the government and international community level to reacting to market failures. We can proactively invest in creating and strengthening institutions that prevent crises. We can coordinate scientific and technological responses, as well as research and development activities, steering them toward public good. We can forge public–private–philanthropic–people–partnerships to ensure both citizens and economies are going to benefit.

We must learn from the lessons of the 2008 Ebola crisis by resisting to simply hand out unconditional bailouts rather than structuring them to restart into a new economy — one that is focused on a 4.0 framework of growth. That means building capacity around the fourth generation of industrialization that uses science and technology to prevent global value chain disruption under such pandemics, while maintaining zero environmental footprints.

At the IsDB, our immediate response and call for joint action in order to support our member countries at different stages of the recovery trajectory resulted in a comprehensive integrated response package with a total envelop of up to US$2.3 billion. We call this package 'The 3 Rs' (Respond, Restore and Restart).

As we now approach the 'Restart' phase, we want to focus on building resilient economies on solid foundations. We will catalyze private investment by supporting economic recovery and countercyclical spending with a targeted US$10 billion guarantee line that aims to unlock US$1 trillion-worth of investments. We must look to the future with optimism for future growth.

We must also look to innovative Islamic financing tools to aid the 'Restart' phase. In June 2020, the IsDB launched the first sustainability bonds to raise US$1.5 billion from a wide range of investors to finance social projects in affected countries. These were the first Sukuk of their kind related to the pandemic in the global capital market. The proceeds of these sustainability Sukuk will be used in social projects that improve healthcare facilities, equipment and critical staffing in member countries to mitigate the effects of COVID-19, as well as to support small- and medium-sized businesses and promote employment as countries recover from the effects of the pandemic.

The investor diversification we achieved for the sustainability Sukuk shows that the IsDB sustainable finance story is gaining stronger traction in new markets and we hope to maintain this momentum for future issuances. We have already seen global financial centers such as the UK and Luxembourg issue their own Sukuk and undertake significant regulatory measures in order to become an Islamic finance hub. It is a promising step toward demonstrating the opportunities for Islamic financing tools to play a key role in social and sustainable development.

The past year has certainly challenged our global economies on an unprecedented level. But as we move to recovery, let us not waste this opportunity to reflect, innovate and shape our economies effectively for future growth and resilience.

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AAOIFI's achievements in 2020 and future initiatives

***Dr Rizwan Malik** is the senior manager of standards implementation and strategic development at the Accounting and Auditing Organization for Islamic Financial Institutions.*

2020 will be remembered as an unprecedented year for the times to come due to the COVID-19 pandemic, very much like the way the year 1918 is remembered when the world faced the Spanish flu. The former is very much related to the latter in terms of the havoc it created for people, organizations and economies.

Like all organizations, operations at AAOIFI have been impacted; however, due to the nature of its work, it has been successful in containing the damage caused by the ongoing pandemic. In general, AAOIFI tried to ensure that the operational activities continued, including the development of standards and technical boards and subcommittee meetings being held as scheduled using web-based tools and advocacy and awareness programs.

In January 2020, after an extensive selection process by the AAOIFI nominations committee, the AAOIFI Board of Trustees announced the reconstitution of its three technical boards and appointed the respective members for the next four-year term. The formation of technical boards has taken into consideration the proper representation of the different sectors within the Islamic finance industry and of experts serving and supervising the industry, as well as the disciplinary backgrounds and work expertise of the members, in addition to geographical/regional representation. The technical boards have some of the most renowned Shariah scholars, leaders and experts in the Islamic banking and finance industry. Additionally, more than 30 working groups for various standards were formed with more than 100 members from the global Islamic banking and finance industry.

Since the reconstitution of the boards, several meetings have been organized through virtual meeting platforms to discuss various standards in the pipeline and to initiate new projects.

AAOIFI Shariah Board

Regarding the Shariah board, various standards are being discussed including debit cards, charge cards and credit cards, Sukuk, Ijarah and Ijarah Muntahiya Bil Tamleek and Ijarah Mawsufah Fi Dhimmah. It is expected that the debit card, charge card and credit card standards will be approved in 2021.

AAOIFI Accounting Board (AAB)

1. AAOIFI Accounting Board statement

In the light of the COVID-19 pandemic, the accounting board issued a statement with the objective to provide clarifications to Islamic financial institutions for the application of AAOIFI Financial Accounting Standards (FASs) considering certain pertinent issues arising due to economic factors and regulatory interventions in the wake of the COVID-19 pandemic. The statement addresses the issues related to payment moratoriums and deferment of payments and suspensions; settlement of a transaction with the execution of a new transaction can take different forms. Guidance is also provided in the treatment of government grants and subsidies whether it is for the support of the financial institution or to subsidize the profits charged to customers. Additionally, support and assistance are provided on the expected credit losses, impairment of assets, technical reserves and going-concern assumptions under uncertain conditions. The statement was issued to provide clarifications and interpretations on accounting treatments in line with the relevant FASs arising in these challenging times. The full statement can be accessed from the AAOIFI website.

Table 1: Adoption status of AAOIFI standards

Level of AAOIFI standards adoption	No. of regulatory jurisdictions			No. of countries		
	SHA	ACC	GOV	SHA	ACC	GOV
Full adoption	19	23	18	16	17	15
Partial adoption	3	5	7	2	5	7
Guidance/reference material	9	7	8	9	7	8
Local standards based on AAOIFI standards	2	4	3	2	4	3
Guidance & local standards based on AAOIFI standards	1	2	3	1	1	2
Supplementary reporting	0	1	1	0	1	1

SHA–Shariah, ACC–Acounting, GOV–Governance and ethics

Source: AAOIFI

2. Standards update

In addition, the AAB principally approved four final standards and one exposure draft, which will be issued after incorporating the board's feedback. These are:

(a) *FAS on 'First time adoption of AAOIFI FAS Financial accounting standards'*

The objective of this standard is to prescribe principles applicable to an Islamic financial institution (the institution) adopting AAOIFI FASs or applying them for the first time with regards to the transitional process, as well as to specify financial reporting requirements applicable to the first financial statements.

(b) *FAS on 'Waad, Khiyar and Tahawwut'*

The standard aims at setting out principles for the classification, recognition, measurement with related presentation and disclosure of Waad, Khiyar and Tahawwut transactions. The standard reflects the different types mainly classified into two types — ancillary Waad or Khiyar and product Waad or Khiyar. The standard attempts to capture the practices and different forms entered into by Islamic financial institutions.

(c) *FAS on 'Financial reporting by Waqf institutions'*

This standard aims to establish accountability and transparency of Waqf institutions in a suitable manner in compliance with Shariah principles and rules. This standard shall be applicable on all types of Waqf institutions and other institutions constituted on the concept of Waqf, and operating in line with Shariah principles and rules, irrespective of their legal status, including virtual Waqf institutions.

(d) *The revised 'AAOIFI Conceptual Framework for Financial Reporting'*

The revised conceptual framework introduces the concepts and core principles underlying financial accounting and reporting by Islamic financial institutions and explains the relationships between these concepts, core principles and the objectives of financial reporting. It also prescribes and improves upon the existing accounting treatments in line with global best practices and supersedes the existing conceptual framework. The conceptual framework also serves as a reference point for selection and adoption of accounting policies for Islamic financial institutions in the absence of specific guidance under the FASs.

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The International Islamic Trade Finance Corporation (ITFC) is a member of the Islamic Development Bank (IsDB) Group. Commenced operations in January 2008, ITFC has provided more than US$51 billion of trade financing to OIC Member Countries, making the Corporation the leading provider of trade solutions for OIC Member Countries' needs. With a mission of being a catalyst for trade development among OIC Member Countries and beyond, the Corporation helps entities in Member Countries gain better access to trade finance to support their critical sectors; and provides integrate programs: capacity building and trade development, which would enable them to successfully compete in the global market

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(e) The exposure draft on 'Presentation and Disclosures in the Financial Statements of Takaful Institutions'

The accounting board of AAOIFI initiated a comprehensive revision project for the FASs on Takaful in 2018 under the recommendation of the FAS review and revision project. The first part of the deliverables of the Takaful project will be an exposure draft of the revised FAS 12 'General Presentation and Disclosures in the Financial Statements of Islamic Insurance Companies'. The second part of the project is expected to cover the specific requirements for accounting for Takaful that will replace the other three existing FASs, ie FAS 13, FAS 15 and FAS 19 on Takaful accounting. The exposure draft will be preliminary in nature due to the complexity of the project and will be re-evaluated once the second part of the project, relating to accounting treatments, is complete and comments from the market participants are received.

In addition, the following standards are in advanced stages and further progress will be achieved in 2021:

a) Revised FAS 1 general presentation and disclosure, and
b) AAOIFI FAS glossary and terminology project.

3. AAOIFI Technical Releases (TR) issued by the AAOIFI Technical Advisory and Interpretation Committee (TAIC)

- TR on 'FAS1 Illustrative financials', and
- TR on 'Implementation guidance for FAS 31 'Investment Agency (Al-Wakala Bi Al-Istithmar)'.

4. Extension on adoption of AAOIFI standard in light of COVID-19

In the light of COVID-19 and the feedback received from stakeholders, the AAB decided to provide a one-year extension of the effective date of the recently issued AAOIFI FASs: from the 1st January 2020 to the 1st January 2021. However, the extension of the effective date shall not be applicable to institutions which have already completed the process of implementation, or where regulatory requirements do not allow such extension.

AAOIFI Governance and Ethics Board

1. Statement

In the light of the impact of the COVID-19 pandemic, the AAOIFI Governance and Ethics Board board felt the need to issue a guidance statement on the application of AAOIFI governance, ethics and auditing standards. The objective of this statement is to provide clarifications and interpretations as well as flexible options available for Islamic financial institutions to apply AAOIFI governance, ethics and auditing standards considering the challenges that the Islamic financial institutions are facing in different jurisdictions due to the role they have to play under the direction given by the respective governments and regulatory authorities to overcome the economic situation created by the COVID-19 pandemic. This statement further includes several recommendations for ethical responses by the businesses to the challenges posed by the pandemic. The full statement is available from the AAOIFI website.

2. Standards update

There are two governance standards in advanced stages of development:

a) Waqf governance

The standard has three main objectives: to promote and strengthen the core values of the Waqfs and their governance practices; to lay down key principles and concepts of Waqf governance based on best practices in governance, suitable to the specific nature of Waqf; and to enhance the confidence of the public and stakeholders in the institution of Waqf.

It is believed that the implementation of good practices of governance of Waqf and Waqf-based institutions will in turn contribute toward improving the effectiveness and efficiency of Waqf operations and maximizing the revenues and return on the institutions' assets in the short run, as well as toward their growth, perpetuity and sustainability in the long run.

b) Shariah decision-making

The objective of this standard is to set out a comprehensive framework for the Shariah decision-making (SDM) process for Islamic financial institutions, while complementing the AAOIFI Shariah standard (SS) 29 'Stipulation and Ethics of Fatwa in the Institutional Framework'. The standard shall apply to all Islamic financial institutions and other institutions regarding their respective SDM process, involving all governance organs, internal and external stakeholders, as well as the central Shariah boards.

Other governance board-related standards that are currently in different stages of development include:

a) Islamic crowdfunding
b) Shariah compliance and fiduciary rating for instruments, and
c) internal Shariah audit guidelines/handbook review of auditing standards.

Standards implementation

AAOIFI is delighted to publish the comprehensive AAOIFI Footprint Report 2020, which marks a key milestone since the establishment of AAOIFI in 1991. The e-copy of the report was launched on the 27th October 2020 at an exclusive event.

As per the report findings, the respective AAOIFI standards (Shariah, accounting, auditing, governance and ethics) are adopted or acknowledged in various forms by 27 countries and 40 regulatory jurisdictions. These include those that adopt either fully or partially, use them as guidelines/reference material or as a supplementary reporting basis or base their local standards/regulations on AAOIFI standards. A summarized version of the adoption status is in Table 1.

Besides the challenging times globally, AAOIFI continues to conduct exams for its professional qualifications in different parts of the world while ensuring the safety and health of all stakeholders. There are a total of 1,844 AAOIFI fellows, which include 1,141 CSAA fellows and 703 CIPA fellows, assuming important positions at various organizations in not fewer than 54 countries.

Additionally, AAOIFI conducted bespoke workshops virtually on various topics in Shariah, accounting, governance and ethics for the benefit of the Islamic finance industry globally.

Advocacy and awareness

The conferences and events AAOIFI organizes were impacted due to COVID-19; however, a forum on COVID-19 and its impact on Islamic finance was organized virtually in May, while the annual Shariah conference was organized in October 2020. Additionally, a launch event was also organized to launch the inaugural AAOIFI Footprint Report 2020 while the annual AAOIFI–IsDB conference is scheduled to take place in December 2020 virtually.

AAOIFI has already published one issue of its biannual journal, while the second will be issued before the end of 2020.

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.

IFSB's achievements in 2020

Dr Bello Lawal Danbatta *is the secretary-general of the IFSB.*

The IFSB is an international standard-setting organization which was officially inaugurated on the 3rd November 2002 and started operations on the 10th March 2003. It serves as an international standard-setting body of regulatory and supervisory agencies that have vested interest in ensuring the soundness and stability of the Islamic financial services industry, which is defined broadly to include Islamic banking, Islamic capital market and Takaful. In advancing this mission, the IFSB promotes the development of a prudent and transparent Islamic financial services industry through introducing new, or adapting existing international standards consistent with Shariah principles, and recommend them for adoption.

The IFSB membership

The IFSB has a diverse and unique membership of international, regional and national organizations and market players who share its objectives. The members of the IFSB consist of regulatory and supervisory authorities, industry associations, international intergovernmental organizations and market players.

This broad mix of stakeholders is the key strength of the organization and strengthens its ability to deliver quality standards and services to the industry. The diversity of experiences and viewpoints within the membership base (particularly on regulatory issues and concerns) is further promoted by collaboration and participation in various platforms organized by the IFSB, allowing the members to collaboratively promote the soundness and stability of the Islamic financial services industry.

As at December 2020, the IFSB have 188 members that comprised of 79 regulatory and supervisory authorities, nine international inter-governmental organizations, and 100 market players (financial institutions, professional firms, industry associations and stock exchanges) operating in 57 jurisdictions.

Preparation and development of the IFSB standards

The IFSB formulates global prudential standards and guiding principles for adoption by the IFSB member jurisdictions. The preparation of these standards follows a quality driven lengthy due. Since its inception, the IFSB has issued 34 standards, guiding principles and technical notes for the Islamic financial services industry.

Standards under development

The formulation of the IFSB standards and guidelines adhere to a rigorous due process. A number of standards going through this due process to be completed soon are: Technical Note on Recovery and Resolution of IIFS, Revised Shariah Governance Framework Standard, Core Principles for Islamic Finance Regulation (Takaful), Revised Capital Adequacy Standard for Institutions Offering Islamic Banking Services (RCAS), Core Principles for Islamic Finance Regulation [Financial Market Infrastructures], and IADI-IFSB Core Principles for Effective Islamic Deposit Insurance Systems (CPIDIS).

Knowledge sharing and research

The IFSB publishes working papers, reports and proceedings to contribute to efforts in knowledge sharing among industry stakeholders. This is in line with Article 4(g) of the Articles of Agreement "to undertake research into, and publish studies and surveys on, the Islamic financial services industry". The IFSB's landmark publication is the Islamic Financial Services Industry Stability Report, published annually since 2013. To date the IFSB has issued 14 working papers on issues related to the Islamic financial services industry.

The IFSB milestones 2020

Despite the challenges due to COVID-19 crisis, the IFSB has achieved a number of significant milestones in 2020 among those are:

- The Financial Stability Board (FSB) included the IFSB's Core Principles for Islamic Finance Regulation (Banking Segment) into the Compendium of Standards;
- The IFSB and Arab Monetary Fund renewed their MoU to support the development of the Islamic finance among member countries;
- The IFSB admitted seven organizations into its membership;
- The IFSB published the French version of three IFSB Standards on the Core Principles for Islamic Finance Regulation (Banking Segment) (IFSB-17), Guiding Principles for ReTakaful (Islamic Reinsurance) (IFSB-18) and Guiding Principles on Disclosure Requirements for Islamic Capital Market Products (Sukuk and Islamic Collective Investment Schemes) (IFSB-19);
- The IFSB issued the eighth edition of its annual flagship publication: the Islamic Financial Services Industry (IFSI) Stability Report 2020;
- The IFSB and the IsDB signed a Technical Assistance Grant Agreement for the final review of the 10-Year Framework and Strategy Project for the Islamic Financial Services Industry;
- The IFSB Prudential and Structural Islamic Financial Indicators (PSIFIs) database achieved a new milestone with the dissemination of data on the Takaful sector;
- The IFSB published frequently asked questions for Standards on Corporate Governance (IFSB-3), Governance for Islamic Collective Investment Schemes (IFSB-6), Risk Management for Takaful Undertakings (IFBS-14) and Financial inclusion (TN-3);
- The IFSB and Bahrain Institute of Banking and Finance renewed their MoU to enhance the stability of the Islamic financial services industry; and
- The IFSB Council adopted two new standards for the Islamic financial services industry

COVID-19 initiatives

The IFSB continued its commitment and support to all member organizations, and achieved the following milestones in response to the spread of the coronavirus disease (COVID-19):

- The introduction of virtual formats for all workshops, technical meetings and other activities;

- The IFSB successfully connected its 2020 annual meeting virtually;
- The IFSB conducted online seminars, capacity building and executive programs on COVID-19 and its implications on institutions offering Islamic financial services in addition to all scheduled workshops activities;
- The IFSB issued public statements addressing the implications of COVID-19 on aspects of Islamic banking and Islamic capital markets;
- The IFSB issued a compendium of financial sector regulatory responses to COVID-19;
- The IFSB organized the online Regulatory and Supervisory Authorities (RSA) Forum on COVID-19;
- The IFSB launched the Islamic Financial Services Industry Stability Report 2020 and hold the Members and Industry Engagement Session virtually;
- The IFSB organized its first CEO's Forum on COVID-19 and Its Implications on Institutions offering Islamic Financial Services;
- The secretariat also organized an Extraordinary Technical Committee meeting to ensure technical projects are not interrupted;
- The IFSB provided free full unlimited access to the IFSB e-learning modules for all membership categories for staff of member institutions in order build capacity based on published IFSB standards; and
- The IFSB's 2nd Innovation Forum discussed 'Digital Transformation of Islamic Finance and other Innovative Solutions for Post-COVID-19 Recovery'.

Our future plans

The IFSB will continue focusing on the IFSB mission of providing unparalleled support for its member organizations and strengthen its engagements and benefits. An in-depth deeper analysis of the COVID-19 implications, emerging risks related to accelerated technological transformation and other vulnerabilities that may potentially affect the financial stability, resilience and soundness of the global Islamic financial system will be our top priority in 2021 and beyond. The IFSB Secretariat aims to increase its global visibility and collaboration with all stakeholders and international counterparts.

IIFM activities in 2020-21

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

Since the start of the COVID-19 pandemic in early 2020, the world is going through unprecedented times which have disrupted economic activity globally and put the financial system under stress.

There has been a major shift in business operations for most organizations, including infrastructure development institutions like the International Islamic Financial Market (IIFM) which swiftly adjusted its workflow and continued with its various standardization and industry development initiatives.

Review of 2020

The following is a brief overview of some major IIFM activities during 2020.

Standardization
In October, the IIFM published the Sukuk Al Ijarah Standard documentation. The IIFM standard set of 'Template Sukuk Al Ijarah Documents' comprise the following:

- Template Prospectus
- Sale and Purchase Agreement
- Ijarah (Lease) Agreement
- Service Agency Agreement
- Purchase Undertaking
- Sale and Substitution Undertaking, and
- Declaration of Trust.

The templates are 'asset-based' documents which are to be used for senior unsecured Sukuk Ijarah issuance. The IIFM is considering the creation of 'asset-backed' Sukuk Ijarah documentation as a future project. The IIFM is also progressing with the development of Sukuk Mudarabah Tier 1 standard documentation and expects to publish the standard documents by early 2021.

Global financial reform
To keep Islamic finance abreast of global financial market developments such as the regulatory-driven global benchmark rate reforms to discontinue the use of the Inter-Bank Offered Rate (IBOR) and replace it with Risk-Free Rates (RFR) by December 2021, the IIFM has been organizing sessions at its events over the last two years to raise awareness on this important development. This transition from IBOR to RFR will also have implications for Islamic transactions and requires consultation with key Islamic finance stakeholders so that the impact can be assessed and the necessary amendments carried out based on industry recommendations. The IIFM formed a core working group of major institutions to develop a consultation paper which was the basis of deliberations that took place at the industry-wide consultation meeting organized by IIFM on the 24th November 2020. Currently the core working group is finalizing the recommendations received from the market relating to initiatives to be undertaken by IIFM.

Industry development
In July, the IIFM joined International Swaps and Derivatives Association, International Capital Market Association, ISLA, London Bullion Market Association (LBMA), UK Finance, Association of German Banks and Australian Financial Markets Association as a co-signatory to a letter submitted to global regulatory bodies to jointly assert their commitment to defining and promoting a digital future for financial markets. The collaboration proposes a series of principles and objectives across three following core areas:

1. Standardization
2. Digitization, and
3. Distribution.

Since the IIFM is mandated to develop standardized documentation and is also exploring the development of digitized and smart contracts, hence it joined as a co-signatory representing the Islamic finance industry in this important initiative.

Legal opinions
The IIFM, in coordination with its joint partner ISDA, issues joint legal opinions on the Tahawwut Master Agreement for enforceability of financial contracts in jurisdictions with closeout netting legislation. So far, legal opinions are available on English law, Singaporean law and Malaysian law. In November, the IIFM and ISDA published the 'Legal Opinion on UAE Federal Law' for the benefit of its members.

Capacity-building and professional development
Providing training to users of the IIFM standards is part of the IIFM 3-Year Strategic Plan (2017–20). The IIFM is now working with a leading training services provider to develop the training material which will enable the IIFM to offer technical workshops to member and non-member institutions. This will help in creating better understanding on the practical aspects and workings of IIFM published standards and also serve as capacity-building and professional development of financial institutions' human resources.

Preview of 2021

The IIFM aims to offer these workshops to the market during 2021.

Translation of IIFM standards
In July, as part of its three-year strategic plan, the IIFM released the French language versions of six of its standards relating to hedging and liquidity management. This completed phase one of the translation initiative to support the expansion of Islamic finance in new jurisdictions and territories. The IIFM will also be looking to translate its remaining standards into French as well as other languages in the next phase.

Annual Sukuk report
The annual IIFM Sukuk Report is one of the main references on Sukuk for the industry and the 9th edition of the report was published in July. Work on the 10th edition is currently underway and is expected to be published by mid-2021.

Industry consultation and awareness events
The IIFM organized two Sukuk-related webinars during the year, a joint IIFM–BAFT Trade Finance virtual workshop and a joint IIFM–IFSB High-Level International Seminar (webinar) in conjunction with the 7th Annual Indonesia Sharia Economic Festival 2020. The IIFM was due to hold a virtual industry consultative meeting on 'Global Benchmark Rate Reforms and Implications of IBOR Transition for Islamic Finance' on the 24th November 2020. An industry consultation meeting is also being planned for Islamic syndication documentation standardization in early 2021. Besides the aforementioned events, the IIFM also virtually held its board of directors meetings and Shariah board meetings.

Other standardization initiatives
Other initiatives currently being planned by the IIFM are the development of standardized Islamic syndication documentation as well as a joint initiative with the LBMA and the World Gold Council to develop standardized allocated gold documentation.

Conclusion

The IIFM will continue with its standardization and industry development initiatives and during 2021, it will start working on its next three-year strategic plan.

IILM increases issuance program size to US$4 billion for more Shariah compliant liquidity management instruments

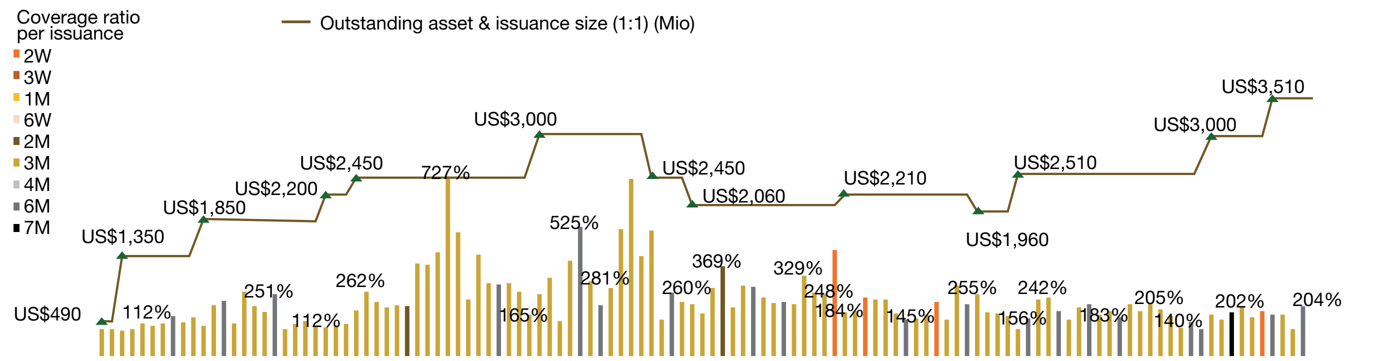
Dr Umar Oseni *is CEO of the International Islamic Liquidity Management Corporation. He can be contacted at ceooffice@iilm.com.*

The International Islamic Liquidity Management Corporation (IILM) was established to develop and issue short-term Shariah compliant financial instruments to facilitate effective cross-border liquidity management for institutions offering Islamic financial services. By issuing a various range of liquid Shariah compliant financial instruments, the IILM has been enhancing cross-border liquidity flows, international linkages and financial stability of the Islamic finance industry. The IILM has been issuing its 'A-1'-rated Sukuk since August 2013 in a wide range of tenors from two weeks up to seven months to provide the institutions offering Islamic financial services with liquidity management instruments (See Chart 1).

Review of 2020

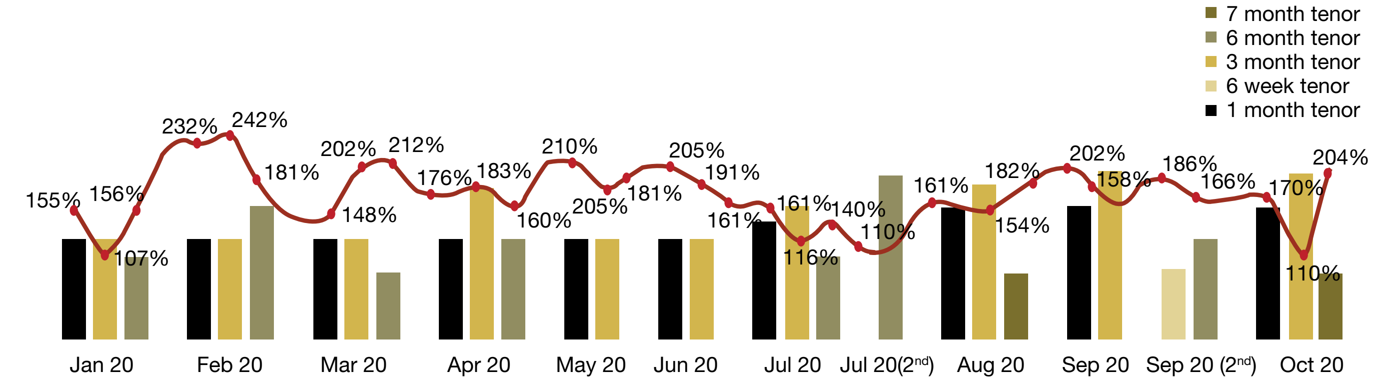
The unexpected COVID-19 pandemic has taken the world by surprise, leading to unprecedented measures from central banks and governments such as a large accommodative monetary policy and massive fiscal stimulus. The much-needed interventions have helped to limit the impact on the global markets and stimulate a hint of economic recovery. On top of this health emergency which led to a global economic shutdown, other uncertainties have popped up and destabilized the financial markets such as the oil shock, potential no-deal Brexit, resurgence of US–China trade wars and the US elections.

Chart 1: IILM's journey since inception



Source: IILM as of the 30th October 2020

Chart 2: IILM Sukuk issuances in 2020



Source: IILM as of the 30th October 2020

Liquidity management has never been so critical than in such a period fraught with uncertainties. A thorough cash management policy is vital in times of crisis to mitigate business risk and avoid insolvency. The IILM Sukuk have become a safe-haven investment solution for institutions offering Islamic financial services to manage their excess cash during these troubled times. Despite the liquidity strain in March, the IILM was the first institution to successfully reissue its Sukuk on the 8th April 2020 ahead of sovereigns, and conventional and Islamic investors' behavior has evolved to favor sovereign-backed liquid assets to park cash in the short term.

To address the market demand, the IILM raised its supply of highly rated Islamic instruments from US$1.96 billion in January 2020 to US$3.51 billion, crossing the 100th Sukuk mark in April 2020. As of the 30th October, the IILM has issued 30 Sukuk for a total of US$9.98 billion, offering a wide range of tenors from one month to seven months on a regular basis (see Chart 2). 2020 is expected to end with a total of 35 IILM Sukuk issued for close to US$12 billion, the highest amount ever offered.

The IILM has remained the only issuer of short-term US dollar Sukuk available internationally in the secondary market through its network of primary dealers. The IILM is one of the top Sukuk issuers around the globe during the first nine months of 2020, behind Saudi Arabia, Malaysia and Indonesia. The accumulated IILM issuances accounted for circa 30% of the total US dollar Sukuk issued globally (see Chart 3).

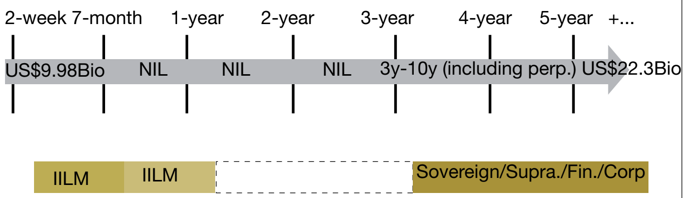
The issuances gathered sound demand in excess of 170% of the total amount issued on average. Several new investors and returning investors from across the globe have benefited from the IILM Sukuk as a cash management alternative. Pricing-wise, the market demand continues to pressure down the credit spread hovering around an all-time low level of 15bps on average above the benchmark.

2020 marks another milestone for the IILM as its short-term issuance program was upsized from US$3 billion to US$4 billion for the first time to accommodate the inclusion of new assets, reinforcing the IILM's role as a frequent provider of Shariah compliant liquidity tools, with a sound pricing discovery process and a global reach to various types of investors.

2020 also marks the 10th year anniversary of the establishment of the IILM. The IILM's track record over the last decade demonstrates its commitment to fulfill its mandate to supply high-quality, cross-border, Islamic liquidity management solutions.

The IILM now positions itself as a regular issuer in the global Sukuk market, allowing various types of investors to manage their excess liquidity and investment positioning. The high quality of

Chart 3: IILM's positioning in the global US dollar Sukuk market



Source: IILM as of the 30th October 2020

the asset pool which underpins the high grade rating of 'A-1" by S&P Global Ratings, coupled with a strong asset tangibility ratio of 79%, has promoted IILM Sukuk as a safe haven investment instrument for institutions offering Islamic financial services.

Preview of 2021

Global Sukuk issuances are expected to drop by 5% to about US$170 billion in 2020 due to the coronavirus crisis, ending four consecutive years of annual growth, according to Moody's Investors Service. Sukuk issuance in 2020 would still be the second-highest on record despite the expected decline, as governments continue raising finances to tackle issues generated by the pandemic.

2021 could bring its share of challenges if the disconnect between financial markets and the real economy prices keeps widening as the IMF has recently warned. Volatility spike, surge in insolvencies and higher global unemployment could significantly deteriorate market liquidity.

The IILM remains committed more than ever to fulfilling its mandate to provide the Islamic financial market with varying liquidity tools. The primary dealers, as well as the end investors, are eager to have at their disposal alternative high-quality liquid asset instruments with a broader choice of maturities to manage their excess liquidity and to comply with the liquid coverage requirement regulation under Basel III.

Conclusion

As part of the IILM's objectives, a larger choice of US dollar tradable liquid instruments is also expected to contribute to the development of a liquid Islamic capital market with a more active secondary market. Issuing various tenors of Sukuk would increase the depth of the secondary market infrastructure, as per the recent track record of the IILM Sukuk secondary market. Indeed, additional highly rated and liquid Islamic assets are needed to maintain the stability of the Islamic financial market.

The obvious roadmap, or is it? Thoughts on strategic drivers for 2020 and beyond

Abdulkader Thomas *is CEO of SHAPE Financial. He can be contacted at ast@consultshape.com.*

Donald Trump, COVID-19 and geopolitics make strategic thinking less difficult than in the past. What we need to do in the Islamic finance sector is clear within these dynamic parameters.

Trump's impact on the US and its alliances means that the world has become the most multipolar that it has been since 1914. If you have any doubts, remember that during the early phases of COVID-19, the **US commandeered personal protective equipment (PPE) destined for France**, a NATO ally and OECD partner. The PPE was in Thailand. The implication is clear: in case of disaster, the smaller the country, the poorer the people, the more alone you are. This means that domestic human capital, local supply chains and domestic healthcare capacity should be national priorities. A world in which we are alone is a de-globalizing world. Free trade agreements and market access will have less meaning. Emerging market countries must think in regional terms and have local free trade, but tariffs to protect key regional industries including the local production of PPE and other crucial supplies.

Between climate change, industrial and agricultural sprawl, and the remnants of globalization, we can worry that events like COVID-19 are expected to repeat. The implications fall into two zones: health, water and sanitation infrastructure, and agriculture. The former requires human capital and physical infrastructure. If one examines the development of the US, the canals, roads and railroads were followed by education, health, water and sanitation investments. A more recent success story is Dubai. Forty years ago, the Jebel Ali Free Zone and port was built, then the airport was Improved and the remaining high-quality infrastructure followed. The lesson is clear for emerging markets: transportation and logistics open opportunities.

Agriculture in the rich countries of the west and China is over-industrialized and quite possibly a **major contributor to climate change.** Regenerative soil policies and small holder-friendly methods may result in more stable production as well as stabilizing the natural hydro cycle. Unlike industrialized agriculture, regenerative agriculture costs less over time. This is a warning to be wary of their 'success' and educate ourselves to make our own improvements.

Geopolitics brings three-and-one-half poles into contention: Russia, the People's Republic of China and the US. The EU is the half, unless it chooses not to be. There was a reason for the non-aligned movement during the previous Cold War. South–South trade and regional co-dependence can help to push back the zero-sum alliance and commercial propositions of the great powers. Each great power needs some group of benefits from the non-aligned countries and regional groupings. Yet, to some degree, what the three-and-one-half poles are, to a certain extent, substitutes for one another. Their needs do not have to be elephant feet squashing everyone else's aspirations and independence.

Islamic financial institutions and supporting regulators need to consider the policies that provide for Islamic financial institution funding for local and regional infrastructure. There are good examples within the wider Islamic financing space of applied Islamic finance for roads (Malaysia and Turkey), airports (Saudi Arabia), water (Malaysia) and energy (Malaysia, Pakistan, Egypt, and Saudi Arabia). In Malaysia, infrastructure deals are financed in the capital markets via Sukuk. In Saudi Arabia and Turkey, syndicated deals are more common. And in Turkey, Egypt and Pakistan, multilateral development banks, including the IsDB and the European Bank for Reconstruction and Development, support syndications.

What are the implications for Islamic finance? Individual players can only do so much. But, think of the Quran's example, the rain starts with a single drop. (Al Kahf reference). Often, the players are too weak or poorly connected; this creates opportunities for the IsDB Group, APICORP and other multilateral to help. In so many countries from West Africa to Central Asia, IsDB teams from the International Islamic Trade Finance Corporation and the Islamic Corporation for the Development of the Private Sector are doing micro-level engagements with local financial institutions. These are those very first drops of rain.

But the multilateral organizations work best when there is a domestic policy and a plan. Policy, policy and policy are the keys to success. Look at Malaysia's development of Islamic finance over the past 40 years: policy and planning and good guidance for the private sector. Contemplate the revolution in Saudi Arabia these past few years. First came Vision 2030 (remember in the 1980s Malaysia had Vision 2020). Now, the Kingdom is comprehensively overhauling its policies and plans to modernize the economy and create domestic opportunities.

Good planning has allowed many countries to facilitate private sector development in key industries. From education to health and water, collaboration between the private sector, Islamic financial institutions and public policymakers can allow the emergence of local centers of excellence. Tax policies, public grants or subsidies relating to properties, even commitments to pay, can all assure that the opportunities are viable and increase the common wellbeing of local and regional residents. Islamic financial institution-financed projects contribute to jobs, create new customers for Islamic finance institutions, and may even help to reverse migration to mega cities.

Within this, the role for individuals in Islamic financial institutions is clear. They must contribute to good public policy. Then they must, deal by deal, invest where the long-term opportunities are ready to be percolated.

And finally, as we consider infrastructure, education, and health, our mantra should change from "build it so that they will come" to "build it so that we can achieve" with or without the big powers.

Mind the gap: As SDG financing gap widens, we must harness the power of science, technology and innovation

Dr Hayat Sindi *is the senior advisor to the president of the IsDB.*

The COVID-19 pandemic is undoubtedly one of the biggest challenges in living memory. Across the world, all heads are turned to the potential of science, technology and innovation to unlock the solutions to the unprecedented situation we find ourselves in.

A **concerning study by the OECD** earlier this year estimated that as a result of COVID-19 and its toll on global finance, external private finance inflows to developing economies could drop by US$700 billion in 2020 compared to 2019 levels, exceeding the immediate impact of the 2008 global financial crisis by 60%.

The financing gap to achieving the UN Sustainable Development Goals (SDGs) has therefore significantly widened and threatened years of progress. For the IsDB, this leaves our member countries exposed to development setbacks.

This is alarming, but we must not underestimate the power of science. I truly do believe that the answers will come from the talented minds that are willing to take on the challenge. We need to revisit our theories and models; the solution is already right in front of us, to not only combat the virus but to achieve the SDGs.

In order to incentivize such solutions, we are looking to encourage innovations through initiatives such as our Transform Fund, which we recently pivoted to look at COVID-19 solutions. Through our US$500 million Transform Fund, the IsDB announced a new call for innovation, which challenges scientists, innovators, research centers, universities and entrepreneurs to present trailblazing projects to address the COVID-19 pandemic and mitigate its economic and social repercussions.

These advances in science, technology and innovation are twofold, as they can unlock solutions to combating the virus as well as enhancing the competitiveness of our member countries, working toward closing the SDG finance gap.

The focus for this particular call for innovation is on scaling up solutions built on advanced technology (such as internet of things, big data, blockchain and artificial intelligence (AI)) to track and monitor the spread of COVID-19 and other emerging infectious diseases for improved disease surveillance systems and patient care.

As well as these innovations, I believe that open science is an effective tool in engaging the public in conversation and is the key to mobilizing innovation across a number of sectors. We have seen how open science, across different countries, has been incredibly beneficial to the developing world and we have seen this specifically in the field of social innovation, where COVID-19 is less about adaptation and innovation, but survival.

Open science has tremendous power: it encourages multidisciplinary and social innovation. In order for both open science and open innovation to be beneficial tools, we need to have joint programs between G20 countries and developing countries to improve collaborative capacity-building.

Through our Transform Fund, innovative ideas are translated into real development solutions that will address challenges and empower the communities to realize their full potential.

What's more, we know that AI is a vital tool when looking at scaling up the solutions that are key to progress in the developing world and we have seen the value of this field during the COVID-19 pandemic. We have seen how AI will be a game-changer in improving the lives of the world's poor; if we apply this technology to solving the world's problems, we can lower the cost of treatment, diagnostics and the availability to basic health utilities.

AI has really transformed the fight against COVID-19, looking more broadly than just medical innovation. We are looking at rapid polymer and metal 3D printed open source ventilators and masks, online mesh technologies for supporting non-contact socially distanced meetings and big data identifying and engaging suitable retired doctors and nurses to rejoin the health service.

That said, COVID-19 knows no borders and as a result, any response to the pandemic must not be confined to individuals, but joins the dots between the entire science, technology and innovation ecosystem.

To ensure long-term sustainable progress, we need to empower local partners and their communities through the transfer of technology and knowledge that has the power to transform millions of lives around the world.

This is why two years ago, the IsDB launched Engage — an online ecosystem that connects scientists, innovators and entrepreneurs from all over the world. The platform is the first of its kind for the developing world, and will focus on six SDGs, ultimately helping to improve the lives of millions of people.

I hold great promise for everyone to unleash their potential and think innovatively and quickly in finding solutions to combat COVID-19, as well as striving toward achieving the SDGs through the power of science, technology and innovation.

Since the dawn of humankind, we have seen how the power of science has defied expectation. I believe what we can do for civilization is unlimited.

Can the GCC debt capital markets make an impact?

***Dr Issam Altawari** is the managing partner of Newbury Economic Consulting. He can be contacted at issam@newburyconsultancycom.*

The financial system was put through the test during the financial crisis of 2008, as financial institutions started to become less prudent with their financing criteria, risk management and dissemination of risk. Moreover, the drop in oil market prices of 2014 put the GCC countries under financial and budgetary constraints, instigating huge social and political pressures to reform. Hence, the need to establish and develop a platform and a comprehensive legal environment for the debt capital markets to grow in the GCC region.

There are two options to bridge the budget deficit gap without upsetting the social fabric: either to draw on the general reserves or borrow from the markets. Different countries in the GCC took steps to remedy the situation with proactive financing strategies and plans, while others were slower in following suit.

There is a growing need for the GCC to finance its expansionary budgetary policy that targets industry, energy, infrastructure and security and social needs. The governments of the GCC region need an accessible and efficient debt capital market to address financial policy decisions and options covering regulation, supervision and oversight of the financial systems. This includes markets and institutions with the view to promoting financial sustainability, stability market efficiency and consumer protection. This will impact debt capital market evolution and growth. It was examined how Islamic debt capital market techniques could positively impact the global debt capital market industry by offering alternatives for interest-based assets. This will lead to the establishment of a framework for the development of capital markets in emerging and GCC areas in particular.

Sukuk issuances in 2019 in the international debt market were up by 6% compared to 2018. Sukuk represent 25% of the total GCC fixed income issuances and Sukuk are on the rise, as issuers seek to develop the Islamic debt market and diversify their funding mix. Even though more than US$45 billion-worth of Sukuk were issued over the past three years in the GCC, the challenge is still to balance debt sustainability with the need for public expenditure.

The key drivers of the ecosystem for a robust and comprehensive debt market in the GCC region are the establishment of legal and regulatory frameworks, a widened investor base and benchmarking the issuances of bonds and Sukuk, with incentivization and facilitation of foreign investors. In addition, our discussion thus far raises one critical factor needing further analysis, that is, a pragmatic and visionary leadership. The uniqueness of the GCC is being ruled by monarchs that have strong leadership founded on pragmatism and vision. Monarchs are known to rule by virtue of their sovereign quality or divine rights. With pragmatic and visionary leadership, the monarchs may have to be adaptable to fundamental reforms — some of which can lead to political power reconfiguration between the monarchs and the rest of the political economic factors. And this leads us to the policies to predict the shape and form of these reforms, and these may include, but are not limited to, regulatory framework, political practices, market education, investments and taxation.

The immediate consequence from undertaking these reforms is a more empowered civil society. This is often overlooked when discussing fundamental market reforms. As the economy becomes more sophisticated, participants naturally demand for transparency and accountability. What this means politically for leaders is that checks and balances are continuously assessed. Leaders' privileges are no longer given but linked closely to the ability to discharge leadership responsibilities to satisfy the rights of the people.

Developing the debt capital market should be part and parcel of discharging such leadership responsibilities. A well-developed debt capital market allows for broader investor participation. It can provide capital access to those SMEs, hence potentially elevating the socioeconomic wellbeing of the rest of society. A transparent and orderly debt capital market can help allocate economic resources more efficiently, thus eliminating waste or mismatch of financial and economic resources.

All these impacts are important for economic stability. In the case of GCC countries, a debt capital market can even help strengthen the state's position by making it more relevant through necessary political economic reforms. When the state together with large corporates realize that a developed and functioning debt capital market is an important function of their survival, then changes to things taken for granted will send strong signals to the rest of society about the importance of debt capital market legitimation.

The importance of the development of debt capital markets in the GCC will have a direct impact on improving the efficient mobilization of resources and allocation in the economy, thus providing liquidity management tools for both short-term and long-term objectives and finally developing a benchmark on the income earned on government issues as risk-free returns. The development of debt capital markets would benefit various stakeholders, issuers, investors, regulators and customers.

Building a stronger and more sustainable world together

***Kurt Lieberman** is CEO of Magni Global Asset Management. He can be contacted at klieberman@magniglobal.com.*

The IFN Annual Guide is an opportunity to step back and write from a broader perspective. In this time of a global pandemic and disruption, we need to take note of the many positive ways we can see the world going forward.

I submit that our future will be brighter. Further, I submit that much of the divisiveness we see in the world can be overcome. Please allow me to explain my optimism despite these troubled times.

The explanation starts with a word used more outside the world of Islam than inside it: sustainability. A popular topic in the western world, much is written about it. Young people in western countries consider it a high priority.

While the term is used a lot, it is rarely defined. My desk dictionary uses 'enduring over time'. We want humanity to endure so we want a world that is sustainable. Frequently, people perceive sustainability as related primarily to environmental issues. We need to keep the air, water and land clean, while addressing the challenge created by the detrimental impact of man-made greenhouse gases collecting in and polluting our atmosphere.

As I have written in my monthly columns, I propose a more inclusive definition. Our lives should be sustainable. The actions we take should make sustainability easier and, where possible, address or prevent unsustainable activities. This holistic approach can be uncomfortable to some people in the western world. All too often, the pieces of our modern world become compartmentalized. For example, I feel 'green' because I bought a Tesla that has an electric engine instead of a car with a gas engine, yet I am not good at minimizing the waste created in my home. The totality of our actions becomes the basis for our individual impact on sustainability.

Most of you are Muslims. In some ways, this concept of the totality of one's actions probably is more comfortable for you. Stewardship of Allah's gifts to the world is core to Islam. Each of us is responsible for that stewardship. In addition, all of us are stewards of our bodies and our lives. We should do that which is good.

Sustainability should be extended to financial decisions and transactions as well. Financial transactions are about more than investing. In the US, we talk about 'Share, Save and Spend'. In other words, we make financial decisions about helping people (sharing), saving for the future and spending now for ourselves and our family's wellbeing. One should be sustainable across all decisions: Zakat, Islamic finance and everyday spending.

I see people around the world increasingly having this broader view of sustainability. It is a source of optimism for me. We are taking action to have a more sustainable and better world.

One of the many wonderful experiences available to me is the opportunity to talk to religious people of many faiths. This perspective helps me understand that we have more in common and less that is different. The concept of protecting the world that God created for all of us is common to major western religions. The concept of being a good person and taking care of oneself is also shared.

Yes, each religion has specific practices. Yes, religions have specific customs. Those sources of uniqueness make the world interesting. We need to respect the uniqueness of each. At the same time, we must not lose sight of that which binds us together as humanity: humanity itself.

A decade ago, I knew little about Islam. A lot has changed for me. Today, I have Muslim friends around the world. They are dear to me. My friends have taught me so much. The pandemic prevents traveling to see them. Fortunately, technology allows us to stay in touch and talk in ways that were not possible just a few years ago.

I encourage everyone to look beyond these troubled times. The future can, and should be, bright. Each of us should be sustainable in all that we do. At the same time, we should find ways to connect with people, especially those with different experiences, faiths and cultures. There is so much we share. Along the way, we make great friends and learn about the incredible diversity on this planet.

Advancing sustainable finance in Malaysia – the year in review

***Navina Balasingam** is the head of stakeholder engagement and business development at Capital Markets Malaysia. She can be contacted at navinab@seccom.com.my.*

The alignment of sustainable finance to the values and principles of Islamic finance and investing has become a globally accepted concept among issuers and investors. Recognition of this alignment is at the heart of the Securities Commission Malaysia (SC)'s initiatives in sustainable financing which the regulator embarked on in 2014 with the issuance of its Sustainable and Responsible Investment (SRI) Sukuk Framework.

Since then, there has been significant traction in this space, with Malaysia issuing the most corporate sustainable Sukuk issuances globally: a total of 11 green and sustainable Sukuk with a combined issuance size of RM5.02 billion (US$1.24 billion) to date.

Recent efforts in developing the ecosystem

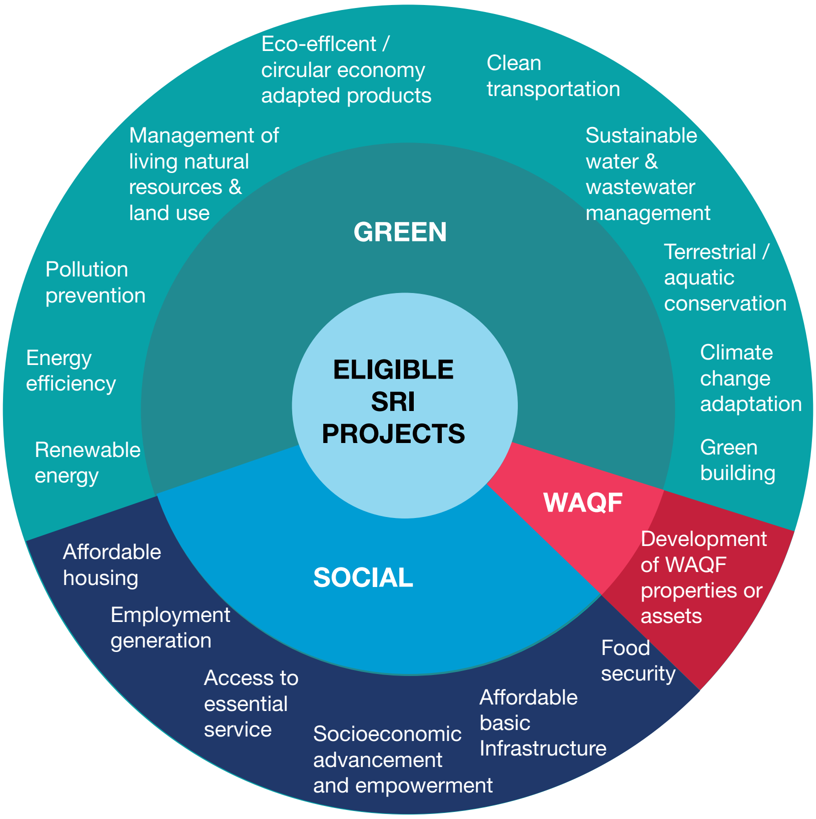
At the end of 2019, the SC revised its SRI Sukuk Framework, expanding the list of SRI projects deemed eligible under the framework to provide clarity whilst encouraging diversity and innovation in the types and variants of sustainable Sukuk. To date, the 11 issuances have been to finance a range of projects including large scale solar, green buildings, hydropower and education. For the industry to continue to grow, development in this space will be underpinned by breadth of projects and innovative transactions.

To further encourage sustainable finance, the government of Malaysia in its budget proposal in November 2020 announced measures to support Malaysia's advancement in developing its sustainable finance ecosystem.

To facilitate the issuance of sustainable Sukuk and bonds, the SC's SRI Green Sukuk Grant has now been extended to cover not just green Sukuk but all types of SRI Sukuk and bonds. Further, the tax exemption on this grant has been extended for a five-year period ending 2025. Meanwhile, the existing tax deduction on issuance costs of SRI Sukuk approved by or lodged with the SC has been extended till end 2023.

The government will also continue to fund the Green Technology Financing Scheme 3.0 or GTFS3.0 with a fund size of RM2 billion (US$493 million) for two years up to 2022 which will be guaranteed

Chart: Eligible SRI projects



Source: Sustainable and Responsible Investment Framework, Securities Commission Malaysia

by Danajamin Nasional to encourage the issuance of SRI Sukuk. The GTFS is a special financing scheme that was first introduced in 2010 by the government to support the development of green technology in Malaysia.

Earlier this year the Malaysian government issued the 'Sukuk Prihatin' to contribute toward the country's economic recovery following the COVID-19 pandemic. Following this, the government has announced the issuance of its first sovereign sustainability bond or Sukuk for environmental and social initiatives in 2021. This issuance will be yet another significant milestone for Malaysia in signalling the commitment by the country as a whole – government, regulators, investors, corporates and intermediaries.

Impact of COVID-19

While the SC's efforts in driving its sustainability agenda has been impacted by the pandemic, by no means has sustainability taken a back seat. If anything, the pandemic has provided greater impetus, urgency and motivation to consider environmental, social and governance (ESG) factors in how the financial sector moves forward.

Whilst funding a transition to a low-carbon economy is still high on the agenda, the SC is taking a closer look at how funding can make a greater impact on social issues: protecting jobs and livelihoods, ensuring greater equality and alleviating poverty.

In this regard, the capital market is well placed to utilize the concept of Waqf or the Islamic endowment. Another recent milestone by the SC is the launch of the Waqf-Featured Fund Framework to facilitate the offering of unit trust funds and wholesale funds with Waqf features that integrate commercial and social objectives.

Waqf is naturally aligned to social outcomes, but for it to thrive as a capital market product it is important that there is a stable, sustainable and consistent income stream from Waqf assets. It is therefore critical that the industry look beyond the norm, and to consider the possible innovative, diversified use of Waqf assets, perhaps through the issuance of Waqf-enabled Sukuk for social infrastructure projects.

Within the social finance space, Islamic crowdfunding has also been instrumental in facilitating fundraising through the capital market for social projects particularly in the microfinance and SME segments. Further growth is expected within this space as more micro enterprises and SMEs continue to seek funding to sustain and grow their businesses.

The pandemic has given us a new lens through which to view how and what we finance, fund and invest in. Social, governance and environmental principles are being prioritized more than ever before and as a whole the business world is now placing a larger emphasis on the concept of 'doing good'.

Malaysia's progress in this space is due in no small part to its entire ecosystem of industry players from the investment banks to the rating agencies, law firms and Shariah advisors that have embraced the need for sustainable financing and have worked alongside regulators to advance its development.

Going forward its strong Islamic finance ecosystem of industry players is well placed to take the lead in the delivery of innovative solutions in supporting the country's transition to a low-carbon economy.

CM2 capital markets MALAYSIA

Interview: Moawia Ahmed Elamin, CEO of Faisal Islamic Bank, Sudan

The new strategy of Faisal Islamic Bank (FIB) of Sudan guides the bank toward progressively achieving its long-term goals and its new brand reflects its commitment to deliver on the promise of best serving its large-scale customer base. IFN talks to Moawia Ahmed Elamin, CEO of FIB, to find out more.

Recently, FIB developed a new strategy to drive growth for the near future. What are the most prominent features of this strategy?

The new strategy the bank developed is based upon establishing an overall framework to direct the bank toward progressively achieving its long-term objectives and to enable FIB to make the most of its strengths and redefining its position to achieve future growth and enhance the bank's ability to adapt to the constant changes in the banking industry and increase its operational effectiveness. The bank has developed this strategy in collaboration with Deloitte, which is one of the world's four biggest reputable companies in the industry of providing consulting services and strategy formulation.

Importantly, the bank's customers are at the heart of this new strategy, which was fundamentally developed with the aim of providing a unique customer experience building on the most recent technical developments and the exploitation of innovation capabilities.

> “FIB's new strategy guides the bank toward progressively achieving its long-term goals”

The essence of the bank's new strategy lies in the Vision Statement which expresses the bank's ambition (to be the best provider of Islamic financial solutions in a contemporary style, by excelling in customer satisfaction, with creativity and innovation driven by the spirit of youth). Thus, by developing this strategy, FIB will continue to strongly leverage technology to improve its operations and provide quality service to its customers, and accordingly, the strategy is expected to make a major shift in the bank's positioning, and expand its products and services scope.

FIB has been rebranded recently; on what grounds was this transformative step, and what implications do you expect?

Rebranding the bank marks a significant milestone in our new strategy, providing an opportunity to reflect on everything that the original brand of the bank stood for and everything that we look forward to become as we push ahead into an exciting future.

It is noteworthy that not just our logo that we have modified. We have also changed our website, our social media platforms, our messaging and our recruitment scope which has been extended to include females, all based on the new vision and mission statement which both perfectly reflect the way we aspire to help our customers to better utilize the best-in-class financial solutions and services we deliver.

We are now using our new brand to share our commitment to deliver on the promise of best serving every customer segment uniquely.

> "FIB's new brand reflects its commitment to deliver on the promise of best serving its large-scale customer base"

One of the prominent features of the new vision statement of FIB is that the bank pays considerable attention to its young staff in terms of better developing their skills and further qualifying them to assume greater responsibilities. Would you shed more light on this strategy?

Investing in youth is a win-win situation for both the bank and our staff. Through our learning opportunities, our young employees can develop the skills they need to succeed in professional life, and allow fresh perspectives to drive innovation in the bank. We believe that by understanding our young staff's skills, goals, dreams and expectations, we can offer a supportive and challenging experience that will foster talented staff retention with FIB for the longer term.

In this context, formal training and development programs are an important complement to on-the-job learning. Our employees have access to a wide range of formal learning resources and opportunities — everything from traditional classroom training to interactive web-based learning programs and other online resources, in addition to informal learning which takes place through projects and work assignments. FIB also provides the opportunity for staff to engage in external seminars and conferences, training and professional accreditation programs and substantial educational sponsorships.

We are fostering a culture of lifetime learning to ensure our staff obtain considerable experiences while developing skills for the future through innovative learning programs.

Over the course of the bank's long history, only males were recruited. Now, the bank has opened its doors to recruit females. What prompted this step?

This step came as part of our vision to rebrand the bank and redefine its position, as we believe that hiring only males to work for the bank was not based on a solid rationale. We also took this step to promote gender equality in the workplace and to express our support to Sudanese women who have always proved themselves qualified and capable of assuming responsibilities in different aspects of life, particularly professional life.

There are some indications and signs that Sudan would be removed from the US's list of states that sponsor terrorism. If this becomes a reality, what implications does this step have on Sudanese banks, in your opinion?

The removal of Sudan from the US's list of states that sponsor terrorism is likely to enable Sudan to restore its trade and economic relations with the world, facilitating banking operations and procedures for exports and imports. It will also resume the normalization of the country's communication with international financial and investment institutions, particularly for the Sudanese private sector including the banking sector, which was hugely affected by the economic embargo and the absences of international corporations' relations with any Sudanese financial institution. Now, we really hope to see Sudan removed from this list as this step will help the Sudanese economy and the Sudanese banks build stronger relations with the international marketplace and, accordingly, facilitate conducting financial transactions internationally which will definitely help recover and revive the Sudanese economy.

What impacts did the COVID-19 pandemic have on the Sudanese banking industry during the last few months?

The concerns about the impacts of the COVID-19 pandemic on the banking industry in Sudan began as early as March, and as soon as the full lockdown was imposed nationwide in April, these concerns became a reality across all levels of the economy. Expectedly, the banking sector was affected during the lockdown, which was a direct implication on almost all sectors and different walks of life across the globe. Like any other service sector, the provision of banking services was interrupted, and office attendance was restricted to a small number of employees and limited to providing urgent and necessary services related to government supplies and the functioning of public affairs.

However, FIB took multiple steps and measures to decrease the negative implications of the pandemic on the bank's operational activities, backed by the electronic channels the bank provides to facilitate financial transactions and enable the bank's customers to make use of the e-services such as: e-bank, ATMs and the Fawry App. In addition, FIB's business continuity plan has made it easier for the bank to deal with the situation by setting procedures to ensure the flow of the operational processes during such threats and disasters.

The overall effect of the COVID-19 pandemic was not as big as we expected, and we now predict that we will be able to close our financial year at the end of 2020 by making decent profits given such difficult times.

SECTOR REPORTS

Market outlook on Islamic accounting

Mohammad Majd Bakir *is the director of standards development at AAOIFI. He can be contacted at mbakir@aaoifi.com.*

The global accounting scene has witnessed dramatic developments in less than a year, mainly in the aftermath of the COVID-19 outbreak and its widespread economic impact on economies and societies, and multiple sectors and industries worldwide, including the Islamic finance industry which was not spared. AAOIFI staged a timely reaction by issuing guidance (AAOIFI Accounting Statement on 'Accounting implications of the impact of COVID-19 pandemic' (21st May 2020)) relating to the implementation of financial accounting standards in the pandemic era.

AAOIFI also embarked on a comprehensive project to review and revise its financial accounting standards (FASs), particularly those that were issued a long time ago and have not undergone any revisits. A major part of the project focused on AAOIFI's financial reporting conceptual framework and financial accounting standard (1) on general presentation and disclosure in the financial statements of Islamic financial institutions (both form part of the comprehensive review/revision project and are targeted for release in 2020).

Furthermore, and in the fourth quarter of 2020, the project of developing a full set of standards for Waqf (in areas of Shariah, governance and accounting) has culminated with the issuance of a Waqf FAS, constituting a full circle approach for developing standards on a given product/transaction in the three areas of standards development altogether.

Review of 2020

In the very wake of the pandemic outbreak, AAOIFI commenced its close monitoring of the unprecedented situation and its economic implications, and by the end of the first quarter felt the need to provide guidance to the institutions operating in the Islamic finance industry to tackle the challenge of presenting their financials in an objective and faithful manner as the economic repercussions kept unfolding, especially given the distinct nature of Islamic financial institutions as compared with their conventional counterparts in many aspects, including the existence of multiple stakeholders who share the profit or loss of the institution, and that all transactions are solely based on trade, leasing or partnership. Accounting treatments, in turn, are meant to always reflect this reality, particularly at times of complex and unusual events.

While all FASs remain applicable, the statement encouraged Islamic financial institutions to provide additional disclosures on a voluntary basis to enable users of the financial statements to better comprehend their financial position and performance. It also provided guidance on the departure from any treatment prescribed by FASs, due to regulatory requirements, with a complete disclosure of the affected transactions if departure did not take place. Otherwise, the validity of an entity's statement of compliance with FASs has to be examined.

The scope of this statement is limited to providing clarifications and interpretations of FASs and the framework in respect of certain significant accounting issues that may be affected, including payment moratoriums and deferment, settlement of a transaction with the execution of a new transaction, government grants and subsidies, interest-free loans and zero-return repo by regulators, expected credit losses relating to receivables and off-balance sheet exposures, impairment of assets (eg non-monetary assets), significant and prolonged declines in value of investments held at fair value through equity, an entity's going concern assumption and technical reserves.

Overall, the statement requires additional and adequate disclosures and careful reconsideration of management's judgment and assessment of assumptions.

As part of the broader mission of AAOIFI FASs, which extend to include financial reporting for the institutions of the broader economy, the Waqf FAS has been developed with the aim to prescribe comprehensive accounting and financial reporting requirements for Waqf and similar institutions including general presentation and disclosures, specific presentation requirements and the key accounting treatments specific to Waqf institutions.

The standard aims to bring about better comprehension of information included in the general purpose financial statements and to enhance the confidence of the stakeholders in Waqf institutions, consequently improving the effectiveness and efficiency of Waqf operations, maximizing the benefits to beneficiaries, ensuring proper accountability and management, while maintaining (and if possible, expanding) the Waqf corpus and sustainability of the Waqf institutions.

Preview of 2021

In 2021, the newly issued standards (eg Waqf, Khiyar, Waad, Tahawwut, FAS1 and the framework, among many others) are expected to have a profound impact on financial reporting by Islamic financial institutions, whether relating to improved treatments and disclosures, or the introduction of new principles and guidance in areas not covered before.

A number of other standards have reached the stage of exposure draft (such as Takaful) and are expected to appear in 2021. The review/revision of existing FASs will also continue unabated, including for standards covering established modes of finance/investment like Mudarabah/Musharakah, Salam and Istisnah, among others.

In short, 2021 will be another eventful year for AAOIFI as a standard-setter and for institutions and jurisdictions adopting its FASs and financial reporting framework.

Conclusion

Islamic accounting has made a quantum leap, particularly in the past few years, both in terms of the wider coverage of issues and treatments and the improvement of existing treatments, all in line with good practices and within the boundaries of Shariah. The driving force behind that has always been market needs as well as accommodation to the very nature of Islamic finance transactions and instruments. As ever, this distinct sphere of accounting has been around to cater to the information needs of a specific host of stakeholders driven by Shariah compliance and optimally by Shariah supreme objectives.

The unique reporting requirements of Islamic financial institutions as well as the areas where no specific global standards are there to account for financial reporting for particular modes of finance and investment, including those with social impact (like Waqf), mean that Islamic financial accounting standards still stand on a solid raison d'etre and value proposition, and will always do.

A bird's eye view of global Islamic agricultural financing

Mohamed Ebrahim *is CEO of Ace Financial Advisory. He can be contacted at mebrahim@acegroup.co.ke.*

2020 will be remembered as the year of COVID-19 and how it brought about significant changes in the way businesses will be conducted, including Islamic agricultural finance. The majority of the OIC countries are either primarily agrarian or net importers of food, hence food security is of paramount importance. This is reflected in the need to create, operate and finance operations throughout the food value chain, from production in the primarily agrarian Islamic communities in Africa and parts of Asia to the net food importers in the oil-dependent Arabian peninsular countries.

A paradoxical feature of 2020 was the low oil and gas prices, as well as the disruption in global supply chains, indicating tha the Arabian peninsular countries need to develop their food production capabilities by investing in sustainable agriculture using technology within their borders.

If IsDB member countries leverage their unique position as a combined block, in the sense of a common market, the member countries' global value chains shall be able to tackle their short- and medium-term challenges of food security. This would be done by the surplus fund nations investing in the primarily agrarian fund-deficit countries with vast tracts of land. This strategy would have the potential to increase their agricultural production significantly and also produce value-added processed foods, hence increasing their agricultural value-added market share in the global economy.

Review of 2020

On the 22nd June 2020, the Food and Agriculture Organization of the United Nations (FAO) and the IsDB signed a new agreement and action plan. This action plan focuses on agriculture-related business development, technical assistance and capacity development. This relationship was formalized by the signing of an MoU to focus on project design/implementation, policy advice and knowledge-sharing to increase the collective impact of both the FAO and the IsDB's work in the agricultural sectors. This is the most significant partnership that will impact agricultural financing in Muslim-majority nations.

Another significant milestone was the renewal of the IsDB–International Fund for Agriculture Development (IFAD) cooperation and cofinancing framework agreement originally signed on the 3rd May 1979, as well as the joint IsDB–IFAD action plan for 2020–22. The agreement includes a tentative cofinancing target of US$500 million (US$250 million from each institution).

In the case of the IFAD, this amount shall be subject to the three-year cycle of its performance-based allocation system. The IFAD and IsDB will also consider staff exchange opportunities under the agreement to facilitate its implementation.

From 1980 until now, the two institutions have cofinanced 20 projects in Albania, Azerbaijan, Gambia, Indonesia, Mali, Mauritania, Morocco, Pakistan, Senegal, Sudan, Tunisia, Turkey and Yemen.

Apart from the macro-level institutional players, individual players in Islamic fintech have in 2020 made significant strides in the distribution of financial products using technology and also in agritech developments via collecting better data for dissemination to decision-makers on weather, yields and crop pricing, leading to better pricing of products.

Preview of 2021

The future of Islamic agricultural finance will be, or has to be, driven by technology. Whether the technology relates to improved varieties of food crops with higher yields, or weather-related information to enable farmers to plan better, data-driven information on crop pricing, agri-Takaful product pricing or data-driven pricing of financing of farmers, these will all require innovation in fintech to be transmuted to advances in agritech. The technologies to be utilized include blockchain technology to track produce from farm to the table, robotic process automation, internet of things and artificial intelligence.

Another key thing would be increased technical assistance and training in best practices for farmers remotely, using advances in communication technology to increase harvest yields — this may include genetically modified food crop varieties, which are high-yielding and disease- and pest-resistant.

Furthermore, due to the aforementioned advances, and changes in value post-COVID-19, we expect to see an increase in financial inclusion through greater outreach of Islamic microfinance institutions, creating full-cycle Islamic finance-based agricultural products.

Better data availability and technology to monitor weather patterns and tools developed to make optimal use of water and produce water from wastewater in cities — which could be used in irrigation — would lead to crop yield stability and price stability of staple food and commercial crops, and also increase the ability of better actuarial pricing of Takaful products for both livestock and crops. Furthermore, advances in Islamic fintech will enable more economical, effective and efficient distribution of Islamic Takaful products and general financing products.

Conclusion

Technology, data and communication developments and a more value-based society — which is expected to develop in the post-COVID-19 era — will lead to better full-cycle Islamic agricultural finance products. Technological and communication improvements would improve obtaining data from remote places, dissemination of information by and to governments and quasi-government bodies about agricultural practices and assist in developing responsive Islamic agricultural financial products and their distribution to farmers in remote places in Asia and Africa. This could lead to the synchronization of agrifintech and this would be the actualization of the values of Maqasid Shariah.

Fasten your seatbelts — successfully navigating the turbulence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2020 has been a pivotal year for the aviation industry. The COVID-19 pandemic has had a transformative impact on commercial air travel, which will take time to recover to 2019 levels. In conjunction with the financial stresses associated with the COVID-19 pandemic, the industry has also been hit by the grounding of Boeing's workhorse B737-Max aircraft. Despite these challenges, the industry has proven resilient and adaptable to new challenges and, as with past major downturns, many are now looking how best to time the bottom of the market for maximum investment opportunities.

Review of 2020

There may have been some tailwinds going into 2020 with the grounding of Boeing's B737-Max aircraft and the prospect of LIBOR and Basel III reforms, but the year started with enthusiasm after a buoyant 2019.

The demand for urgent financial responses to the pandemic has resulted in airlines and aircraft lessors trying to access as many funding sources as possible. Islamic corporate facilities, and Ijarah and Istisnah asset aircraft and engine transactions, initially saw greater traction in 2020 than the Sukuk market, often as these deals have been quicker to execute.

Capital markets have been very active generally, though more in the conventional unsecured space for the aviation industry, but we have seen a noticeable increase in interest in the aviation Sukuk space; at the time of writing led by Etihad Airways's recent US$3 billion environmental, social and governance (ESG) Sukuk. We are likely to see both airlines and aircraft lessors access the capital markets further for the remainder of 2020 and into 2021.

However, the financial challenges presented by the COVID-19 pandemic have impacted the existing Sukuk market, with a number of issuers having to defer their existing payments or extend the maturity of an existing Sukuk. Two examples are Malaysia Airlines and Garuda Airlines — Malaysia Airlines needed to agree to the deferral of profit payments while Garuda Airlines extended the maturity of its existing Sukuk repayment date.

It has not been all bad news in 2020. Despite the disruptions to the industry caused by COVID-19, airlines have remained committed to their sustainability goals. In August this year, Etihad and Boeing launched a sustainable test flight trialling innovative environmentally friendly technologies to ensure that commercial aviation can progress sustainably into the future, and we would see ESG-linked funding transactions as ones well suited to Shariah principles. In September this year, Airbus also unveiled its plans for zero-emissions hydrogen-powered aircraft.

Preview of 2021

The aviation industry has experienced major downturns in the past and some of today's major players have benefited from managing their risks in past down cycles. We would expect to see private equity take opportunities in partnership with operating lessors (such as the recently announced US$3 billion transaction between GECAS and PIMCO), and would also expect to see equity raised in the Shariah compliant fund space.

The replacement of LIBOR is likely to have a large impact for Shariah compliant transactions during 2021 as part of the phasing out of LIBOR. This is of course something that is impacting the global financial community, but given that a lot of Shariah compliant hedging transactions are not documented through the International Swaps and Derivatives Association (ISDA) format, such hedging transactions will not have the benefit of ISDA amendment protocols and will require more bilateral negotiation.

While we might expect that changes to the Basel accord are probably less likely to have an immediate impact on a lot of Shariah compliant financial institutions directly, we are seeing a number of banks around the world start to prepare for the impact of changes to the Basel accord which may create more opportunities for banks that are not subject to the removal of asset finance slotting rules.

Although airlines have been seeking to delay deliveries of new aircraft, we are seeing an increased demand for export credit financing which we would expect to accelerate in 2021. The groundbreaking UK Export Finance-backed Sukuk in respect of Emirates aircraft perhaps came at the end of the last peak of export credit agency finance, and it will be interesting to see whether we will see this product revisited in a Shariah compliant manner.

The long-term sustainability of the aviation industry will continue to dominate the agenda for the industry into the future. Aviation leaders have committed to ensuring that sustainability goals and the long-term 'greening' of the industry will be prioritized as it recovers from the economic fallout from the pandemic. Continual technological advancements will ensure that air travel continues to improve efficiency and accessibility, as well as safeguard its status as the desirable method of global transportation into the future.

Conclusion

Commentators are using an alphabet soup of suggestions on what the global recovery coming out of 2020 might look like but at this stage accurate predictions are difficult. We have seen the bottom of the cycles before and they are never pretty at the time, but what is clear is that the Islamic finance industry will have a key part to play in any recovery.

Islamic fintech and crowdfunding

Craig Moore *is the founder and CEO of Beehive. He can be contacted at craig@beehive.ae.*

Peer-to-peer (P2P) lending directly connects small businesses or SMEs with a crowd of investors who can fund finance requests on the P2P platform. P2P lending aims to build a community of investors and businesses where risks are shared and capital is channeled into real economic activity that benefits the community. Essentially, P2P lending follows the basic Islamic principle of sharing risks for profits rather than the model used by banks which is transferring risks for profits.

With roughly 1.9 billion Muslims in the world making up 20% of the population, the opportunity for Islamic fintech models such as P2P lending is huge. As of July 2020, there have been 142 Islamic fintech companies recorded around the world and 27 of these are in the UK, and following close behind are Malaysia, Indonesia and the UAE. Despite the UK being ahead in the Islamic fintech game, Indonesia is in fact home to the world's largest Muslim community, with a population of more than 230 million. UK-based Islamic fintechs have noticed this and have expressed interest in expansion to the Southeast Asian region as part of their growth strategy.

Review of 2020

In 2019, regulatory sandboxes were highly utilized by Islamic fintechs to design and test processes before bringing them to market, which led us to believe that 2020 would be a year of growth for Islamic fintech, regtech, insuretech, etc. However, we did not foresee the biggest catalyst for digitalization, which was the global COVID-19 pandemic. The contagious virus forced businesses to learn how to operate remotely and it has never been more important to have an online presence.

The shift in the way of working has in turn forced some companies to pivot their business strategies to adapt to changing consumer habits. This has meant that decision-making that would have taken months is fast-tracked to a matter of days as quick decisions and adaption are critical for keeping businesses afloat during these uncertain times.

When COVID-19 hit in March 2020, there was an initial wave of uncertainty for the Islamic P2P sector. Investors lost some confidence in the SME market, which was inevitably negatively affected by global lockdowns and local government restrictions on trading. Islamic P2P companies' first priority at this time was protecting their investors' money. They began implementing measures to minimize the impact of COVID-19-related issues.

When assessing SMEs for their eligibility for a loan, Islamic P2P lenders started to check how easy it is for staff to work from home, and they would look at their supply chain to see if products were imported internationally, and they also began to assess how ongoing projects would be affected and the cash conversion risk.

Working capital became important for business continuity, so P2P lending companies started to check for alternative sources for this. P2P lenders have had to remain agile during the pandemic and react to changes in the macroeconomic environment by potentially reducing loan limits and tenors and increasing rates to adjust for the increase in risk. 2020 also saw new partnerships between Islamic fintechs and banks. In July, Islamic fintech Beehive, headquartered in Dubai, joined hands with Gulf International Bank and Social

Development Bank in order to improve their product range and support small businesses in the Kingdom of Saudi Arabia. When fintechs and banks come together, they become a great force with improved efficiencies, lots of data and a huge reach.

Preview of 2021

Demand for P2P borrowing from SMEs is back up to pre-COVID-19 levels, and we expect this appetite to grow in 2021 as small businesses get back on their feet as global economies continue to reopen. This will only be accelerated by the introduction of support schemes, such as the launch of Dubai's new SME stock market which was announced in October 2020. P2P lending will continue to flourish so long as additional measures continue to be made to ensure the security of investors' money.

We can also expect technologies to rapidly appear in the market which will improve Islamic fintechs' abilities to operate remotely or digitally. In a recent survey conducted by Beehive, 50% of respondents said they think digital or remote onboarding will be the norm in 10 years' time. For this to happen, it is important for Islamic fintechs and banks alike to use this period of time to adjust their digital strategy and focus on enabling customers to use their services remotely. Not only does this improve customer experience and efficiency, but it also reduces the costs of running branches for the financial institutions.

Conclusion

This unprecedented year of 2020 brought an opportunity for Islamic fintechs to accelerate their digital transformation strategies. There is a new need for a digital or remote way of working in order to protect the earth's population. We now have an opportunity to fast-track innovative technologies to improve the financial services available to small businesses and improve financial inclusion among the Muslim community.

With this rapidly accelerating digital strategy, we must also continue to be aware of the increasing risks to cybersecurity, which have increased as employees work remotely.

The future of Islamic fintech and P2P lending looks positive. New bank and fintech partnerships will pave the way to success on a much larger scale and even with continued uncertainty, there is no denying that a digital-first approach is the way of the future.

Cybersecurity in a pandemic era for Islamic finance

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2020 is a different year; a year in which we could never have expected such drastic changes in banking across the world. It is fair to say that the COVID-19 global pandemic is the most defining event of 2020, with implications for many years to come. Governments, banks including Islamic ones, organizations and individuals around the world are reconsidering ways to ensure stability and have been forced to innovate and digitally transform on an unprecedented basis to ensure continuity.

The status quo continues to evolve as people are coming to terms with social distancing, restricted traveling, remote working, homeschooling, online banking, financial market volatility and supply chain disruptions. A new normal is created at a time when the overall economy is slowing down.

Review of 2020

During 2020 and earlier, technological advancements have been positively disrupting many of the Middle Eastern and North African economies in the last few years. This resulted in increased use of digital banking services but also in an increased level of security risks that are now accelerated due to the pandemic. There has been a surge in fraudulent activities linked to COVID-19 as residents are restricted to their homes to curb the spread of the virus.

While the world is focused on the health and economic threats posed by this new reality, fraudsters around the world jump on the pandemic capitalizing on this crisis. The Islamic finance industry is no exception and market leaders have developed several approaches to tackle this threat.

The UAE Banks Federation, Central Bank of the UAE and Abu Dhabi and Dubai police forces are jointly rolling out the country's first national fraud awareness campaign as more residents use digital banking services during the pandemic. Under the theme **#TogetherAgainstFraud,** the social media campaign aims to equip consumers with the knowledge to protect themselves against fraudsters harassing them with coronavirus-linked scams.

The IsDB announced the allocation of US$2 billion to cushion the impact of COVID-19 on both the public and private sectors in its member countries.

The fraud relating to COVID-19 has been spreading as fast as the virus. Indeed, the World Health Organization and Europol are all predicting further significant increases in financial crime related to COVID-19.

Even though the bad players will continue to exploit a 'new normal', it is a big problem — not just for the victims of fraud but also for the governments and authorities working to stop the criminal gangs. The same goes for Islamic banks with their legal responsibility to do all they can to protect their customers' money and data and prevent money laundering.

In response to this increased threat, government bodies and regulators encourage Islamic banks to consider whether their current internal controls are up to standard. When the authorities encourage organizations to look at their controls, they are reminding them that they should follow a risk-based approach (RBA) where the bulk of their efforts are efficiently and effectively aimed squarely where the highest risk lies. Following an RBA for prevention and mitigation, Islamic banks can tightly focus their efforts and better protect their customers from financial crime, not just those that are linked to the virus.

Lately, even pre-COVID-19, there have been lots of emphasis on 'advanced segmentation' otherwise called 'peer grouping'. The goal of such an approach is to understand customers deeply and group them into similar categories.

To do so, Islamic banks have to crunch a whole lot of data, and then be able to understand the outputs and act in a timely way without unnerving — or aggravating — their customers. This can be achieved with the addition of an artifial intelligence (AI)-powered financial profiling tool that looks at transaction types, peak and trough inflows and outflows and averages across time frames, along with other spending patterns, to create a financial DNA for each customer. Similar customers can then be grouped together so that the appropriate measures and controls are targeted where the risk is greatest. These groupings can then adapt automatically as the underlying customer behavior changes.

Preview of 2021

While this crisis has generated a lot of challenges, it has also created opportunities, particularly in the technology sector, as businesses across all industries have been forced to digitally transform and adapt to the new environment. In the area of financial crime, what seems clear is it has not changed the game but merely amplified the problem.

From 2021 onwards, Islamic banks have to protect the whole of society, businesses and all other organizations against the nefarious activities undertaken by criminals. Leveraging newer technologies, such as AI and cloud, the market is offering solutions to protect the Islamic banking sector from financial crime and prevent cyberattacks. These solutions can be on premises, on a private or public cloud or they can be consumed as a service.

Conclusion

Financial crime mitigation (FCM) is mandatory in a regulated environment. All Islamic banks can benefit from a complete FCM proposition, while particularly small- and mid-sized Islamic banks, where the cost of FCM is disproportionately high, can choose software as a cloud service that can offer flexibility and cost benefits to boost profitability. Such a complete solution can help banks to tackle the growing threat of financial crime and protect their reputation and customers' assets without compromising the user experience.

Riding the pandemic wave

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To say the least, 2020 will certainly go down in the history of mankind as one of the most tumultuous years affecting people from all walks of life with debt capital markets being no exception to it. The COVID-19 pandemic continues and will continue to dominate the financial markets in general as headwinds from the pandemic are not abating; many parts of the world are still grappling with the second wave of it and there is no clarity in terms of a vaccine.

Since the global financial crisis, most of the growth in global debt markets occurred in the emerging economies, while remaining stable in the developed ones. This was heavily encouraged through monetary means to improve the business climate in the emerging economies, but left companies relatively more exposed to changes in market conditions such as the pandemic. Therefore, it was expected that, having grown the most, certain emerging markets will also be hit the hardest when corporate solvency risks materialize in a downturn.

Review of 2020

Since COVID-19 is an exogenously induced crisis, the impact on Islamic banks is comparable to that on conventional banks given the sim¬ilarity of their business model. In response to the pandemic at the start of the year, the global shutdown of most significant economic segments led to an immediate surge in demand for debt, including the Islamic finance market and this is evident with the recent Dubai plan to issue benchmark bonds as part of a US$6 billion Sukuk issuance program and a US$5 billion bond issuance program. The challenges of liquidity, resilience and capital for the Islamic banking sector — the largest component of the Islamic financial industry — were the highlights of the debt markets and this resulted in a lowering of reserve requirements, a lowering of regulatory capital buffers and multiple issuances in both markets — conventional and Islamic.

As expected, overall global debt activity grew significantly in the first three quarters of 2020 — debt product issuance was up by 32% compared with the same period a year ago, marking the strongest levels on record. To illustrate just how immediate the shock was, global debt markets in the second quarter set an all-time high in terms of both growth and volume.

As one of the youngest asset classes, private debt has consistently grown since the global financial crisis to become the third-largest asset class in private capital, ahead of infrastructure and natural resources. Private debt has become very popular in Islamic markets too but there are no concrete data available. The global dry powder levels in private debt were sitting at all-time highs before the pandemic at almost US$300 billion — although the fundraising pace was slowing down due to competition for deals. The pandemic revoked the overwhelming interest in the asset class from fund managers as they finally received ample opportunities to deploy raised capital.

The volumes of Sukuk issuance in the full year of 2020 are expected to be similar to 2019 levels and the comparable spike will not be felt. Various Islamic instruments are helping key institutions to navigate the current situation. Social Sukuk are being used to reinforce the education and healthcare systems amid the challenges and support

in attracting environmental, social and governance (ESG) investors, with a prime example being the recent issuance of the IsDB and the issuance to come from Malaysia.

Preview of 2021

With a resurgence of the pandemic, it seems that the pace of the global economic recovery in the near term will be weaker and it is expected that GDP in the euro area and the UK would be contracting in the fourth quarter. The US Fed's shift to average inflation targeting implies that rates will stay lower for longer than in previous cycles. Other central banks will adopt a similar framework and try to overshoot their target. Most central banks will continue to expand their balance sheets and absorb most of the new debt issuances, keeping bond yields low. More broadly, the fiscal and monetary policy will remain very accommodative in 2021.

Outside of the pandemic-related disturbances, the increasing demand for sustainability and ESG-focused portfolios continues to climb consistently as per the trends of previous years. It is worth noting that the Islamic finance-based markets are also subject to this trend — green and sustainability Sukuk, while still in their infancy, are experiencing double-digit growth.

Though there would be multiple developments of specific interest to debt capital market participants in 2021, one of the important and major concerns is London Inter-bank Offered Rate (LIBOR) transition. The transition from LIBOR remains a matter of great uncertainty. The term structures of the new reference rates, or even if they will have term structures, remain unclear. So does the timing of the transition. Indeed, LIBOR could survive beyond 2021 and continue playing its role as the reference rate for many financial products and contracts. But counting on that outcome would be a major gamble, which financial firms should avoid by beginning preparations now.

Conclusion

Although investors remain cautious, the environment is still positive. The prospect of further fiscal policy measures and expansionary central banks are the decisive factors but over the next six to 12 months, the recovery in the global economy and the potential availability of a COVID-19 vaccine may provide more clarity on yields and inflation.

Derivatives in Islamic banking

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A derivative is a contract that derives its value based on an underlying asset. This underlying asset can be a specific asset, index or a benchmark. Derivative contracts are used for several reasons including risk management and speculation. The use of derivatives for increasing exposure to the underlying asset would be considered to be a speculation on the performance of the underlying asset, as opposed to actually an attempt to offset any undesired volatility of the underlying asset's performance — ie paying a premium to hedge your exposure (a kind of insurance purchase). The distinction on the use of derivatives is extremely important since speculative derivative transactions offer investment managers and investors an opportunity to increase profit whereas derivatives used for hedging are considered a prudent financial risk management tool.

Derivatives trace their roots back 10,000 years and since the inception of Islamic financial markets and their evolution into a niche sizable market, there is no denying that in order to prudently manage their risk exposures, Islamic financial institutions, similar to their conventional peers, require solutions to manage their credit, rate and foreign exchange risks.

Islamic derivatives are financial instruments used purely for hedging purposes by generating similar economics as a comparable conventional instrument. Islamic hedging products differ in the overall underlying contract structure, as these products employ one of the Shariah compliant concepts of Murabahah, Waad or Musawwamah to achieve the economic result. Finally, a key constraint on derivatives in Islamic institutions is they can only be used to address a risk management framework which arises from engaging in real transactions.

Review of 2020

As per data from the Bank for International Settlements, the global derivative market value at the end of the first half of 2020 was about US$15.5 trillion, with a significant portion of it being interest rate derivatives. MENA continues to be the key Islamic finance jurisdiction with the largest Islamic banks operating in this region and while the overall derivatives market is large, Islamic hedging transactions make up only a minimal portion of this market, with some estimates less than 1%.

However, the volume of Islamic hedging transactions continues to grow as the sophistication of Islamic banks grows. Their need to manage their risk in an appropriate manner is increasing the Islamic hedging product offerings and the volume of transaction. However, challenges continue to remain in the development of this market.

One major hindrance for the growth of the Islamic derivatives market has been the lack of standardization; however, that gap was starting to be bridged when the International Islamic Financial Market developed the Tahawwut Master Agreement along with the International Swaps and Derivatives Association (ISDA). While the adoption of this documentation is increasing, the general market approach to documentation continues to remain fragmented.

Hedging documentation is complex agreements, requiring significant know-how of derivatives and enforceability. Hence, once documentation is negotiated with a client, it is a fairly tedious process to renegotiate. This complexity is enhanced in Islamic institutions that further need to seek approval from their Shariah board.

Preview of 2021

A major consideration going forward for the Islamic finance industry is the benchmark transition. The benchmark transition will be impacting the structure of existing Islamic finance products, not only on hedging but also on financing since it is backward looking, ie the reference rate for the relevant period will not be known until the end of the calculation period. While there are structures that are able to cope with this transition, the extent of the impact needs to be analyzed from an industry perspective and not only at the transactional level.

In the conventional market, the ISDA has implemented a benchmark supplemental protocol to accommodate the London Inter-bank Offered Rate transition. Market participants practicing Islamic hedging will most likely follow a similar approach, but this will require modification and amendment of existing master agreements. These modified master agreements will be renegotiated and reapproved by the Shariah boards. In an industry defragmented on documentation and opinions, this can be a task that is easier debated upon than implemented.

Conclusion

That being said, as Islamic financial institutions are becoming relevant, their know-how and sophistication level is increasing, hence regulators in key Islamic finance jurisdictions are taking steps to standardize both documentation and Shariah opinions and creating centralized Shariah boards, etc. These steps are conducive for the development of the Islamic finance market overall that will further support the development of the use of hedging products.

With the aforementioned backdrop, historical context and advancement in standardization along with foreseeable challenges, it is my humble opinion that while the market remains fragmented, Islamic financial institutions that are able to overcome the inherent challenges of this sector are poised to implement a solid risk management framework that will enable their sustainable growth and continue to be the growth factor of the overall Islamic finance industry.

Islamic finance education adapts to change in new normal

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Islamic finance education is an essential component of the Islamic finance ecosystem. Meanwhile, Islamic economics emerged after World War 2, the period when independent Muslim states appeared on the world map and Islamic finance started its development in the form of social banking, as with the case of Mit Ghamr in Egypt in the 1960s and Lembaga Tabung Haji in Malaysia in 1963. The International Conference on Islamic Economics held in Mecca in 1976 is accepted as the birth of Islamic economics as an independent discipline. The teaching of Islamic finance started later in the1990s, following the arrival of Islamic banking, and focused on the doctrinal debates on Riba. As at the end of 2017, the Islamic financial sector consists of approximately 1,400 financial institutions and almost 700 education providers from 76 countries worldwide.

Review of 2020

COVID-19 resulted in destruction in almost every sector. One of the sectors most affected is unquestionably the education sector. For the first time in the history of education, the entire system experienced the migration from traditional, face-to-face teaching to online education. Policymakers, management, lecturers, students and parents had to adjust themselves to the new normal.

To measure the impact of COVID-19 on Islamic finance education, we conducted an online survey with the participation of 150 Islamic finance educators from 12 jurisdictions. Our findings suggest that during this challenging time, 77% of educators found it challenging to balance their personal and professional life, and 80% experienced a significant increase in anxiety. To the question “I have experienced online teaching for the first time after the outbreak of COVID-19”, 67% of participants replied ‘Yes’ (Chart 1). Consequently, 70% found preparation for online lectures to be more time-consuming.

Forced online education requires information technology (IT)-related skills such as familiarity with the use of online teaching platforms. Before COVID-19, 23% of Islamic economics and finance (IEF) educators never used any of those platforms (Chart 2a). However, with the outbreak of the pandemic, all respondents got familiar with at least one or even more platforms. Zoom with 43.57% appeared to be the most popular and widely used online teaching platform (Chart 2b).

In general, for lecturers, limited interaction among students, lack of motivation and technical problems appeared to be the main issues during the ‘new normal’. However, despite the entire challenging environment, findings show that 90% of academic institutions proved to be successful in providing the necessary infrastructure and materials for online teaching.

Preview of 2021

COVID-19 will expedite the adoption of artificial intelligence in the banking sector. In the ‘new normal’, even less technology-friendly customers who prefer over-the-counter services will have no option but to use mobile banking. This means that fewer frontline employees in the banking sector would be employed in the future. However, the need for employees with IT and programming language skills will soar. Accordingly, 86% of IEF educators unanimously agreed that IT-related courses should be in the IEF curriculum (Chart 3).

Chart 1: Responses to question ‘I have experienced online teaching for the first time during the pandemic’

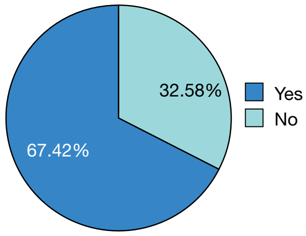


Chart 2a: Online platforms IEF educators were familiar with before COVID-19

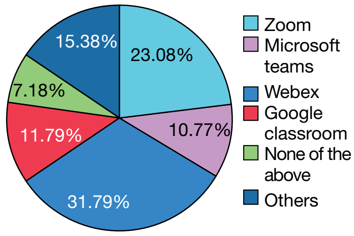


Chart 2b: Online platforms IEF educators got familiar with during COVID-19

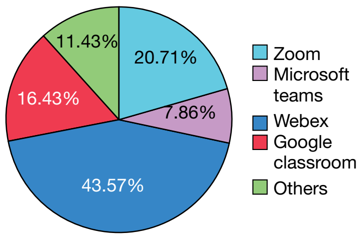
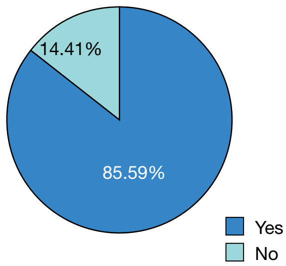


Chart 3: Responses for question ‘After COVID-19, do you think that IT-related courses should be included in IEF curriculum?’



Source: Author’s own

COVID-19 also highlighted that understanding the psychology of investors and customers plays a crucial role in predicting the market. Therefore, another emerging discipline which needs to be taught is behavioral finance. Behavioral finance studies the influence of psychology on the financial behavior of individuals, and focuses on the fact that investors are not always rational, have limits to their self-control and are influenced by their own biases. For this reason, students who want to be employed or employers who wish to maintain competency in the Islamic finance sector need to invest their time and resources to amass the aforementioned expertise.

Conclusion

The current pandemic is much more than a health crisis; it is also an unprecedented socioeconomic crisis. Stressing each of the countries it touches, it has the potential to create devastating social, economic and political effects that will leave deep and long-standing scars. The pandemic disrupted many sectors, and education is one of them.

There is no doubt that online learning experiences issues when conducted for the first time and will not be as effective as physical classes; however, alternative and aided technology certainly has filled the vacuum, otherwise the learning process would have altogether stopped. Secondly, the human psyche takes time to adapt to change, so adjusting technology-aided learning will undoubtedly take time to make it more useful and convenient for all to adopt.

Optimism and caution for equity capital markets in 2021

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Equity markets staged a strong comeback after the coronavirus-induced sell-off crashed the stock market earlier in the 2020 financial year. Stock market valuations appear to be expensive now, after the recent sharp rebound happened, despite earnings deterioration in the last couple of quarters. But this paints an incomplete picture of opportunities, as the ultra-low interest rate environment presents equities as a relative bargain and can be an attractive option considering the outlook for economic recovery, supportive monetary policy and subsequent earnings recovery in the 2021 financial year.

The primary equity market mirrored the secondary market to deliver surprisingly robust growth in IPOs to overcome a significant slowdown in the first half of 2020 (H1 2020) due to the pandemic. The recent rally in the stock markets also supported newly listed stocks in delivering strong returns to investors.

Review of 2020

This year started with improving optimism over global growth, US–China trade progress and an accommodative monetary backdrop that buoyed risk appetite, propelling US and world equities to record highs at the beginning. However, the outbreak of the novel coronavirus changed the course of equity capital markets, as the pandemic unfolded economic and financial miseries across the world.

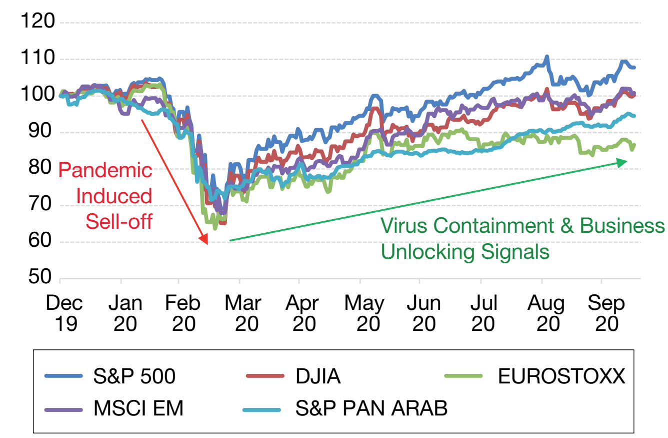
A lot of businesses across many sectors have been forced to reduce operations or shut down to control the pandemic and protect human lives. The crisis entails an increase in fiscal deficits of various economies due to unprecedented trade disruptions, slump in tourism, sharp contraction of manufacturing activities, prolonged commodity price declines, massive unemployment and soaring levels of public debts. The world witnessed the shortest and sharpest recession wherein global GDP fell by 10% in H1 2020.

The coronavirus pandemic's onslaught on risky assets (conventional and Shariah) pushed stock markets to a new low, abruptly ending one of the longest bull runs in the history of equities. Most of the stock markets entered a bearish phase after recording sharp declines owing to the economic fallout from the pandemic and the resultant pressure on corporate earnings.

However, equity markets recovered strongly and now trade slightly below from the 2020 financial year high, due to rejuvenated market sentiments following signals of virus containment, gradual reopening of business activities and expectations of corporate earnings recovery.

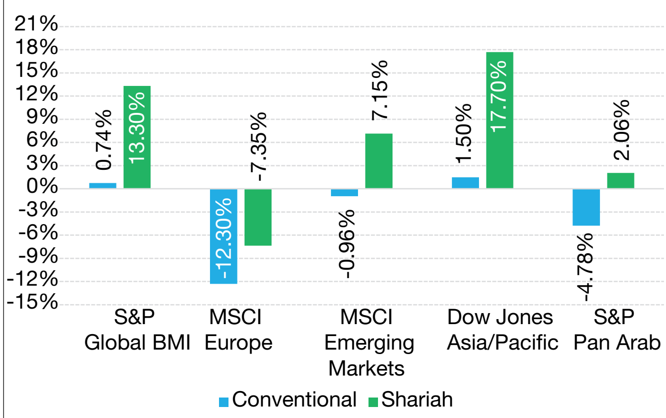
The Islamic equity markets continued to outperform their conventional counterparts across all major regions (see Chart 2) despite challenging market conditions. The outperformance trend was mainly driven by technology stocks which tend to be overweight in Islamic indices and which were the best performer among sectors

Chart 1: Global equity markets (steepest decline and sharpest recovery)



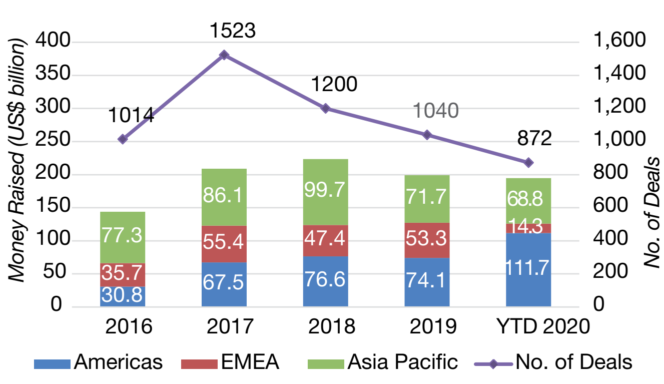
Source: Bloomberg, year-to-date 2020 (as of the 30th September 2020)

Chart 2: Comparative performance — Shariah versus conventional



Source: Bloomberg, total returns year-to-date 2020 (as of the 30th September 2020)

Chart 3: Global IPO activity



Source: Bloomberg (as of the 30th September 2020)

on the back of significant earnings growth. On the other hand, financials were nearly absent in Islamic indices and continued to trail behind the broader market which also contributed positively to the outperformance.

The global market for IPOs is poised to deliver a bumper 2020 financial year, although the activity was placed in a deep freeze during the second quarter of the year when companies put plans for new listings on ice at the height of the coronavirus pandemic. After an initial hiatus of physical roadshows that were hampered by social distancing, bankers have adjusted to a new way of working, ie with virtual roadshows and investor meetings, etc. A total of US$195 billion has already been raised during the year (as of the 30th September 2020) and the number could go higher with a strong list in the pipeline for the rest of the year. In fact, the year witnessed one of the world's biggest IPOs (Ant Group raising US$34.4 billion). The primary market was mainly driven by large and prominent transactions in the technology, industrial and healthcare sectors, accounting for 62% by deal numbers and 67% by proceeds.

Preview of 2021

The global markets are still in the early recovery phase of the cycle following the coronavirus pandemic recession. This phase is broadly characterized by a period of low interest rates, lower inflation growth and stimulus packages which provide an environment for the 2021 financial year where equities are likely to be favored over money market instruments and other fixed income securities.

Interestingly, a divergence between economic wellbeing and stock market valuations is causing anxiety among global investors that there may be a bubble on the horizon in the 2021 financial year, particularly for stocks in certain sectors that have performed exceptionally well in the recent recovery rally.

This phenomenon of an underlying economic contraction (or slower recovery) and advancing stock market indices will be hard to sustain in the long run. At any sign of trouble, investors may look to lock in profits during the course of 2021. However, such a correction will consolidate markets to gather steam for further upside.

Ongoing concerns regarding the evolution of the coronavirus pandemic and the impact of further lockdowns, global trade tensions (US–China–EU) along with the outcome of US elections remain the key headwinds going into 2021. The governments and policymakers are expected to continue their monetary and fiscal support to mitigate these challenges.

Nevertheless, the economic data is steadily recovering and the market is 'looking through' this year's dreadful recession to a meaningful recovery in economic growth and corporate earnings (expected to deliver about 35% growth on a year-on-year basis) next year. This will set the stage to support a positive stock market performance in 2021.

The positive momentum of the secondary equity market coupled with the high amount of liquidity and relatively low volatility point to a fertile ground to raise capital in the coming year. Entrepreneurs are likely to capitalize on the positive trend to strengthen balance sheets or fund acquisitions and growth.

Looking ahead, new technology, healthcare and industrial companies that can demonstrate resilience, adaptation to the current environment and sustain profitability will have an opportunistic advantage and will be popular investor choices to park their investments. The companies in sectors hard-hit by the pandemic may have to sit on the sidelines before a new window of opportunity opens for them.

The primary market is likely to witness a continuation of reforms next year which will also create a favorable environment for investors, primarily by way of regulatory changes and enforcement in order to attract companies to get listed on their exchanges.

Heading into 2021, a spate of both unusual uncertainties (coronavirus pandemic) and usual uncertainties (Brexit, US presidential election outcome, US–China–EU trade tensions) may create a level of unpredictability and potential volatility. However, there is a strong pipeline of companies (SpaceX, Didi, ThredUp, Grofers, Databricks, Instacart, Rubrik, Illumio, Outreach, Ginkgo Bioworks, Digital Ocean, TransferWise, Zomato, etc.) looking to take advantage of the IPO transaction window in the coming year and the silver lining for IPO buyers is that volatile periods are often likely to provide some of the greatest investment opportunities because even fundamentally strong companies will need to price attractively.

Conclusion

The equities are a compelling investment choice in the 2021 financial year for many reasons despite being touted as 'expensive' right now. A 10-year treasury yield below 0.75% (unlike the 1990s where the treasury yield was above 5%) means a business has better odds of generating the cash flow needed to exceed the treasury rate. The dividend which has historically provided a sizeable slice of the total returns pie across all markets has currently ranged between 1.8% and 4.1%. Unless the 10-year treasury yield approaches 2–3%, a scenario that could be years away with central banks committed to providing the economic support needed to emerge from the coronavirus crisis, investors should prepare for 'high' equity multiples. Further, the stock market seems to have incorporated earnings growth in the coming year considering economic recovery with the reopening of businesses, ease of traveling restrictions, normalization of supply chains and continuation of government stimuli. Investors will favor those stocks that are embracing emerging technologies or capitalizing on new trends and are expected to reap the fruits of their proactive business modification efforts in the coming years.

Robust IPO activity in 2020, despite the challenges, suggests that companies are choosing to protect their value through capital markets in the coming year. Entrepreneurs are seizing opportunities to go public to shore up their capital base for future investments and remain resilient against a potential new wave of the pandemic or any other uncertainty. The strong valuations seen in some of the recently listed 'new economy' companies and those not impacted by the pandemic are giving positive signals to other potential IPO candidates that are looking to complete their transactions in the coming year while investors are optimistically looking forward to seizing investment opportunities, a win–win situation for both corporates and investors.

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.

Smarter to travel in groups

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You may remember the De Lijn commercial from 2012 which had the slogan "It is smarter to travel in groups", a slogan people hardly followed in 2020 amid the pandemic, although investors in the financial markets have embraced it tightly since. They trust exchange-traded funds (ETFs), and they invest together.

According to a well-explained definition from Bursa Malaysia, an ETF is an innovative financial product that exhibits the best of open-ended funds and listed stock features. It allows investors to benefit from diversification, a transparent portfolio, buying and selling flexibility, low fees and tax efficiency.

Review of 2020

On the 16th January 2020, ETFGI, an independent research and consultancy firm covering trends in the global ETF and exchange-traded product (ETP) ecosystem, said a new decade has started with a record US$6.35 trillion. And, at the end of October 2020, assets invested in 6,970 ETFs and ETPs listed globally (including Shariah compliant ETFs) reached US$6.81 trillion, a very astonishing performance record of net inflows for these collective investment vehicles during the pandemic.

It goes without saying environmental issues were the main issues in 2020. Eventually, the number of investors who showed interest in socially responsible impact investing funds and environmental, social and governance (ESG) funds was growing. These portfolios initiated a new family of ETFs that focus on investing criteria for the social good.

In the CFA Institute and United Nations-supported Principles for Responsible Investment (PRI) 2019 report ('ESG integration and Islamic finance: Complementary investment approaches'), it was stated that Islamic finance and ESG investing are complementary capital-raising and investment approaches with many shared principles.

In the same context, Tariq Dennison, a Hong Kong-based wealth manager and a lecturer at ESSEC Business School, beautifully said: "Shariah law can be thought of as a centuries-old ESG framework." Nevertheless, the concept was universally accepted though Shariah compliant ETFs are considered a subsidiary of ESG products today. Also. Islamic ETFs (i-ETFs) usually receive very good ratings from the ESG Fund Rating.

The ESG Fund Rating measures the resiliency of portfolios to long-term risks and opportunities arising from ESG factors, ranging from best ('AAA') to worst ('CCC'). Highly rated funds consist of companies which may be more resilient to disruptions arising from ESG events (etf.com).

Nowadays, a good number of Shariah compliant indices provided by FTSE, MSCI, S&P, etc, are available to be tracked by i-ETFs in passively managed forms. There are also active i-ETFs mostly offered in Iran, where the investment managers build an investment strategy by buying and selling a range of Shariah compliant financial products including commodities, equities, Sukuk, derivatives and such. Another example of an active i-ETF as reported by Financial Times in late September of 2020 was the Almalia Sanlam Active Shariah Global Equity UCITS ETF which has started trading in London. This fund invests in companies with low leverage, ethical practices and

good governance; its recent assets under management (AuM) were reported to be worth EUR7 million (US$8.3 million).

The US market hosted its first i-ETF, the Wahed FTSE Shariah ETF (HLAL) in July 2019. By the 23rd November, HLAL had US$56.51 million-worth of AuM and an MSCI ESG Fund Rating of 'A'. HLAL outperformed the market with an annual net asset value growth of 22.75% as reported by etf.com.

In January 2020, NASDAQ announced its newly Shariah compliant equity and fixed income ETF, the SP Funds S&P 500 Shariah Industry Exclusions ETF (SPUS) with an MSCI ESG Fund Rating of 'AA' based on a score of 7.52 out of 10. SPUS recorded AuM worth US$35.38 million.

Hence, a comparison between globally reputed i-ETFs and their conventional competitors with billions of AuM shows the young industry still has a lot of room to grow.

Preview of 2021

The investment circle is paying more and more attention to profitable socially responsible investments, and the market appetite and eagerness for Shariah compliant ETFs are expected to increase. In addition, despite the unpredictable future of climate issues, technology firms are expected to maintain their outstanding performance in 2021. Accordingly, based on the Shariah indices history of tracking tech firms, it takes us to this conclusion that i-ETFs will maintain efficiency in 2021 and absorb more investors. Indeed, it has been reported that many asset management firms are now launching or planning to launch i-ETFs.

Conclusion

S&P Dow Jones Indices reported that Shariah compliant benchmarks significantly outperformed conventional indices, gaining an advantage of 13.3% and 14.4% year-to-date. It noted that Shariah indices tend to be overweight in information technology stocks and avoid financials, an effective strategy in the COVID-19 situation. Hence, i-ETFs have proved to be successful in every aspect.

Challenges will always persist but the sector is maturing. Hopefully, in the coming year, these socially responsible products will attract not only investors from Muslim communities but also all investors from around the globe who are interested in ESG products.

Islamic family offices moving toward recovery

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Islamic family offices have been severely challenged in 2020 as a result of the global coronavirus pandemic. If 2020 has revealed anything about the current state of play for Islamic family offices, it is the dual imperative of (i) strategic planning and careful preparation for not only unexpected risks but also anticipated succession issues within Islamic family offices while (ii) remaining true to the Shariah principles that the family has established for itself.

Review of 2020

While the past year saw most Islamic family offices understandably focused on investment-related themes in the wake of the global pandemic and the tumult in the financial markets, the areas of greatest exposure included a focused need to improve their technology and reporting systems. Many Islamic family offices prioritized a top-down review of how technology should serve the family more confidentially and effectively.

Preview of 2021

In the wake of an unprecedented and cataclysmic year, the principle issue is how Islamic family offices can identify meaningful and thoughtful benchmarks by which to thrive in the new year. The baseline for 2021 for Islamic family offices will not only build on priorities identified and met in 2020 but will also revolve around a myriad of complementary priorities, not the least of which may be a dual focus on shielding against risk and arming for success.

Shielding against risk

Islamic family offices will continue to face a range of challenges ranging from an unpredictable investment climate and the repercussions of the global pandemic to the operational pitfalls of guarding against systemic risk in an increasingly uncertain and erratic world. While most Islamic family offices may feel fully equipped to cope with the investment issues they face on a daily basis, managing risk may be an altogether more complex undertaking.

For instance, while more fully equipped and institutionalized Islamic family offices may enjoy the benefits of larger and more experienced staff, greater resources and specialized expertise, smaller Islamic family offices may suffer from a dearth of the same.

For those Islamic family offices lacking the requisite internal expertise, controls and technology infrastructure to counter systemic threats ranging from cyber hacking to institutional fraud, the threat of these risks may be exacerbated by institutional complacency and a general misunderstanding and underestimation of the potential risk at hand.

Evidence demonstrates that few Islamic family offices actually incorporate a comprehensive risk management architecture, including privacy and reputation management, physical security, as well as personnel evaluation and monitoring.

Arming for success

As 2021 looms over the horizon, highly functioning and effective Islamic family offices would be best served to pay closer attention to family governance and incorporate it deeply and thoughtfully into the fabric of the Islamic family office.

One of the seminal lessons of the global pandemic includes the ability of Shariah compliant family offices to ready themselves for a change in leadership.

A family governance architecture curated for the Islamic family office will ideally include a family constitution, family council and family education agenda. At the same time, talent identification and succession planning also need to advance in tandem with an eye toward building the next generation of effective leadership within the Islamic family office.

An essential component is to create a succession plan that not only adheres to Shariah law yet also borrows where appropriate or advisable from a complementary western model, with a primary focus on the following five imperatives:

- Tailor an achievable succession plan that incorporates the unique nature of the Islamic family and the family office it serves
- Identify family members or third-party individuals who possess the requisite skills and cultural sensitivity to step into leadership positions within the Islamic family office
- Implement job rotation within and outside the Islamic family office as a means to cultivate additional knowledge and experience and to polish communication and interpersonal skills
- Integrate the succession plan into the overall strategy for the Islamic family office in order to sharpen recruiting efforts and identify talent gaps, and
- Focus proactively on succession for the patriarch of the family and the day-to-day management of the Islamic family office.

Conclusion

The long-term effects of the 2020 global pandemic played an outsized role for Islamic family offices in terms of strategic planning and operations. Continuing to develop risk management tools and practices and addressing succession issues should be at the forefront of priorities for Shariah compliant family offices in the year ahead.

The key to critical success of any risk management plan is the development of an "all risk" approach that takes the entire Islamic family enterprise into account, which requires integrating proactive and reactive policies and procedures throughout the Islamic family office firmament.

At the same time, integrating a cohesive and detailed plan to prepare for the passing of the leadership baton within the family and the family office serves as a logical corollary to effective risk management.

Not surprisingly, entrepreneurial Islamic families are in the best position to effectuate a meaningful focus to guard against systemic risk and to plan for the next generation of family office leaders.

A view on the future of corporate and financial institutions Sukuk

Dr Ahmed Hassan Al-Naggar *is an economic and financial expert. He can be contacted at alnaggar78@gmail.com.*

As an expected result of the economic effects of the coronavirus pandemic, and according to data issued by S&P, the volume of Sukuk issuances declined by 27% year-on-year in the first half of 2020. Many expectations indicate that the total Sukuk issuances by the end of the year will achieve levels nearer to that of 2019 which hit a record US$146 billion. The most significant decrease in Sukuk issuances was concentrated on Sukuk issued by companies and financial institutions. This article explains the reasons for this decline and the future prospects of this instrument.

Review of 2020

At the beginning of 2020, many expected a new record and great momentum in the global Sukuk issuance market, after 2019 closed at a record high in total global Sukuk issuances at US$146 billion; however, the winds usually only blow in directions that ships do not desire. It took only two months of the year to pass before the coronavirus began to spread globally, constituting the largest global closure of travel and aviation traffic since World War 2, and most economic activities stopped around the world.

> "With almost a complete halt on economic activity, global demand decreased which required many governments to adopt quantitative easing programs to counter the specter of economic recession"

Undoubtedly, this had a great impact on Sukuk issuances, especially for corporate and financial institutions. With almost a complete halt on economic activity, global demand decreased which required many governments to adopt quantitative easing programs to counter the specter of economic recession.

The following are the reasons for the sharp decline in corporate and financial institutions Sukuk issuances in 2020:

1) **Companies defer investment spending plans for 2020**

The pandemic has led many companies to reconsider their investment spending plans, including expansions in current activities or entry into new activities, due to the blurring sight of the global economy and the lack of clarity on when the pandemic will end. This has also led to a decrease in the financing needs of companies, which have postponed their plans toward different funding sources, including Sukuk.

2) **Availability of liquidity as a result of quantitative easing programs**

In response to the drop in oil prices and the impact of the pandemic on the economy, and fearing that the economy will enter a period of long economic recession, several central banks have launched quantitative easing programs to provide liquidity to help companies adjust and maintain the productive capacity of their economies. This new liquidity resulted in reducing the need to issue Sukuk for many companies, in conjunction with the aforementioned first reason, ie a postponement of investment spending plans coupled with the availability of liquidity from the government in some countries.

3) **Global uncertainty prompts postponement of plans to issue Sukuk**

The timing of the issuance of Sukuk plays an important factor in the success of the issuance, and at the same time in obtaining preferential prices; the uncertainties have led to the opposite of achieving these goals, as many funds and major subscribers are reluctant to enter into many of the offered issuances, and even if they enter into these issuances they often require higher pricing margins against the risks arising from the uncertainties.

4) **The competition from sovereign Sukuk is negatively affecting corporate bonds**

In many countries — especially the Gulf countries — that depend on oil revenues as a source of government revenues, the decline in oil prices and the increasing budget deficit have resulted in these governments turning to more sovereign Sukuk issuances as one of the means of bridging the financing gap and meeting the increasing needs that have resulted from this gap throughout the pandemic. This has resulted in what is known as the effect of crowding out — Sukuk issued by governments to finance the budget (sovereign Sukuk) have a better credit strength than Sukuk issued by companies (corporate Sukuk), which has led to some corporates finding it very difficult to issue Sukuk at this time.

5) **Central banks support the banking sector**

Many central banks in several countries have supported the banking sector by injecting liquidity into banking systems to cope with the economic consequences of the pandemic as part of an attempt to stimulate domestic demand, including postponing the payment of borrowers' obligations and dealing with defaults, resulting in a situation where financial institutions can adapt without the need for new Sukuk issuances.

Preview of 2021

At the time of writing, hope has appeared on the horizon that the pandemic would abate soon with the announcement of a vaccine for COVID-19, with expectations that it would be ready for wider distribution in the first few months of 2021, which would mean — if it happened — the return of movement and production on the global level, and reactivating the investment spending plans deferred by companies and financial institutions, which would then increase the demand for sources of financing, and which in turn would lead to an increase in the volume of Sukuk issuance from these entities; Sukuk issuance could then return to the 2019 levels again after a few years.

Conclusion

In short, the resumption of the Sukuk market progress for companies and financial institutions is linked to the level of the pandemic prevalence, the return of economic activity to pre-pandemic levels, as well as the extent of the positive effect of the new vaccine and its level of availability in terms of cost and accessibility around the globe.

Fintechs to reset for growth beyond COVID-19

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The year of COVID-19 is characterized by one word, 'remote', as is remote work, remote schooling, remote living and remote financial services. Fintech is defined as utilizing technology to improve existing financial products or deliver new ones regardless of location. Although this pandemic should have benefited the Islamic fintechs as it did in other parts of the world, but due to their position in the life cycle curve and low capitalization, many have suffered. This pandemic also presented an opportunity for incumbents to bridge the gap with the struggling fintechs, but a large percentage of Islamic banks were caught unprepared to provide the same digital services. 2021 would be the year of corrective actions to address these issues in the fast-paced, less structured fintech world.

Review of 2020

Since the 2008 financial crisis, the global fintech ecosystem has enjoyed acceleration in growth and coverage. Despite Islamic fintechs' late arrival, we have seen interest from the public and private sectors in developing this fintech ecosystem which serves 1.9 billion people and manages US$2.4 trillion of assets and, according to IFN, it has 142 fintechs worldwide. Many Islamic countries have created fintech associations to act as catalysts to develop their ecosystem. Some created regulatory sandboxes sponsored by their central banks to enable these start-ups to connect to the country's financial system. In 2020, COVID-19 lockdowns and social distancing arrived to shake all these up.

The pandemic, coupled with the oil crisis, had a devastating impact on the Islamic economy by widening Islamic governments' budget deficits, spiking unemployment, shrinking public spending and causing supply chain disruptions. Most countries' GDP suffered economic contraction, plunging to negative growth rates and some reaching negative double digits. This economic slowdown impacted the start-up business model which is based on continuous funding by investors, because investors have become extremely cautious with the deployment of their funds, especially in the early stage rounds to which many of the Islamic fintech start-ups belong. Although the number of deals has declined this year, funding continued to be strong in a few strategic deals — Wahed Invest, an online investment platform, was able to raise US$25 million in June to expand its operations into Saudi Arabia.

Conversely, COVID-19 has accelerated the transformation to digital, allowing remote access to financial products. This fueled all types of online commerce. Global digital payment grew in 2020 by five to 10 points. Peer-to-peer and mobile payment providers have benefited from this increase, especially since lower costs have allowed more users to enjoy the ease and benefits of this new trend.

Most of the Islamic fintech start-ups have failed to capitalize on this opportunity. As the crisis hit, trust became most important to customers, and Islamic banks enjoyed higher trust compared to unproven business model start-ups. Suddenly, fintechs and especially digital banks came under pressure. Being highly capitalized and more accessible, BigTechs such as Google, Amazon, Facebook, Alipay, WeChat, PayPal and Apple were in a much better position to take advantage of this new boom, and this was reflected in their higher stock prices. According to PayPal, people over 50 made up the company's fastest-growing segment in the second quarter and they have remained active.

Preview of 2021

In 2021, the world will contain the pandemic, the global economy will recover and despite low oil prices, most Islamic countries will experience positive GDP growth.

The shift to digital is a genuine paradigm shift and there will be no return to the normal use of cash, cheques and physical branches. The overall customer behavior to shift to digital services will be a permanent change. The post-COVID-19 era will be the new normal. 2021 will be the year of partnership and recovery across the Islamic finance ecosystem. Fintechs need access to funding, and financial institutions need access to a variety of innovative products and services.

Digital payments offer tremendous opportunities for MSMEs in the Islamic world. These businesses are realizing the digital gap and will try to address their digitization issues such as digitally uploading and marketing goods and services with physical delivery to the last mile. Fintechs and more specifically Islamic ones will compete with BigTech firms to provide the technology that helps these businesses to get online.

Fintechs will move to rebundling after years of unbundling banking services to diversify their offerings and expand their customer base. Fintechs and digital banks will evolve from being a secondary provider to becoming a primary provider considering customer engagement as a 'long-term investment'.

Financial products will shift to intelligent products with the utilization of behavioral science technology. Fintechs and BigTechs will move aggressively to embedded finance, by integrating their fintech services at the core of other apps into the user experience; 'Buy now pay later' is an example of such a service.

Conclusion

COVID-19 in 2020 harmed the world economy, stressed the financial ecosystem and caused damage to many fintechs, but it also provided a wake-up call to many, speeded up digital transformation and self-service, and will surely force collaboration that will enhance and strengthen the Islamic financial system. It is true that 2020 brought unprecedented challenges to humanity but nevertheless, it definitely set a new normal that will continue for many years to come.

Economic uncertainty in 2020 and the dual nature of gold

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Since the 2016 launch of the AAOIFI Shariah Standard on Gold in collaboration with the World Gold Council, gold has been playing an increasingly important role in Islamic finance as asset owners and managers seek effective portfolio diversification and wealth preservation. This is especially important in Islamic finance as the pool of available assets is more limited. Several new Shariah compliant gold products have been launched, and Malaysia in particular is becoming a hub for Islamic gold products with several new gold investment accounts, an exchange-traded fund (ETF) and digital gold platforms now available.

One of the main drivers behind a gold allocation is wealth preservation as well as risk mitigation. When the financial outlook is uncertain, investors increasingly look to gold. In this unprecedented year of economic uncertainty, governments around the world have had to deploy significant funding to soften the financial impact of COVID-19 and analysts are struggling to predict the timing and nature of the economic recovery.

Review of 2020

A combination of economic uncertainty and a low interest rate environment led to gold being one of the best-performing assets this year. Despite a recent pullback — due in part to the welcome news that effective vaccines are in the pipeline — gold is still up by about 17% this year (as of November). Much of this was fueled by inflows into physically-backed gold ETFs. Through September 2020, holdings in the 83 active gold ETFs we track totaled 3,880 metric tons, with total assets under management (AuM) of US$235.4 billion — record highs in both tonnage and value terms.

One of the reasons for this growth is the geographic diversification of gold investors compared to 17 years ago, when access to gold via ETFs was limited to a few funds, primarily in North America. While gold ETFs listed in North America continue to expand, maintaining their relevance on a global scale, funds in other regions of the world have also seen remarkable growth since their introduction. For example, total gold holdings in Asian gold ETFs grew from one metric ton in March 2007 — when the first Asian fund was introduced — to 121 metric tons in September 2020, adding seven new funds in 2020 alone.

2020 is a story of two halves. Investment demand has offset weaknesses in consumer demand, which tends to drop in times of economic uncertainty. Falling consumer confidence, plus widespread lockdowns, dampened consumer demand this year. In October, the latest 'Gold Demand Trends' report was published by the World Gold Council. Overall gold demand was down in the third quarter of 2020 (Q3) by 19% to about 892 metric tons. But there were positive signs — consumer demand has started to pick up again compared to Q2 as countries such as China moved out of widespread lockdowns.

Preview of 2021

Economic uncertainty and a low interest rate environment will likely persist. But there are a couple of issues that are likely to renew both investment and consumer interest in gold — both in Islamic and conventional finance.

Sustainability and sustainable investing are big themes. Indeed, responsible finance is a major tenet of Islamic finance. Recent figures suggest that funds with a sustainability lens are performing better than their conventional counterparts. One of the reasons for this is that sustainable businesses are often well-equipped to weather external financial or economic shocks. The World Gold Council has long supported a position that responsible gold mining can support sustained socioeconomic development for the communities and countries that host gold mining operations and to this end, we have published a report setting out how the gold industry is already supporting progress against the UN Sustainable Development Goals.

"The digitization of finance — something we are seeing in the Islamic finance industry — is increasing access to gold for underserved consumers. This is a trend that will likely accelerate in the future"

The second key theme is digitization. Fintech and online financial services platforms are new channels opening up access to finance for underserved communities. Regulatory sandboxes and government supported fintech incubators are facilitating the development of the sector. The gold industry is also going through a digital transformation, with digital gold accounts becoming an increasingly popular option for consumers, particularly millennials. However, as this is sometimes an unregulated sector, it is necessary for responsible industry players to adopt best practices. To help the retail gold industry fulfill its potential, the World Gold Council has created a set of principles for the retail gold market: the Retail Gold Investment Principles. These principles are designed to set the bar for product providers across the market and further encourage retail investors to place their trust in gold. It is envisaged that greater trust will benefit customers and product providers alike, creating value and driving demand across the retail gold industry.

Conclusion

2020 has been a difficult year but we can be optimistic as we move toward 2021. Recent positive news regarding potential effective vaccines has lifted market sentiment. And there is a positive sign of recovery in markets that have emerged from widespread lockdowns. The nature and timing of the recovery are hard to predict, so it is inevitable that economic uncertainty will persist in the medium term. This, coupled with a low interest rate environment, means that gold will continue to have an important role to play as investors and consumers seek to mitigate risk.

The digitization of finance — something we are seeing in the Islamic finance industry — is increasing access to gold for underserved consumers. This is a trend that will likely accelerate in the future.

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A wake-up call for the Halal industry

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As of the 27th October 2020, the World Health Organization reported that there have been more than 42.9 million cases worldwide due to COVID-19 with more than 1.1 million deaths. Compared with the global financial crisis in 2008, the impact of the current pandemic is more severe, since it attacks the public health system resulting in multidimensional implications.

COVID-19 has forced many countries to implement lockdowns and partial-lockdown policies which resulted in disruptions to various aspects of life and the economy including the Halal and Islamic finance industries, although the level of impact varies in certain sectors.

Review of 2020

The Halal food and pharmaceutical sectors are two of the few that have benefited from the current pandemic because of the strong support provided by the government as these sectors cover people's basic needs which were given priority to be secured.

Even during the pandemic, Halal food increased in popularity as people are more aware about the importance of consuming Halal and hygienic food.

Brazil, one of the top exporters of Halal poultry, recorded an increase in the sales of meat exports. Its largest export destination, China, increased its imports by 46% in August 2020 compared with the same period in 2019, reaching 54,700 tons in the month. Its second-largest client, Saudi Arabia, increased its imports by 24% in August 2020 compared with the same period in 2019, totaling 46,700 tons in the month, according to the Brazilian Association of Animal Protein.

The profitability of the pharmaceutical and health industries increased due to the rise in demand for disinfectants and health products. The Halal pharmaceutical sector is no exception.

Duopharma Biotech, one of Malaysia's pharmaceutical firms, recorded solid financial results despite the uncertainties arising from the pandemic. Cumulatively over the six months of 2020, the firm reported a profit before tax increase to RM19.39 million (US$4.69 million) (RM18.32 million (US$4.43 million) in 2019) and revenue of RM143.33 million (US$34.67 million) (RM145.47 million (US$35.19 million) in 2019).

Similarly, Indonesia's oldest pharmaceutical company, Kimia Farma, recorded an operating profit in the first quarter of 2020 at IDR160.84 billion (US$11.3 million), up by 87.94% compared with the same period last year which recorded a profit of IDR85.58 billion (US$6.01 million). Kimia Farma ensures that the production of all the health products is Halal, although not all of them have Halal certification.

Recently, in October 2020, the company obtained new Halal certifications for vitamins, minerals and other nutritional supplements based on data from the Indonesian Ulema Council (MUI).

Muslim-friendly travel has been dealt a huge blow from the outbreak with grounded airplanes, travel restrictions and hotel closures. The World Tourism Organization reported a double-digit decrease of 56% in 2020, with international tourist arrivals in May down by 98%

which translates into a loss of US$300 million in international arrivals and approximately US$320 billion in international tourism receipts.

In Muslim countries such as Indonesia and Malaysia, the pandemic has wiped out around US$5.9 billion from Indonesia's tourism revenue as of July according to the Indonesian Hotel and Restaurant Association while GlobalData says that Malaysia's tourism-related revenue is expected to drop by at least US$3 billion.

After seven months, Saudi Arabia, which had banned tourists as well as Umrah pilgrims from entering the Kingdom, has currently lifted the ban for only residents and visitors from selected countries. The pandemic threat has caused a decline in tourism revenues following the dramatic drop in the number of tourists where instead of more than two million Hajj visitors, only a thousand participated this year.

Meanwhile, despite the decline in the number of international travelers during the pandemic, the interest in Halal tourism has gained momentum in Turkey. The Halal International Tourism Organization reported that nearly 30 hotels in Turkey have converted their facilities and services to Halal tourism as well as taking the necessary measures against the pandemic to ensure a safe stay for their customers.

Preview of 2021

The demand for pharmaceuticals already took off in early 2020 after the outbreak started in late 2019 and increased further after that. Along with the increasing demand for health products, the demand for a COVID-19 vaccine with Halal certification may also rise. The Indonesian government is still in discussions with MUI to ensure that the vaccine would receive Halal certification.

Meanwhile, Malaysia's Halal Development Corporation (HDC) is getting ready to introduce a Halal certification standard for biological products, including vaccines. The HDC is working closely with the Department of Islamic Development Malaysia and the Department of Standards Malaysia to develop the standard.

Conclusion

The growth of financing in Islamic finance can be expected to be slow because of the focus on preserving asset quality rather than business expansions.

The current pandemic has brought many changes not only to the way we live but also the way of doing businesses and we can expect more changes to come. The sudden push for businesses to refresh their development and strategy during the disruptions as well as during recovery is a great wake-up call.

Islamic finance and healthcare: A relationship worth investing in?

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It is common knowledge that the healthcare sector is one of the largest economic sectors in the world and is constantly expanding over time. However, the cost of this expansion is a concern to many, especially to those who are unable to afford keeping up with the continuous rising costs of medicine, medicinal treatment and medical equipment. The question that then arises is: how can Islamic finance assist in this ever-growing expansion?

Review of 2020

One of the ways it can contribute is through Waqf. A Waqf is defined under Islamic law as "an inalienable religious endowment normally in the form of land or property, the income of which is used for charitable purposes". It is held in perpetuity, often by a charitable trust, and cannot be sold, inherited or donated. The founder of a Waqf can define who or what will benefit from the endowment. Waqf is an important Islamic aspect, supporting both social welfare and economic development objectives for society and one of the benefits include the building and upkeep of healthcare services and facilities.

An example where Waqf is used for healthcare purposes is where the Johor Corporation (JCorp) in Malaysia made a Waqf donation in the form of shares in three of its subsidiaries. The dividends from these shares support healthcare establishments under several of its corporate responsibility initiatives on behalf of JCorp, namely the Waqaf An-Nur Hospital and chains of Waqaf An-Nur clinics. JCorp quotes that its main objective is to provide healthcare treatments at nominal charges to the general public, without looking at other factors such as ethnicity and/or religion.

One hope is for this initiative to be replicated by other corporate charitable foundations. Any said replication of this would be beneficial for the healthcare industry and for all members of society. In order for Waqf-based healthcare institutions in Malaysia to be well implemented, successful and sustained, it requires not only cooperation from various parties including the government, private sector and civil society, but also a transparency system that directs the administration of these funds. The Waqf sector can be further developed through supportive legislation and policy initiatives by Muslim governments around the world, which should further coordinate an action plan in order to better make use of available Waqf resources.

Very recently, Securities Commission Malaysia (SC) launched the Waqf-Featured Fund Framework. This new framework aims to facilitate the offering of Islamic funds with Waqf features to enable the growth of the Islamic social finance segment. The SC said the new framework will broaden the range of innovative Islamic capital market products and provide the public access to Islamic funds that

allocate whole or part of the fund's returns toward socially impactful activities via Waqf.

Another area where Islamic finance contributes to the expansion of the healthcare sector is via the issuance of Sukuk. Sukuk are ethical finance products to support sustainable, responsible and impactful investments and they are now the fastest-growing element in Islamic finance. In 2019, the IFSB stated that Sukuk have had an annual compound growth rate of up to 30.6% in the last 15 years.

With the ongoing struggle to discover a vaccine for the COVID-19 pandemic, Gavi, the Vaccine Alliance (GAVI) has mentioned that there are more than 100 candidates working on a vaccine and some have entered clinical trials. The Coalition for Epidemic Preparedness Innovations estimates that US$2 billion is required for the mass production and deployment of vaccines currently engineered by a few candidates.

The International Finance Facility for Immunization (IFFIm) is an international organization that finances child immunization and strengthens health systems related to it in some of the poorest countries of the world through GAVI. In 2014, IFFIm issued what it called 'Vaccine Sukuk' for a facility worth around US$500 million, the largest debut Sukuk ever issued by a supranational entity. This Vaccine Sukuk brought the concept of socially responsible investing to the Sukuk market. Through its success, an additional Vaccine Sukuk facility worth US$200 million and a private placement issuance worth US$50 million were entered into in 2015 and 2019 respectively. IFFIm had successfully raised more than US$6 billion in the capital market in collaboration with GAVI, with support from countries such as the UK, France and Australia. Such a collaboration had successfully brought Islamic finance and socially responsible investment funds together, when previously they were two distinct markets.

Preview of 2021

Where a national budget is unable to fully support the need for vaccine production and distribution, alternative financing would be key in ensuring that no further burden is placed on a country's economy. The issuance of something such as the Vaccine Sukuk is very much one of the solutions to procure the said vaccines. There seems to be a sufficient time frame to formulate a Vaccine Sukuk facility until a COVID-19 vaccine is officially available.

As time progresses, we bear witness to how Islamic finance contributes to the development and expansion of the global healthcare sector. In 2017, KPJ Healthcare issued RM800 million (US$195.52 million)-worth of Sukuk notes as part of its RM1.5 billion (US$366.59 million) Sukuk program. The company aimed to use the proceeds raised from the Sukuk notes for Shariah compliant purposes including to refinance or partially refinance its existing outstanding facilities. The refinance includes a bridging loan facility and advances to the company to finance the working capital requirements of the KPJ Group's healthcare and healthcare-related businesses.

In addition to this, Sinmah Capital in 2019 marked its venture into the healthcare space as it set out to build Malaysia's first full service integrated public–private university hospital. In order to raise its captital expenditure, Sinmah planned on issuing a Sukuk program to raise up to RM500 million (US$122.2 million). Very recently in September 2020, Bank Islam Malaysia had additionally announced its target to provide RM1 billion (US$244.4 million) in financing to healthcare professionals in the year ahead through collaborations with healthcare associations in a bid to provide total banking solutions to complement the needs of the healthcare associations.

New forms of financing are also being explored such as Islamic equity investments. An example would be Sun Life Malaysia Takaful and its Islamic equity fund which aims to achieve consistent capital appreciation over a medium to long term by investing in equities and other approved investments, which harmonize with Islamic philosophy and laws. Currently, almost 14% of its fund worth RM21.26 million (US$5.2 million) is being allocated to the healthcare sector.

Conclusion

With the ongoing COVID-19 pandemic, it offers Islamic finance an opportunity for a more integrated and transformative growth with a higher degree of standardization, stronger focus on the industry's social role and meaningful adoption of financial technology (fintech). As we observe how Islamic finance continues to evolve in contributing to the healthcare sector, coordination between different stakeholders is key to the industry leveraging these opportunities for sustainable growth and expansion.

Renewed emphasis on learning and talent development

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In this era of disruptions, driven by multiple factors including the COVID-19 pandemic, organizations have had to think differently and reinvent the way they do business in order to thrive in a rapidly evolving business environment. As a result, there is growing focus on enhancing knowledge, skills and competencies — and consequently, renewed emphasis on learning and talent development.

This article outlines important trends in learning and talent development for 2020 and 2021, and how they can be leveraged in advancing the financial services industry's learning and talent development agenda.

Review of 2020

Online learning is key

Online learning is a trend that has been obvious over the past few years. It has gained even greater prominence in 2020 due to the impact that the pandemic has brought on the learning landscape. Learners, learning providers and organizations have increasingly recognized the benefits of online learning especially in complementing and supplementing the classical modes of learning.

Online learning is favored by learners, learning providers and organizations as it can make learning more accessible, scalable, economical, efficient and effective. In addition, a key advantage of online learning is its flexibility, for example in enabling learning providers and organizations to vary learning content and adapt to changing learning needs more easily.

Furthermore, online learning systems can allow learning providers and organizations to measure the effectiveness of learning programs more efficiently to see if the systems are able to analyze data such as actual learning hours, completion rates and assessment grades as well as gather post-program feedback on the application of learning content in the workplace.

Make learning bite-sized

Another important trend that has been increasingly highlighted in 2020 is bite-sized learning, which is the practice of learning in smaller, more focused chunks that can be undertaken with more manageable and perhaps less prohibitive commitment on learning time.

Crucially, it can lead to better knowledge and learning retention for learners — we are able to learn more, and to retain what we learn longer, when the learning is more focused.

Bite-sized learning, also known as micro learning, arguably rewards and incentivizes learners better too. Completing two or three bite-sized learning programs gives learners a greater and more immediate sense of achievement than being at quarter-way or halfway points of classical learning programs.

Preview of 2021

Skilling up with micro-credentials

Alongside online learning and bite-sized learning, an important trend for 2021 is micro-credentials: a new model of learning that has emerged especially in forward-looking higher learning institutions and professional industry bodies.

Although micro-credentials can be applied to both classical and online learning modes, their increasing applications have been linked to the rising prominence of online learning. To a larger extent, the expansion and growing acceptance of bite-sized learning programs have now laid the foundation for even greater recognition of micro-credentials.

Micro-credentials are essentially mini-certifications given to learners when they have successfully completed parts of a full-blown learning program. For example, a full degree program at a higher learning institution or university usually comprises a number of courses that students go through over a few years. With micro-credentials, higher learning institutions and universities can award formal recognitions to students when they have successfully completed a course or a series of courses. The micro-credentials given to a student can also be 'stacked' or accumulated throughout a few years as a way to lead to a full degree.

Similarly, micro-credentials can also be applied in professional or certification programs for the finance industry. A typical certification program for the finance industry consists of a series of courses or learning modules over a few months or years. Each of those courses or learning modules can be 'micro-credentialed', and be offered either as a stand-alone mini-certification or lead to a full certification. The trend for micro-credentials has been driven by the need for continuous upskilling and retraining that are necessary for organizations to maintain and enhance their competitive edge. Industry practitioners and professionals have also used micro-credentials as a way to support life-long learning and to broaden their skillsets.

Conclusion

Quality assurance keeps them right

Online learning, bite-sized learning and the growing focus on micro-credentials can provide learners, learning providers and organizations with the agility to navigate disruptions and the rapidly evolving business environment in 2021 and beyond. They are set to be vital components of a comprehensive and robust learning and talent development framework.

Nevertheless, in order to harness the enormous potential of online learning, bite-sized learning and micro-credentials, they must be designed, developed and delivered right, and in the right way.

Based on the quality assurance work that the Finance Accreditation Agency (FAA) has carried out with our clients and partners — including higher learning institutions, universities, financial institutions, finance industry bodies and learning providers — it is also apparent that the best online learning, bite-sized learning and micro-credentials are those that conform to international best practices and principles for learning programs. Those practices and principles are incorporated in the FAA's globally-benchmarked standards and guidelines on learning program design, development and delivery.

Ultimately, the trends on online learning, bite-sized learning and micro-credentials will continue to be important only if they keep enhancing quality in learning and talent development — hence, quality assurance is paramount.

Islamic finance growth to continue with adoption of index-based investing

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Islamic indices provide market participants with a comprehensive set of benchmarks covering equities and Sukuk, as well as a wide variety of investment themes and strategies. These solutions encompass the diverse benchmarking needs of the Islamic investment community and have continued to gain adoption in today's economic environment.

Review of 2020

Global Shariah compliant equity benchmarks performed positively through the 30th October 2020 — gaining 10.4% — as measured by the S&P Global BMI Shariah, even amid the devastating economic effects of the global coronavirus pandemic. As shown in Table 1, Islamic indices enjoyed record outperformances vs. conventional counterparts in 2020. The double-digit outperformance, while illustrative of the continued growth of technology-oriented companies and the near absence of an underperforming finance sector, has now held for some years. This backdrop of historically rising and outperforming Shariah equities may serve as a tailwind for continued development of Shariah-compliant equity solutions.

Table 1: Comparative returns (year-to-date (YTD) through the 30th October 2020)

Benchmark	Shariah (%)	Conventional (%)	Variance (%)
S&P Global BMI Shariah	10.4	-1.4	11.8
DJIM World Index	11.4	-1.4	12.8
S&P 500® Shariah	8.9	2.8	6.1

Source: S&P Dow Jones Indices. Data as of the 30th October 2020. Index performance based on total returns in the US dollar. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

Table 2: US listed Islamic ETF growth YTD

ETF	Inception date	AuM (US$ million) 30th December 2019	AuM (US$ million) 30th October 2020
SP Funds Dow Jones Global Sukuk ETF (SPSK)	30th December 2019	19.9	29.9
SP Funds S&P 500® Shariah Industry Exclusions ETF (SPUS)	18th December 2019	23.6	30.2
Wahed FTSE USA Shariah ETF (HLAL)	15th July 2019	26.5	49.7
Total	**-**	**69.9**	**109.8**

Source: FactSet. Data as of the 30th October 2020. Table is provided for illustrative purposes.

The emergence of Islamic ETFs in the US

One area of renewed interest lies in North America, where just 18 months ago, only a handful of active asset managers offered robust Shariah services and US listed exchange-traded funds (ETFs) were still not available. Following the recent launch of three new US listed ETFs representing Shariah compliant US equity and global Sukuk, these funds now represent approximately US$110 million in assets (see Table

2). Index-based product availability has increased and usage, while still very small, is growing in the region.

Broad-based sustainability push

Increased interest in values-based, sustainable investing beyond Shariah-specific requirements has likewise exemplified robust growth. ETF products based on the S&P 500 ESG, designed to measure the performance of securities meeting sustainability criteria, while maintaining similar overall industry group weights as the S&P 500, now account for approximately US$1.6 billion, a threefold increase this year alone, indicating broader adoption of values-based investing. Financial advisors, charged with offering the best solutions for their clients, are looking for turnkey solutions to service Muslim investors. Significant progress has been made in the last year, and we suspect that demand still remains unsatiated.

Preview of 2021

In our SPIVA (S&P Indices Versus Active Funds) reports, our colleagues demonstrate that through the first half of 2020, 77.97% of US large-cap funds underperformed the S&P 500, while in India 80.43% of Indian large-cap funds underperformed the S&P BSE 100. These and other studies across geographies serve to demonstrate the benefits of lower-cost passive index solutions that have historically outpaced the performance of active managers. Continued awareness of the viability of such offerings will serve to benefit Islamic investors.

Continued growth of passive

Passive ETFs have been the fastest-growing financial instrument in the last decade, far outstripping the growth rate of active mutual funds. Total ETF assets under management (AuM) increased by US$600 million this year alone (figures through the third quarter), surging past US$6.8 trillion of AuM globally. In comparison, while Islamic ETF AuM continue to grow, total assets stand at approximately US$530 million.

Diversified product sets

The further adoption of such products may lie in the development of additional strategies and asset classes to compete more directly with active strategies. Other asset classes, such as REITs, may also aid. Multifactor strategies, such as the recently launched DJIM Developed Markets Quality & Low Volatility Index, may help to fill gaps to compete more directly with active strategies. This index, for example, measures the performance of developed market Islamic stocks, and targets companies with the highest combination of quality and low volatility multifactor scores, and subsequently weights the components so that the least volatile companies receive the highest weights.

Fiduciary practice

One manner for index solutions to really take off in many key Muslim-majority markets is a greater emphasis on education. Active management is deeply entrenched both culturally and within the incentive structures of some regional financial industries. Financial advisors need to adopt fiduciary models and a greater awareness of the benefits of reduced investment costs via passive products in order to drive adoption in these markets.

Conclusion

Global Islamic indices have continued to outperform conventional counterparts well into 2020 and these robust gains may serve to further promote their adoption. Increased awareness and availability of passive ETF products are likely to drive continued asset flows into this segment. Further developments, including additional product offerings and a shift toward greater fiduciary standards, would lend further benefits.

Past performance is not an indication or guarantee of future results. Please see the Performance Disclosure for more information regarding the inherent limitations associated with back-tested and/or hypothetical performance. It is not possible to invest directly in an index. Exposure to an asset class represented by an index may be available through investable instruments offered by third parties that are based on that index. S&P Dow Jones Indices does not sponsor, endorse, sell, promote or manage any investment fund or other investment product or vehicle that seeks to provide an investment return based on the performance of any Index. S&P Dow Jones Indices is not an investment or tax advisor. S&P Dow Jones Indices makes no representation regarding the advisability of investing in any such investment fund or other investment product or vehicle.

An exceptionally good year

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2020 will be remembered for the spread of a global pandemic that infected hundreds of millions and for an unprecedented halting of most economic activity. The economic and market impacts will long remain topics of research as will the extraordinary ensuing interventions by global central banks. In less than four months during 2020, greater stimuli were injected than during the decade after 2008. As authorities resuscitated economies, the Shariah compliant asset management industry had probably its best year ever.

Review of 2020

After a decline in 2018, 2019 saw assets under management (AuM) of global Islamic funds grow more than 20% to exceed US$105 billion. By mid-November 2020, this number had risen above US$165 billion (all data is from Bloomberg); doubly impressive given the backdrop of turmoil and uncertainty.

Given a lack of global data, estimates in this article only relate to regulated funds — listed and unlisted — thus excluding segregated mandates. We estimate US$40–50 billion of Islamic AuM outside regulated funds, with a large proportion of these assets in the Gulf.

“ESG and passive investing are not just short-term fads; they will shape the industry for decades to come. To not be left behind, Islamic investment managers must embrace these features during product development and ideally combine both.”

Within the overall Islamic AuM, unlisted funds accounted for almost US$65 billion, while US$105 billion was in exchange-traded funds (ETFs). About US$104 billion of the ETF AuM was in 12 precious metal ETFs. These precious metal ETFs are dominated by physically-backed gold ETFs, and gold ETFs are in turn dominated by State Street's US$75 billion SPDR Gold Shares ETF (GLD) and the US$14 billion Invesco Physical Gold ETF (SGLD). GLD alone represents 45% of all Islamic AuM in regulated funds.

The 'flight to safety' triggered by COVID-19 fueled panic gold-buying and a 25% price surge between the start of 2020 and mid-November. It was impressive then that GLD's AuM jumped 72% (+US$31 billion) and SGLD's soared 90% (+US$7 billion). While a higher gold price helped increase their assets, the two ETFs were boosted by US$25 billion of net inflows; GLD and SGLD together added US$40 billion in assets in the year to November 2020. The most prolific Islamic ETF issuer is Wisdom Tree with its suite of six physically backed precious metal ETFs enjoying AuM of US$15 billion. Interestingly, all six were launched between 2007 and 2009, during a decade when the price of gold jumped eight-fold.

Money market funds, often structured as commodity Mudarabah products, dominate Saudi Arabia's asset management landscape. Globally, AuM of this asset class rose from approximately US$23 billion to almost US$30 billion during 2020. The COVID-19-related collapse in global interest rates pushed investors toward these highly liquid, return-enhancing funds.

The largest Shariah compliant equity mutual fund in 2020 was US-based Saturna Capital's US$2.6 billion Amana Growth Fund. The fund, which was launched in 1994, focuses on global growth large-caps which meet ESG criteria. The runner-up equity mutual fund is also managed by Saturna Capital, the US$1.4 billion Amana Income Fund which invests in global, ESG-compliant large cap, value stocks; the fund was launched in 1986. Some distance behind is the US$530 million Al Raed Saudi Equity Fund managed by Samba Capital. The spot on the podium for the largest Sukuk fund is claimed by Azimut Investment's US$498 million Global Sukuk Fund. This is followed by the US$455 million Maybank Malaysia Sukuk Fund.

Preview of 2021

After such a tumultuous year, but one where many pockets of the Islamic asset management industry thrived, what lies ahead? In terms of market backdrop, as long as US interest rates remain at or around current record low levels, central banks globally, especially in developing economies, would be able to maintain a very loose monetary policy. This would be a positive backdrop for risk assets such as Sukuk and equities.

However, given the resurgence of COVID-19 cases in Europe and the US, there is a risk the virus will spread rapidly again during the Northern Hemisphere's winter with authorities clamping down aggressively on mobility and economic activity. This is a concern for equity and commodity investors but would again be bullish for gold and Sukuk.

There is a need for most Islamic asset managers to broaden their distribution capabilities, especially outside their home market. Tying in with this, in a post-COVID-19 world, the ability to acquire customers entirely online takes on even greater importance. Additionally, global private bank assets continue to grow steadily, providing enormous pools of wealth for asset managers to tap into.

Conclusion

As we have mentioned in the past, the Islamic asset management industry is in an enviable place: given the size of the global Muslim population alone, there is no shortage of demand for Shariah compliant investment products and services. 2020 was an example of the industry catching up with this appetite. The onus is on the industry to invest in building trusted regional and global brands, to launch innovative and relevant products, to offer consumers sufficient choice across asset classes and to focus on increasing the industry's current very low penetration, especially with its most captive client base. It is important for Islamic asset managers to always aim for their products and services to be comparable, or even better, than similar non-Islamic strategies; restaurants that serve Halal food are not satisfied if their customers are only Muslims.

ESG and passive investing are not just short-term fads; they will shape the industry for decades to come. To not be left behind, Islamic investment managers must embrace these features during product development and ideally combine both. There is an urgent requirement for ESG and Shariah compliant REITs and equity products as well as green Sukuk; these can be structured as funds or, preferably, as ETFs. With opportunities abound, the challenge for Islamic managers is to capitalize on them before traditional global investment managers sweep up their market.

A global survey of Islamic wealth management

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Islamic wealth management is a stepchild of Islamic finance. While other Islamic finance sectors grew substantially (deposits, Sukuk, consumer finance), Islamic finance rarely allocated resources to Islamic wealth management. Despite this, individual efforts and unique stories have emerged in the landscape of Islamic finance around the world. We review these here.

Review of 2020

There were no events during 2020 indicating any significant shift in Islamic wealth management.

North America

In June 2020, robo-advisor Wahed (New York) received a US$25 million equity investment from Saudi Aramco Entrepreneurship Ventures and small regional venture capital firms. The capital will be used to expand Wahed's footprint in various jurisdictions, including the US, the UK and Malaysia.

Another robo-advisor, Aghaz Investments (Seattle), is beta-testing its new platform, obtaining Shariah compliance and finishing regulatory approvals. An angel US$400,000 round was finished in August 2020, with further rounds planned. Aghaz could prove a powerful onshore competitor when fully launched.

The only other Islamic robo-advisor is ShariaPortfolio (Florida). Its business and client volumes are unknown. Founded in 2014, ShariaPortfolio can claim to be the oldest Islamic robo-advisor on the continent. Two other Islamic wealth management entities are Azzad Asset Management (Virginia) and Canadian Islamic Wealth (Manitoba). While Azzad has a robust business, expanding assets under management (AuM) and a long history, little is known of the Canadian counterpart.

Europe

Islamic wealth management barely registers in Switzerland. Safa Investment Services, the world's pioneer in global, multi-asset Shariah investing, was put into liquidation during the coronavirus crisis, but will reopen in January 2021.

Lombard Odier delivers Islamic wealth management, but limited to UAE clients. In January 2020, a spokesman stated Middle Eastern clients now comprise 10% of the bank's US$300 billion AuM, a fast-growing 'new market' segment. Given its legendary reputation, this segment may catapult the bank's Shariah compliant AuM. In July 2020, QNB Suisse, the Geneva representative of the Doha bank, began seeking an Islamic wealth management capability. The bank appears to be poised to initiate this segment in 2021.

Three UK banks — Al Rayan, BLME and Gatehouse — made no Islamic wealth management announcements. The long-standing retail units of Merlyn Wealth Management and TAM Asset Management continue to offer Islamic wealth management. Kestri, a new robo-advisor with bank-like features, launched a partially functional mobile app (Shariah compliance is not overt). It may give Wahed a run for its money in the UK market.

Asia and Australia

Crescent Wealth (Melbourne) remains the Australian champion, with AU$260 million (US$190.75 million)-worth of AuM. Bank Brunei Islam launched Islamic wealth management in 2019 and substantially improved its online Islamic wealth management image, but remains restricted to larger-volume clients.

Pragmatic Wealth Management (Mumbai) is perhaps the sole equity services provider in India with a dedicated Islamic offering.

In Malaysia, the venerable Malaysian Financial Planning Council continues to promote Islamic wealth management, including an August 2020 event, but Malaysian banks maintain a low Islamic wealth management profile.

Singapore's Financial Alliance, founded in the mid-1990s, is the sole provider of Islamic wealth planning in the city state, after the long-ceased operations of Islamic Bank of Asia.

Saudi Arabia and the Gulf

Islamic wealth management's relative absence in Saudi and Gulf markets remains puzzling. Most offerings appear as add-ons to retail banking (eg QIB, Bank Nizwa). Other candidates (Masraf Al Rayan, Sharjah Islamic Bank) have no Islamic wealth management whatsoever.

Abu Dhabi Islamic Bank (ADIB) is one of the few with visible Islamic wealth management services, but digging deeper indicates mostly a mutual fund referral service. The unit contributes a small portion of ADIB earnings and, perhaps oddly, won a 'Best Islamic Wealth Management' award in 2020.

None of the Saudi banks increased or improved Islamic wealth management visibility during 2020. Only non-bank Jadwa, which launched its global Shariah portfolio service in 2019, has a credible Islamic wealth management unit, now thought to have passed US$750 million in 2020. However, it appears these services are limited to a minimum US$26 million account size.

Preview of 2021

2021 may end up like 2020, meaning little Islamic wealth management development worldwide. But, like COVID-19 in 2020, surprises abound.

Robo-advisory continues to gain attention as part of fintech. But this service remains unproven. Traditional wealth management continues to rule the vast majority of AuM. The aforementioned Shariah robo-units do have potential to change this landscape in 2021. Many eyes will be focused on their success or failure. At the same time, 2021 may be the breakthrough year where conventional managers focus on Muslim wealth. A number of major wealth management institutions appear to be preparing for new Islamic wealth management units in the new year.

Conclusion

Non-bank financial intermediation is key to the efficient movement of capital. Mutual funds are the favored entry point for family or individual savings. The mutual fund AuM to GDP link is a bellwether for wealth management. And economies increase efficiency when fund AuM increase as a percentage of GDP. In an advanced economy like the US, it is almost 120%. In less-developed economies it is lower, eg Brazil (60%) and Malaysia (48%). Saudi Arabia registers 4%, indicating low penetration in this potential key market for Islamic wealth management.

The combined AuM of all Islamic wealth management units mentioned previously barely pass US$1 billion, with the bulk in just two managers. If fund numbers and volumes are an indicator of wealth management, Shariah compliant investment products are a tiny fraction of their conventional peers. Islamic finance policymakers should take note, and perhaps close the wide gap in financial services that this indicates.

Legal and regulatory aspects of Islamic finance and banking

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Financial and banking legislation in the Middle East and the GCC member states in particular has made tremendous strides over recent years. New banking laws providing for specific provisions governing conventional and Islamic banking and finance have been issued in the UAE and Egypt and similar provisions are under review in Qatar.

Furthermore, legislators and regulators have taken steps to further standardize the regulation and supervision of Islamic banks and finance institutions. However, the COVID-19 pandemic has shifted the focus of governments. Over the course of 2020, regulators have scrambled to adapt regulations and processes to address rising pressures on the conventional and Islamic finance industry caused by the economic crisis triggered by restrictions imposed by governments in response to the COVID-19 pandemic.

Consequently, important reforms of banking and finance laws and regulations have been postponed.

Review of 2020

Government responses to the COVID-19 pandemic have impacted all sectors. While the banking and finance industry may have not been directly affected by restrictions imposed, secondary effects have been felt in the industry. In particular, the expected rise in borrowers' default on loans poses considerable risks for Islamic and conventional lenders alike.

Furthermore, in the wake of the economic downturn caused by measures imposed by governments around the world in response to the COVID-19 pandemic, transactions and investments are expected to decrease. This will have negative impacts on the banking and finance industry and put further pressure on the sector.

Moreover, regulators have eased equity requirements and other stability measures to allow financial institutions to sustain their business despite the economic downturn and to support companies in distress.

These measures, however, increase the risks of banks and other financial institutions eroding their financial basis and thereby increasing the risk of financial institutions coming under financial distress.

Thus, while authorities loosening regulatory oversight over financial institutions may serve the Islamic and conventional banking industry to sustain its business in the short term, it will leave the industry less resilient.

Preview of 2021

Over the course of 2021, we will likely still see the COVID-19 pandemic and government responses impact the world economy in general including the financial sector. Still, regulators will have to take steps to address the rising instability in the financial sector.

Regulatory restraints loosened in response to pressures on the financial sector will have to be dialed back to stabilize the industry

again. Furthermore, governments may have to take further steps such as bailouts or provide other forms of financial relief to support individual banks or the industry at large.

It remains to be seen how long this process will take. The longer we will have to deal with the fallout from governments' responses to the COVID-19 pandemic, the longer we will have to wait for legislative and regulatory reforms needed to modernize the Islamic finance sector. Efforts of standardization initiated by governments throughout the Middle East to increase trust and stability in the Islamic finance industry are of vital importance for the sector.

In particular, after the highly publicized scandals such as the Dana Gas case have eroded trust in the Islamic finance industry, standardization of regulation and oversight over Islamic finance products are needed to regain trust.

Furthermore, new opportunities for asset-based lending offered by the growing implementation of public–private partnerships (PPP) require dedicated legislation and regulatory reform in the public procurement sector. It remains to be seen when regulators and legislators will shift their focus back from COVID-19-related measures to reforms to further develop the Islamic finance sector.

Conclusion

The direction legislators and regulators will take over the coming months will have substantial impacts on the future development of the Islamic finance industry. The Islamic finance industry has shown substantial growth prior to the COVID-19 pandemic. Whether this trend can be sustained will depend at least in part on how quickly and how effectively regulators and legislators will get back to reforms they initiated prior to the crisis. If these reforms are postponed too long, the momentum we have seen in the Islamic finance sector over recent years may be lost.

Islamic leasing: An intrinsic antidote to stimulate economic recovery

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Until recent years, Islamic leasing has enjoyed a competitive edge over its conventional counterpart. This is stemmed from two key features embedded in the Ijarah product. First is the application of fixed interest rates during the whole facility period. This is considered a synthetic hedging against interest rate fluctuations. Second is the implementation of Shariah principals allowing Islamic banks to own the leased asset. As a result, Islamic banks have generated lucrative profits by attracting conventional clients and ultimately attaining a larger market share.

Consequently, conventional banks introduced fixed and floating interest rate leasing, forcing Islamic banks to introduce floating Ijarah in order not to lose their market share. Also, some conventional banks launched leasing subsidiaries granting them security access on the leased asset through tri-party agreements. So, did Islamic banks lose its intrinsic advantage over the conventional? To answer this question, we need to know how Ijarah performed in 2020. What is the contemplated outlook in 2021?

Review of 2020

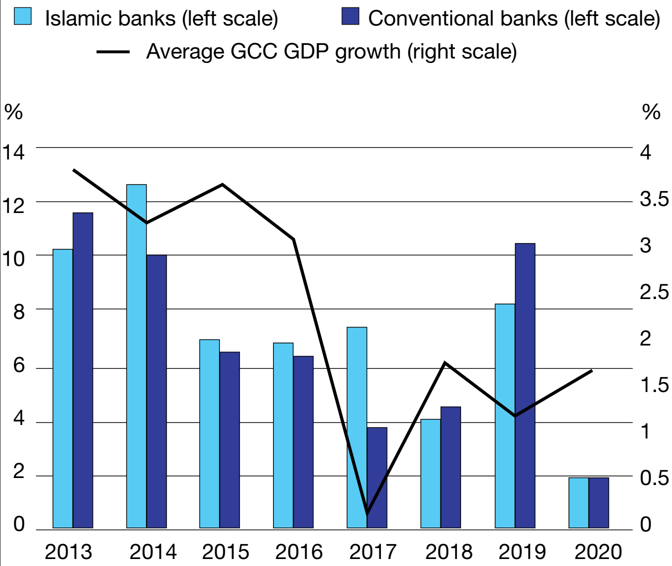
According to the IFSB Services Industry Stability Report issued in July 2020, the GCC captured the largest share of global Islamic banking assets at 45.4%. Nevertheless, and as a result of the pandemic and low oil prices, 2020 had a negative impact on GCC conventional and Islamic banks as depicted in Diagram 1. For the first time since 2013, the asset growth of both conventional and Islamic banks are equivalent at an almost 2% rate. To curb the weak growth, central banks launched several stimulus packages. This boosted Ijarah-based product associated mainly through sovereign Sukuk. For example, Indonesia issued Ijarah-based retail Sukuk for around US$342 million to finance the country's economic recovery allowing retail investors to participate through online channels utilizing Islamic fintech.

As per the PwC 2020 Middle East Working Capital study, around US$36.5 billion in excess working capital is currently trapped on the balance sheets of Middle Eastern companies. Weaker credit policy controls slowing collection rate, shifting demand patterns and rigid supply chain are all factors contributing to liquidity challenges and inventory buildup for most companies in the Middle East especially the SMEs. Such an economic situation could explain the purpose of the sustainability Sukuk issued by the IsDB. In June 2020, the IsDB issued a US$1.5 billion sustainability Sukuk offering to curb the negative impact of COVID-19. Around 53% of the issuance's proceeds will be allocated to the MENA region with a special focus on SMEs in an attempt to ease the liquidity squeeze faced by many companies in the region.

Preview of 2021

2021 could be a promising year for the Ijarah product to act as a key solution for some of 2020's economic turbulences or concerns. According to the S&P Islamic Finance Outlook 2021, deteriorating banking asset quality will be the main challenge facing banks in the GCC in 2021. This should not be a problem for Islamic banks since most of its products including Ijarah are asset-backed facilities.

Diagram 1: Asset growth comparison between GCC Islamic and conventional banks (2013-2020)



Source: S&P Global Ratings and GCC Central Banks

Another promising opportunity for Ijarah is to integrate it into environmental, social and governance (ESG) offerings such as the IsDB's sustainability and green Sukuk issuance. Associating such issuance with a fixed Ijarah product could act as a catalyst to boost the Islamic finance market. Availing funds with fixed interest rate to SMEs would accelerate economic recovery.

The same idea is also applicable to any other green Sukuk issuance. In addition, the timing of implementing new accounting treatments and standards for Ijarah to match international accounting standards could ease the pandemic's negative impact on many clients' financial statements.

Another lucrative horizon for the Ijarah market is to entice global sovereign funds to issue Sukuk Ijarah as a main source of raising required funds. Such institutional investors hold massive real estate assets that are generating fixed income stream.

Based on the prevailing interest rates in the global markets, sovereign funds could easily bundle specific generating assets with a Sukuk issuance that ultimately creates a lucrative spread. Such assets could include healthcare projects and/or Shariah compliant tourism projects. These two sectors are expected to be on the rise during 2021.

Conclusion

Once a profitable edge for Islamic banks, fixed rate Ijarah could be the same factor necessary for creating an intrinsic antidote. With regards to Islamic fintech, banks could further enhance their deposit liabilities cost of fund catering for the fixed rate asset assumption. Even better, launching Islamic digital banks or what is known by 'phygital' banks could tap new horizons in both retail and commercial products.

COVID-19 disruptions on liquidity management of Islamic financial institutions

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2020 has hit the world with an unexpected pandemic to which governments and central banks have responded with unprecedented accommodative monetary policies and large fiscal stimulus to support economic recovery. Access to cash, ie liquidity management, has never been so critical during such a crisis whose negative impacts on the economy and the financial markets are still unknown. Islamic banks entered the pandemic with stronger capital and liquidity buffers than during the global financial crisis but have been facing challenges in managing liquidity efficiently.

Review of 2020

The coronavirus pandemic has left governments and the corporate sector scrambling for cash, and by the end of March 2020, it had caused a flash liquidity crunch. Large companies have benefited from their bank's revolving credit facilities for short-term funding while sovereigns waited for a window of opportunity in early April 2020 to start raising funds in the capital markets even though at a premium. As a result, the pre-pandemic debt levels have since then exploded to record highs.

The global economic shutdown led to a decrease of household consumption and company investments which resulted in a sharp fall in oil prices. Most of the Islamic countries, including oil-based economies, favored bond issuances rather than Sukuk as their primary source of funding due to the emergency in keeping their economies afloat. Therefore, even though Sukuk issuances later picked up in the third quarter, the volume is expected to drop by US$62 billion this year according to S&P.

The economic recovery is expected to be achieved through liquidity injections from central banks. Indeed, in several jurisdictions, bank regulations have been loosened to increase the money supply with measures such as easing the cash reserve ratio and liquidity coverage ratio requirements under Basel III. Consequently, there has been ample liquidity available, but the velocity of money, the speed at which money changes hands, has fell sharply because of people saving more due to fears of a prolonged recession.

Conventional and Islamic money managers were in wait-and-see mode due to global uncertainties caused by the pandemic and other challenges such as the US election, potential no-deal Brexit and the resurgence of the US–China trade war. Investors were keeping as much cash as possible and invested in highly rated instruments with short maturities, waiting to redeploy their money at higher yields during more favorable times.

To address the market demand for high-quality Islamic cash alternative instruments, the International Islamic Liquidity Management Corporation (IILM) raised its issuance program size to US$4 billion and offered close to 35 short-term Sukuk with tenors from one month to seven months on a regular basis for a total of US$12 billion in 2020. There has been a shift in Islamic investors' behaviors with rising demand for ultra-short tenors such as one-month papers.

Preview of 2021

Whereas several jurisdictions have been actively providing liquidity instruments and funding to support their local Islamic financial institutions, the global Islamic money market remains relatively underdeveloped. It may be due to a shortage of a wide offering of high-quality liquid Islamic assets or the common belief that Sukuk are not actively traded in the secondary market.

However, there is also a lack of industry will to evolve and explore innovative Shariah compliant liquidity solutions already available. Indeed, excess liquidity remains typically invested in commodity Murabahah but its effectiveness as a liquidity management instrument remains limited by non-tradability issues and wide Shariah acceptance. Liquidity management is not about the yield, it is about how fast and safe assets can be liquidated to raise cash when needed.

More issuers of short-term Islamic instruments as well as broad and active investors will definitely support a deeper Islamic money market and the establishment of a much-needed Islamic benchmark yield curve for the Islamic industry, especially with the upcoming LIBOR transition at the end of 2021. The IILM effort focusing on the short end of the curve by consistently issuing benchmark-sized sovereign-backed Sukuk, more than US$1 billion a month, in various short-term tenors could support the creation of a low-risk/risk-free rate curve.

The liquidity stress due to the pandemic this year has also clearly identified the need for an effective Islamic repo cross-border framework to support Islamic banks' short funding needs globally. The lack of harmonization and wide Shariah acceptance has prevented the development of a strong liquid Islamic repo market and thus an additional source of liquidity to banks outside of their own jurisdictions. Secured short-term financing instruments are a cornerstone of the conventional banking industry whereby US$1 trillion in collateral value is traded per day in the US repo markets.

In addition, similarly to the conventional repo rates, profit rates on Shariah compliant 'overnight repurchase agreements' would be a key indicator of the ongoing liquidity among Islamic financial institutions as well as their short-term expectations.

Proper liquidity management requires not only relevant instruments that can be bought and sold actively at any point of time, but also liquidity risk monitoring tools for the Islamic financial markets.

Conclusion

The coronavirus pandemic should serve as a wake-up call and should be a catalyst for much-needed progress in the development of the Islamic financial markets globally, especially to deepen the Islamic money market and set up an active Islamic repo facility backed by high-quality assets. It calls for strong collaboration between regulators, Islamic market practitioners, Shariah scholars and standard-setting bodies.

As John F Kennedy once declared: "The best time to repair the roof is when the sun is shining." Not that the current market conditions are ideal, but it could get worse and delaying the establishment of an efficient and liquid Islamic financial market would not solve the problem Islamic financial institutions have been facing.

Islamic banks continue to be the catalyst for Islamic M&A deals

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In order to understand the current performance and make a consistent prediction on the future of Islamic finance mergers & acquisitions (M&A) transactions, it is vital to analyze the consolidation moves of Islamic banks and financial institutions. Therefore, a consistent preview of the following year's M&A deals requires an accurate review and assessment of the consolidation strategies of Islamic banks and financial institutions in the market.

Slow economic growth, low oil prices and low-profit margins are the main indicators that push Islamic banks to consider M&A transactions. Consolidation of Islamic lenders establishes more competitive financial institutions and consequently eases the introduction of Islamic finance tools to their customers. However, the primary motivation for M&A has changed due to the COVID-19 pandemic and the developments on the treatment and vaccine of the illness will be decisive as with everything else in the world.

Review of 2020

As the world went through the pandemic in 2020, GCC governments announced several measures in response to the harsh financial situation to aid corporations and retailers as the pandemic changed the economic and financial environment and created more challenging market conditions for most industries. These measures varied from reducing taxes and levies to asking banks to extend additional subsidized loans to affected clients to maintain employment and avoid production capacity destruction during what is expected to be a short-term event.

In such a situation, where governments have requested banks to make sacrifices for the good of the whole economy, banks require greater support from the governments. Additionally, while Islamic banks were using consolidation as a method to strengthen their market position and increase their competitiveness, M&A became a more significant tool to consider.

In October 2020, a report released by Moody's Investors Service titled 'GCC banks to accelerate consolidation in wake of pandemic and low oil prices' stated that smaller banks in the Gulf region were likely to merge or to be acquired. Banks in the region were required to increase their M&A activities to gain scale to offset the effects of lower oil prices and pandemic-driven economic slowdown on profit margins.

M&A deals in the Gulf region led to the establishment of some of the strongest financial institutions and banks in the market. First Abu Dhabi Bank, the UAE's largest lender, was formed through the merger of the National Bank of Abu Dhabi and First Gulf Bank in 2017. Abu Dhabi Commercial Bank also completed a three-way merger with Union National Bank and Al Hilal Bank in 2019, and Dubai Islamic Bank completed its acquisition of its competitor Noor Bank to create a lender with total assets of more than AED275 billion (US$74.86 billion) in 2020.

Notable deals in 2020 include Saudi Arabia's National Commercial Bank's purchase of its rival lender Samba Financial Group for US$14.8 billion and the acquisition by a group of international investors of Abu Dhabi National Oil Company's 49% stake in its gas pipeline assets for US$10.1 billion. Deals in the financial sector accounted for 41% of the MENA target M&A activity during the first half of 2020 while Saudi Arabia was the most targeted nation, followed by the UAE (25%) and Egypt (11%).

Taking the pandemic and current financial situation of the market into consideration, it is expected that the consolidation trend will be more popular among Islamic financial institutions and banks in the following years.

Preview of 2021

A report by S&P Global Ratings also supports the opinion that a pandemic-led economy is expected to push the banking sector toward making consolidation moves. However, the situation differs slightly for Islamic banks, compared with their conventional counterparts. Having looked at the credit fundamentals of the 16 largest Islamic banks and 30 largest conventional banks in the GCC, Islamic banks might prove less resilient to a protracted downturn than their conventional peers.

Since carrying out M&A deals may be a necessity for GCC banks after the pandemic, it will make it easier for bank management to convince their boards and shareholders to carry out the transaction. As is known, obtaining approval from boards and shareholders is one of the most important steps in completing an M&A deal.

Shareholders may be unwilling to go for the transaction since such a move will result in a dilution of their shares and control of the bank. However, as recapitalization may become a must after the pandemic, M&A deals would be a significant option that cannot be ignored.

Conclusion

2020 was an unusual year for the whole world and almost everything had to be decided according to the course of the pandemic. Unless a definitive treatment or vaccine is found, it is not realistic to expect that 2021 will be any different from the previous year. However, in terms of Islamic M&A transactions, this may mean that there will be more M&A deals, particularly among Islamic banks and financial institutions.

Islamic microfinance critical for economic recovery: A micro and small enterprise perspective

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The global pandemic has cast its shadow over all aspects of human existence and the economic impact has been especially tough, sucking the lifeblood out of many businesses as customers dry up. MSMEs — the backbone of many economies — have been bearing the brunt. They are, however, also the way out of the current crisis.

In many developing economies, growth has been driven by the expansion of MSMEs, creating income-generating, self-employment and employment opportunities for the bottom of the pyramid. This trickle-up development was fueled by the provision of affordable credit through microfinance institutions.

Review of 2020

Last year, the total microfinance sector had steadily grown to an estimated 140 million clients globally with a credit portfolio of over US$100 billion, although less than 1% was Shariah compliant. Islamic microfinance is still dominated by a few big players such as Akhuwat in Pakistan, Islami Bank in Bangladesh or the BMT movement in Indonesia, although there are over 300 operators globally.

However, some 400 million people in Muslim-majority countries remain under the poverty line of US$1.9 a day. But many people who had barely escaped extreme poverty could be forced back into it by the convergence of COVID-19, conflicts and climate change. A World Bank preliminary estimate for 2020, incorporating the effects of the COVID-19 pandemic, projects that an additional 88 million to 115 million people will be pushed into extreme poverty, bringing the total to over 700 million globally.

This has dramatically affected the loan book of many microfinance institutions as their clients — mainly microentrepreneurs — find their revenues depleted and ultimately unable to repay their debts. This has caused, together with a number of regulator-imposed repayment moratoria, a liquidity crisis in many microfinance institutions the world over. Coupled with a very cautious approach to lend to economically vulnerable clients at a time of great uncertainty in terms of growth, hence poverty reduction has been significantly affected.

On the upside, there is unprecedented demand for capital or asset finance as MSMEs try to get over this lean period or invest in business adaptation. A very positive development was therefore Blossom Finance's follow-up SmartSukuk for Indonesian BMT Bina Ummah, building on its world's first primary Sukuk issuance on a public blockchain and the world's first micro Sukuk in the previous year which raised US$50,000.

Preview of 2021

Some heavy lifting will be required if we want to get the economy back on track and it is clear that Islamic microfinance will have to play a central role. This requires significant financial input and institutions such as the IsDB Group will be critical. However, from the US$2.3 billion IsDB rescue package, while much is being injected into financial services, Islamic commercial banks and not

microfinance institutions are absorbing the lion's share. Therefore, an Islamic microfinance-specific rescue package would be a very welcome development.

Islamic microfinance institutions will not just need more capital to bolster their loan books during this crisis in order to provide longer-term concessional finance to microentrepreneurs rebuilding, but they will also have to invest heavily in business adaptation.

Microfinance is a very transaction- and client interaction-heavy business and doing business during and post-COVID-19 is likely to go digital. Islamic microfinance institutions will not only face increased competition from peer-to-peer lending platforms but also from fintech start-ups entering the micro market, taking advantage of the relatively low entry threshold. Mobile money will be king and the now-legendary M-Pesa service in Kenya that has skyrocketed financial inclusion in the country through the power of a basic mobile phone is likely to be replicated more widely.

The threat of commercial banks downscaling into the microfinance market which was quite strongly perceivable in many national markets, however, despite their advantage in terms of technology adaptation, seems to have receded. This is because MSMEs are now, of course, riskier businesses than ever which makes it less likely that banks will lend to them and even if they do, it will be more expensive.

A 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 microfinance institutions which serve poor and vulnerable customers perhaps solely through Qard Hasan, full cost recovery opens up Shariah non-compliance risks under the current AAOFI interpretation. This is an urgent concern that the standard-setting body will have to address to support the growth of the industry.

Conclusion

It has been an extremely challenging year for Islamic microfinance. At the same time — with the right support from Islamic finance industry standard-setting bodies and the IsDB — we can now build a critical economic recovery engine. Beyond COVID-19 and with rating agencies and investment vehicles, Islamic microfinance can become a new social investment class.

Islamic pension funds: The next big thing in Islamic finance

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A pension fund is a fund set up for the purpose of covering the retirement benefits of employees at the end of their careers, or when employees reach their retirement age. Pension funds are normally financed by contributions coming from employees themselves and their employers. Pension funds exist in one form or another in all developed countries. They are major institutional investors and players in both their own respective financial markets and global ones.

The total assets of pension funds of the 37 OECD member countries for 2019 were estimated at US$32.3 trillion (OECD, 2020). Seven countries had over 90% of these fund assets. These were the US (US$18.8 trillion), the UK (US$3.6 trillion), Australia (US$1.8 trillion), the Netherlands (US$1.7 trillion), Canada (US$1.5 trillion), Japan (US$1.4 trillion) and Switzerland (US$1 trillion).

At the beginning, most of the pension funds only invested in two major asset classes (bonds and equities) to make returns. However, according to a study from PWC in 2016, pension funds started diversifying their investments toward more alternative investments such as hedge funds, infrastructure, private equity and real estate. The same study also showed that responsible and economic, social, and governance (ESG) investing is increasingly playing an important role in the investment decisions of major pension funds of developed countries.

Take for example AustralianSuper, the largest pension fund in Australia. It applies strict screening based on ESG standards in addition to financial criteria. The fund will not invest in companies considered as having, among others, human rights, labor, environmental and governance issues.

Review of 2020

As pension funds in developed countries have become major institutional investors playing a significant role in domestic and global financial markets, it is somehow surprising that the study on Islamic pension funds is still rare in international Islamic finance reports and literature.

Moreover, information on Islamic pension funds is usually just put as part of the studies on Islamic funds, and it is a minor part, as found in the Islamic Finance Development Report 2019. Other yearly major global Islamic finance reports such as the Islamic Finance Services

Industry Stability Report of the IFSB and the Islamic Finance Outlook of S&P Global did not even include information nor discussion on the subject.

One of the main reasons perhaps is because of the difficulty in getting data, or the size of the fund itself is not that significant. As seen in Table 1, even within the universe of Islamic funds only, pension funds only accounted for less than 0.5%.

Actually, the challenge for the development of Islamic pension funds is not just making the conventional pension funds Islamic; the institutional setup of the pension funds themselves is not that solid in most Muslim countries. Looking at the global list of the top 300 pension funds in Table 2, only three pension funds from two Muslim countries are listed: the Employees Provident Fund and the Retirement Fund of KWAP of Malaysia and the Public Institution for Social Security of Kuwait.

Even if we add some major pension funds not listed in this list such as the General Organization for Social Insurance (having assets under management (AuM) of US$115.4 billion) and the Public Pension Agency (AuM: US$51.5 billion) of Saudi Arabia (based on swfinstitute.org) and Indonesia's major state-owned social security entity, BPJS Ketenagakerjaan (AuM: US$31.2 billion) (based on entity's audited accounts), the number is still less than one-ninth of the 56 Muslim countries grouped in the OIC — compared this to the US alone that has 142 funds in the ranking.

"More alternative investments will also need to be considered, particularly in the area of developmental finance"

Table 1: Islamic funds' outstanding value by universe 2018 (US$ billion)

Rank	Fund	Outstanding value
1.	Mutual funds	97
2.	ETFs	9
3.	Insurance funds	2
4.	Pension funds	0.37

Source: Islamic Finance Development Report 2019

Table 2: Position of selected pension funds of Muslim countries in the global list of top 300 pension funds (in US$ million)

Rank	Fund	Market	Total assets
1	Government Pension Investment Fund	Japan	1,555,550
2	Government Pension Fund	Norway	1,066,380
3	National Pension Fund	South Korea	637,279
4	Federal Retirement Thrift	US	601,030
5	ABP	Netherland	523,310
6	California Public Employees	US	384,435
7	National Social Security Fund	China	361,087
8	Central Provident Fund	Singapore	315,857
9	Canada Pension	Canada	315,344
12	Employees Provident Fund	Malaysia	226,101
17	Employee' Provident	India	168,095*
23	AustralianSuper	Australia	129,025
50	Public Institution for Social Security	Kuwait	81,247*
127	Social Insurance Funds	Vietnam	38,464*
135	Retirement Fund of KWAP	Malaysia	37,019*

Source: Thinking Ahead Institute, Willis Towers Watson, 2020
*Note: *Estimate*

Preview of 2021

Despite the facts that the current figures of the Islamic pension funds discussed are still limited, there is actually great potential possessed by the Islamic pension fund industry. It could start with the existing major pension funds located in Indonesia, Kuwait, Malaysia and Saudi Arabia that already have a relatively significant asset size. The total value of assets of six pension funds in those four countries stood at US$542.47 billion, almost five times the overall Islamic fund figures in 2018.

Marmore MENA Intelligence estimates that the total pension fund assets in the GCC in 2020 stand at US$602.4 billion. If the investment is converted into Islamic instruments over a period of time, then Islamic pension funds would really be the next big thing in the Islamic finance industry. This is not to mention possible conversions taking place in Indonesia and Malaysia.

Another potential major player is Turkey, which had around US$21.3 billion of assets in pension funds and other retirement vehicles in 2019 (OECD, 2020). Potential also exists among Muslim minorities in developed countries. The UK is a case in point. There are already some offerings of Islamic pension funds for the Muslim community in the UK. Among these companies are Options, previously known as Carey Pensions, the HSBC Life Amanah Pension Fund and the B&CE People's Pension.

Conclusion

Although specific data on Islamic pension funds is rather scarce, it can be inferred that the existing size of Islamic pension funds is too small compared to its potential. There are at least four ways Islamic pension funds could grow much bigger in the near future.

Firstly, it will be through a gradual conversion of existing conventional pension funds in major Muslim countries mentioned previously. Secondly, it will be through the reform of the social security system in most OIC member countries so that it is expected that more viable pension and retirement-related institutions could emerge. Thirdly, it will be through the new awareness of Muslims living in the mostly western developed countries preferring to use Islamic pension funds. Last but not least, it will be through the need to align more closely Islamic finance and sustainable/responsible (ESG) investing as these two approaches are basically intertwined.

In addition, more alternative investments will also need to be considered, particularly in the area of developmental finance. At the end, people nowadays do not only seek financial returns, but also have a desire to contribute positively to the world.

Islamic venture capital on the way up, Islamic private equity on the way out

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Sometimes I think that Islamic private equity (PE) funds resemble Bigfoot — a great many believe that it exists, but very few have actually seen it. In the 2010s, a number of the GCC-based large asset managers announced their plans to allocate funds to Shariah compliant equity operations (both public and private ones). Nevertheless, with the demise of Abraaj in 2019, the number of PE funds with dedicated Islamic operations in 2020 includes only the 'usual suspects' — Amanah, Fajr Capital, COPE PE, Gulf Capital and a few captive Shariah compliant funds operated by the major Islamic banks in the GCC and Southeast Asia.

Almost US$1.5 trillion was invested in venture capital (VC) deals in the last decade. In 2019, US$294 billion was invested in 32,800 deals worldwide. 2020 will see a smaller VC investment value of US$260 billion, which is not bad, given the direful expectations in the spring. The Shariah compliant VC deals dropped to under US$400 million, including seed funding. The key players in the sector are still conventional and mixed funds, like BECO, Gobi Partners and SFC Capital.

Review of 2020

COVID-19 has dramatically impacted the sector performance and outlook for the year. Still, it should be kept in mind that most PE funds have investment horizons in excess of five years, so the Wall Street's drama of missing quarterly numbers is totally foreign to the industry. With US$276 billion in 'dry power' (according to Preqin), the funds can afford to wait for investment opportunities, especially in the 'distressed asset' sector. Forced isolation rules, coupled with underfinancing, are creating spectacular opportunities for the 'buy-low-and-just-wait' strategy.

It is projected that global PE fundraising in 2020 will likely reach 'only' US$450 billion (25% less than in 2019). Islamic PE fundraising will drop even more to under US$350 million (down by 53%). The signature deals were few and mostly in exits — Fajr Capital sold its stake in Bank Islam Brunei Darussalam, while SBI Islamic Fund sold its stakes in Sengenics and Sim Leisure.

The VC deal of the year is, of course, the US$25 million investment by Saudi Aramco into Wahed. Other notable deals include investments in the Jahez food delivery app by Impact46, and the agrotech company Pure Harvest investment by Wafra.

Preview of 2021

2021 is likely to bring some additional competitive pressures on the Islamic PE industry. The first challenge comes from the institutional investors with US$2.4 trillion in assets, who made it clear that the environmental, social and governance (ESG) considerations are now paramount in choosing a fund manager. These issues, which are Shariah compliant in principle, increasingly affect consumer behavior and business conditions, and there is evidence that the ESG programs improve returns and limit risks.

Still, the effect of another significant factor may be more detrimental to Islamic PE. A new investment model that combines a Murabahah

with a unilateral promise (Waad) to enter into a Musawwamah may allow any Shariah compliant investor to become a limited partner of a conventional fund. At least two of the top five US PE funds will offer this option to Muslim investors in 2021.

There are several reasons to stay pessimistic about the Islamic PE industry in 2021:

- most of the classical assets are still owned (ineffectively) by Islamic banks and family offices
- the lack of later-stage Islamic tech projects translates into the absence of investees, and
- conventional PE funds will continue to invest in ESG and Shariah compliant projects — because they can.

Unlike the Islamic PE industry, the Shariah compliant VC sector is about to boom. In 2021, Kuala Lumpur will remain the center of Islamic VC. New programs such as Fintech Booster by Malaysia Digital Economy Corporation (MDEC) will spur entrepreneurship by providing essential support services — onboarding assistance, tax, legal and Shariah compliance consulting.

Saudi Arabia, the UAE and Malaysia will attend to the availability of Islamic seed capital. This essential funding will be distributed to viable projects via business accelerators. Saudi Arabia is looking to create one of the largest pools of Islamic seed capital (US$800 million) by allocating funds from its sovereign Public Investment Fund. In the UAE, The Mohammed bin Rashid Innovation Fund and 11 start-up incubators will be dispensing up to US$250 million in 2021. Malaysia is also well positioned to provide the 'seeds' to Islamic start-ups via its multiple government agencies — Bank Negara Malaysia, Malaysia Venture Capital Management and MDEC.

Conclusion

2020 has made many Muslim countries' governments realize that the budgets must be expanded to support local economies. The year 2021 will see the rise of multiple government-sponsored co-investment schemes where government entities will provide up to 50% of capital to projects properly evaluated by the established VC players such as Gobi Partners, Cradle Fund, SHUAA Capital and RHL Ventures.

The competition for top start-ups will intensify. Saudi Arabia and the UAE will actively compete for Islamic tech projects with various relocation incentives, free offices, subsidized housing and 'no strings attached' seed funding. It is going to be a tough game for Indonesia and Malaysia.

The Islamic project and infrastructure finance market


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According to the OECD, US$71 trillion is required globally by 2030 to fund infrastructure projects, including road, rail, telecommunications, power and water infrastructure. A significant number of these projects will require private sector finance and, therefore, offer opportunities for Islamic investors and financial institutions globally.

While economic fluctuations, including low oil prices and the coronavirus pandemic, have had an impact on the implementation of infrastructure projects, most governments have maintained their commitment to infrastructure development. This has led to greater incentive for many governments to tap into private sector financing, including through Islamic project finance, for developing large-scale infrastructure projects.

Review of 2020

The Islamic finance industry underwent a period of substantial growth in the past decade, but its growth had progressively declined in recent years, from 11.16% in 2013 to 6.58% in 2018, until its return to a healthy rate of 11.4% in 2019 underpinned by a more dynamic Sukuk market. In spite of a strong start to 2020, the global Islamic finance industry's growth has slowed significantly in 2020 amid measures by various governments to contain the coronavirus pandemic. However, the Islamic finance industry remains an integral part of global financial markets with an aggregate value of over US$2.4 trillion at the end of 2019.

In recent years, most large-scale projects, particularly in the GCC, have featured one or more Islamic tranches alongside conventional debt finance. The most frequently used Islamic project finance structures have been based on Istisnah–Ijarah and, in some cases in Saudi Arabia, Wakalah–Ijarah structures. This has been particularly the case for power, petrochemical and industrial projects, such as the US$20 billion SADARA petrochemical complex, the US$2.5 billion Shuaibah independent water and power project and Phase II of the US$10.2 billion Emirates Aluminium smelter project.

While a more robust pipeline of infrastructure projects to be funded through Islamic project finance remains to be developed, there is wide market recognition that Islamic project finance can deepen the available capital pool for funding infrastructure projects through the inclusion of one or more Islamic tranches in a multisourced financing structure. Although multisourced project finance arrangements lead to certain intercreditor issues between Islamic finance providers and conventional financiers, the success of various recent Islamic project financings has demonstrated that such issues can be overcome.

Notable projects recently financed through Islamic project finance alongside conventional finance sources include the US$4.43 billion North Marmara Motorway public–private partnership (PPP) project in Turkey (September 2019); the NASDA wind power projects in Pakistan (November 2019); the US$275 million 500 MW solar photovoltaic independent power plant in Ibri, Oman (March 2020); the EUR2.3 billion (US$2.72 billion) financing for the construction of the Canakkale 1915 Bridge in Turkey (March 2018); the US$4.61 billion Duqm Refinery project in Oman (October 2018); the AED1.2 billion (US$326.7 million) 200 MW Phase II of the Mohammed bin Rashid Al Maktoum Solar Park in Dubai (March 2017); and the 800 MW Phase III of the Mohammed bin Rashid Al Maktoum Solar Park in Dubai (June 2017).

Preview of 2021

According to S&P Global Ratings, the Islamic finance industry is expected to show low- to mid-single-digit growth in 2020–21, particularly as the growth of the industry is hampered by the global economic impact of the coronavirus pandemic. However, the Islamic project finance industry is well placed to maintain a positive growth trajectory consistently with the expected gradual recovery from the economic impact of the coronavirus pandemic in 2021.

There is a large pipeline of infrastructure projects in the Middle East, Asia and Africa (including the projects in Saudi Arabia as part of Vision 2030) for which Islamic project finance could offer a viable financing option alongside conventional modes of finance. In addition, it is expected that projects in the multibillion-dollar Belt and Road Initiative, as well as potential infrastructure projects to form part of Oman Vision 2040, will offer ample opportunities for Islamic project finance.

Moreover, according to MEED, approximately 151 PPP infrastructure projects, with a total value of approximately US$185 billion, are planned or underway in the Middle East and Africa, which could offer ample opportunities for the use of Islamic project finance. This has elicited interest from governments and development finance institutions to mobilize Islamic project finance for financing PPP infrastructure projects.

The sustained development of the Islamic project finance sector requires reconsideration and adaptation of existing Islamic project finance structures to meet the current and developing needs of the sector and the enhanced regulation of the Islamic finance industry. According to S&P Global Ratings, the coronavirus pandemic offers an opportunity for a more "integrated and transformative growth" with increased standardization and meaningful adoption of fintech. However, effective coordination between all stakeholders is key to the industry leveraging these opportunities.

Conclusion

Although the growth of Islamic project finance has been hampered by the global economic impact of the coronavirus pandemic and low oil prices, the future of Islamic project finance appears promising. The continued development of Islamic project finance is a testament to its suitability for financing infrastructure projects and its growth is expected to continue in parallel with the gradual recovery of the global economy from the coronavirus pandemic.

The position of Islamic project finance is expected to be further bolstered globally by the extensive pipeline of infrastructure projects that could be financed through Islamic project finance, the development of Islamic finance in traditional hubs and non-traditional markets, the increasing progress toward standardization and enhanced regulation of the Islamic finance industry and the growing interest of development finance institutions in promoting the use of Islamic project finance in the infrastructure development space.

Sovereign credit ratings of major Islamic economies

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Credit ratings are now almost more than 100 years old and they have been evolving since then. The role of credit ratings has always remained pivotal in financial markets; however, the ratings have become much more important during events such as recessions, financial crises and pandemics. Credit ratings are conducted for various institutions, but mainly involve corporates, banks and governments. In times of economic disruptions, these credit ratings act as a signal to what to expect next regarding the financial stability of these institutions. While credit ratings of corporates and banks are of significance, government credit ratings provide a holistic view about all sectors of the economy (including corporates and banks) and hence are a better indicator for reviewing credit ratings. And as the sovereign credit rating deteriorates, it creates an automatic pressure on the ratings of all institutions including Islamic banks and Takaful companies.

Review of 2020

As the COVID-19 pandemic started in early 2020, we observed severe economic disruptions due to lockdowns, travel bans and restricted trade, all leading to lower economic activities. The IMF announced a global recession with the name of 'The Great Lockdown' as early as March 2020 and published the revised global economic growth in April 2020 with an expectation of a 3% contraction during 2020, followed by a 5.8% growth expectation in 2021.

As the world moved to a recession, almost all of the economies are expected to post a growth contraction during 2020, including almost all major Islamic countries. First and foremost, the Gulf region, consisting of six oil-producing nations, namely Saudi Arabia, the UAE, Oman, Bahrain, Kuwait and Qatar, witnessed a streak of sovereign credit rating downgrades during 2020. In the Gulf, government funding needs increased significantly in 2020, as low oil prices in addition to the economic repercussions of the pandemic widened governments' fiscal deficits.

As per a report published by S&P in July 2020, GCC sovereigns' central government deficits are estimated to reach around US$490 billion cumulatively between 2020 and 2023. More than half of this deficit is expected to come from the largest economy in the Gulf, ie Saudi Arabia, followed by Kuwait with 17% and 11% from Abu Dhabi. But these fiscal deficits are expected to shrink by 2021 as oil prices will improve in line with the oil production cuts as a result of the OPEC Plus agreement in April 2020, further supported by a revival in economic activity.

With an expectation of growth contraction in Saudi Arabia, Moody's Investors Service changed the rating outlook on the Kingdom from stable to negative due to lower oil prices and the lowest international reserve position in almost a decade, while keeping the rating at 'A-1'. After keeping the rating 'Aa2' since 2007, Kuwait was downgraded by Moody's during September 2020 with a stable outlook. The major reasons behind the downgrade were the increase in the government's liquidity risk and weaker institutions and governance strengths.

Despite the pandemic and lower oil prices, the diversification of Qatar's economy allowed it to keep its ratings intact at 'AA-' by all the three major credit rating agencies. In August 2020, Fitch Ratings downgraded Bahrain to 'B+' owing to the impact of lower oil prices and the pandemic resulting in a higher budget deficit, increasing debt position and contraction in growth. Having been rated at 'BB-', Oman's rating outlook was changed from stable to negative by both Moody's and Fitch.

In the Levant region comprising Turkey, Jordan, Lebanon and Egypt, the economic condition has remained far worse than the Gulf. Most of these economies have limited fiscal capacity and external debt affordability. In the region, the Lebanese government has the highest external debt around 170% of its GDP, followed by Jordan and Egypt with 97% and 87.2% of their GDP respectively. As economic conditions worsened in Turkey with higher external pressures, Moody's downgraded its rating to 'B2' in September 2020. Fitch assigned a higher credit rating of 'BB-' but also changed its rating outlook to negative in August 2020. Following the trend in the Levant region, Fitch changed the rating outlook on Jordan to negative in May 2020, while keeping the rating at 'BB-'. In March 2020, Lebanon defaulted on its debt for the first time largely due to a currency crisis, as the country did not repay a US$1.2 billion eurobond. Having been rated at 'B2' and 'B+' by Moody's and Fitch respectively, Egypt's rating remained intact during 2020.

In the ASEAN region, Malaysia's sovereign credit rating remained stable at 'A-' by Fitch, but a negative outlook was assigned by S&P Ratings due to heightened fiscal risks amid the pandemic. While the credit rating of Indonesia was affirmed at 'BBB' with a stable outlook by Fitch in August 2020, S&P assigned a negative outlook citing higher financial risks amid increased government spending.

In the South Asian region, Moody's revised the rating outlook on Pakistan from under review to stable in August 2020, while keeping the credit rating at 'CCC'. The credit rating of Bangladesh remained stable at 'BB-/Ba3' by all of the three credit rating agencies during 2020. The largest economy of Central Asia, Kazakhstan, maintained its credit rating at 'B2' by Moody's with a stable outlook.

Preview of 2021

Both the IMF and World Bank expect a V-shape recovery with the global economy expected to rebound and post a strong growth during 2021. On the other hand, oil prices are expected to remain around the same levels as in 2020 as per the US Energy Information Administration. Combining the impact of these coupled with the strong linkages with sovereign credit ratings, we expect 2021 to be a year of stability and growth. We should expect credit ratings in Southeast Asia, Levant, South Asia and Central Asia to keep posting reversals in credit ratings. The credit ratings of the Gulf states may also show some reversal, amid a significant dependence on the direction of oil prices.

Conclusion

Whenever there are uncertainties in the world economy and financial markets, we see disruptions in the credit ratings and 2020 was no exception. As COVID-19 starts tapering off and lockdown restrictions eased, we started witnessing some recovery, but with the second COVID-19 wave, things are uncertain again. With the announcement of the development of a vaccine, we should expect some recovery in the global economy during 2021 and with that, credit ratings will start impacting positively too.

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Real estate: An enduring appeal

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Shariah compliant real estate investment has long been an established product offering for Islamic investment managers. Perhaps now more than ever, the allure of bricks and mortar remains, as investors seek an attractive income component ahead of what can be achieved with other investments.

Real estate suits Shariah compliant investing well with a genuine business being undertaken, either to build to rent or sell new property or hold existing properties for their rental income. The mechanisms to assess the compliance of tenants are well established, as is the capability of landlords to apply the lease terms themselves appropriately.

While there is now a global band of professionals able to assist with selecting, structuring and closing acquisitions, what remains lacking is the scale at which Islamic banks outside of the Middle East and Southeast Asia are 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 2020

2020 can be divided into three segments, with the significant differences between each one triggered of course by the impact of COVID-19.

The first two or three months started with great optimism both for intra-region and international real estate investment. The preferred sectors of 2019 rolled into 2020 with offices remaining very attractive for investors, along with a broad range of residential-related properties, including multi-family properties in the US and student accommodation in the UK. Logistics were certainly already in demand, but achieving the yield investors wanted was difficult.

And then of course the pandemic hit. All focus moved to managing existing investments as managers, financiers and investors worked through the implications for their properties. Where due diligence had commenced on new acquisitions before the lockdowns commenced, the ability to successfully close them relied on the flexibility and pragmatism of all parties. There was little to no new transaction activity through to the end of August.

While it was certainly a very different summer, come September, as in previous years, investor interest recovered and there was a realization that real estate could offer the fundamentals that they were seeking.

There was little appetite for risk for the remainder of the year, with an almost universal declaration among investors wanting long-leased properties with defensive tenants. Ideally these should be logistics properties, or if offices, let to companies in the food, government, medical or technology sectors, so as to be able to withstand any further pandemic onslaught.

However, any expectation of a 'COVID-19 discount' was short-lived. The Islamic real estate industry exists of course as a component of the global real estate business, which had reached very similar conclusions with respect to investment requirements over the summer. For certain properties, a 'COVID-19 discount' very quickly

turned to a 'COVID-19 premium', fueled by defensive characteristics and six months of pent-up demand.

For logistics properties, which had already been favored before the pandemic, something of a feeding frenzy occurred, with yields seemingly falling by the day and fortunate sellers being able to dictate transaction terms.

This increased activity occurred during the continued inability or unwillingness to travel, along with the return of lockdowns to many countries. The use of advisors within the respective countries and technology has solved the problem. Just as we have all become used to conducting meetings through video connections, so property tours were undertaken using drones, professionally shot video content or simply a camera phone.

Preview of 2021

Much depends on whether the rush to invest in the last quarter of 2020 was pent-up demand or the start of a prolonged global trend for real estate investment. Many investors have become used to a preferred minimum net cash yield, but this may need to be reset if the very attractive gap between property yields and reference interest rates tightens.

We should continue to see continued appetite for secure properties, but this will include a widening of investment criteria as the intense competition for the most obviously defensive properties is recognized. I suspect that this will include a wider recognition of healthcare assets and a growing appetite for residential properties which, while lower-yielding, are supported by the eternal need for housing.

In the 11 years since the world came out of the last economic shock in the summer of 2009, the Islamic real estate industry has not returned to funds as a conduit for investment in any meaningful way, and so I see almost no prospect for significant pickup in fund activity as we work through this current economic shock.

Conclusion

We made it through, picked up the pieces and are moving forward again. The enduring appetite for real estate has yet again been tested and has proven its resilience.

The compliance outlook for Islamic finance

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The COVID-19 pandemic of 2020 has indirectly enhanced investors' focus on environmental, social and governance (ESG) products and the ethical implications of flows of capital. With this, we have seen significant growth and demand for Shariah aligned or compliant products and services in step with this wider appeal for those seeking ethical or socially responsible investments. Islamic finance as used in this article signifies financial products and services that are aligned with the purpose or Maqasid of Shariah.

This article examines the interplay between the global rise of ESG investment and growing demand for Islamic finance, and how growing investor appetite must be met with efforts to facilitate access to other markets, products and investments, including Shariah compliant products.

Review of 2020

The concept of human stewardship in Islam is noteworthy, with mankind seen as a manager or steward of resources — not an owner — therefore giving rise to the implicit moral responsibility associated with such a role. The feature of stewardship is particularly aligned with the principles of ESG and the emerging pools of global liquidity dedicated to ESG strategies.

S&P indicated that one of the current accelerators for the Islamic finance industry is the rise of ESG, with the UN Principles for Responsible Investment stating: "Islamic Finance and ESG investing are complementary capital-raising and investment approaches with many shared principles, such as being a good steward to society and the environment."

As we know from our own experiences, especially during the pandemic, people want to work for purpose-driven organizations that stand for more than just making money. Some theorized that COVID-19 and the focus on value preservation would dampen investors' commitment to ESG, but we are yet to see any signs that this is the case.

From what we have seen so far, there will be increased pressure from institutions to ensure that non-financial risk mitigation plans are developed and implemented and a rigorous ESG analysis of their portfolio companies will be an obvious starting point.

As the pandemic begins to abate, Islamic finance is in a unique position to act as a change agent to build back better, with Shariah presenting further opportunities to provide investment solutions to clients, innovating in line with the real Maqasid Shariah.

Preview of 2021

The regulation of Islamic finance often draws upon securities and banking regulations for the conventional sector, duly modified to reflect the nuances of Islamic finance, according to the IFSB. However, it is essential to ensure that, notwithstanding the underlying religious compliance, the duties to consumers, stakeholders and overall systemic stability are upheld in the same manner as expected of the conventional financial services industry.

This therefore requires those regulating and also implementing compliance frameworks for Islamic finance to be able to understand the products and services and the manner in which the Shariah approval process, through Fatwas, is applied throughout the product and service life cycle.

Regulation and compliance of Islamic finance must focus on substance over form to fully identify how risks manifest and arise from various structures, including the risk of Shariah non-compliance and the associated implications. If the very feature that makes a product Shariah compliant is breached, it impacts the integrity of the service being offered.

This is relevant in situations where, due to the prolonged effects of COVID-19, there may be prolonged profit-smoothing, particularly in profit-sharing investment accounts and as such adequate disclosure will be required to assure investors that the instrument remains Shariah compliant, notwithstanding the mitigation of the loss element, according to the IFSB.

The evolving regulation around technology and blockchain, crowdfunding as well as the developing integration of ESG into regulatory policies will be equally applicable to the Islamic financial services sector.

Digitalization of the Islamic financial services industry is expected to increase, given the remote working environment being exacerbated by COVID-19; as such, regulations will need to be developed to ensure that such digital platforms not only adhere to the applicable regulations, but also remain Shariah compliant and regulations should ensure the Shariah compliance feature remains a core component of an Islamic institution's internal systems and controls framework.

Conclusion

As all financial services institutions face increasing regulatory costs, burdens and duties, this requires service providers that can understand these challenges in light of their specific business model. Regulatory compliance service providers, which can understand Shariah compliant business models, in addition to conventional business, enable clients to have a service provider with an intricate understanding and alignment of their needs.

Service providers that are able to provide a single-source solution from regulatory licensing, ongoing compliance and full-suite services to Shariah compliant products and investments, such as fund administration to Shariah compliant funds, SPV administration support in Sukuk and integrated ESG Islamic investments have a distinct competitive advantage across markets with a strong demand for Shariah compliant products and services.

Islamic finance is about ethics, integrity, accountability and social responsibility; these universal values are for all mankind, and perhaps the integration of ESG and socially responsible investing will provide the bridge between conventional and Islamic finance at a time when investors are looking for investments with a wider benefit than just economic gain.

The fact that compliance solutions are needed for an industry that must itself demonstrate compliance with Shariah is a unique opportunity for a service provider with capabilities in both Shariah and conventional finance to provide the platform for its clients to launch quickly and seamlessly into different regulated markets.

Islamic finance-based renewable energy

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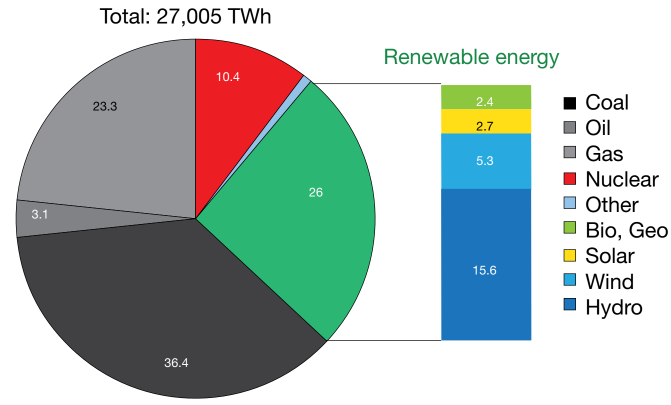
Renewable energy is fast becoming the primary source of the world's power. The progress during the last decade is evident of the clear shift that the world is making toward renewable energy. To put things into perspective, installed renewable power capacity grew more than 200 GW in 2019 (mostly solar photovoltaics (PVs)), the largest increase ever. For the fifth year in a row, net additions of renewable power generation capacity clearly outpaced net installations of fossil fuel and nuclear power capacity combined globally. In most countries, producing electricity from wind and solar PVs is now more cost-effective than generating it from new coal-fired power plants. These cost declines have led to record-low bids in tendering processes, which became even more common during the year.

Chart 1: Electricity generation mix 2019 (%, as of 25th June 2020)



Source: https://ourworldindata.org/renewable-energy

Review of 2020

Here are some of the notable deals in the renewable energy space which were concluded in last quarter of 2019 and early 2020 and then continued through 2020. Malaysia has been a very active player in Islamic finance-based renewable energy deals followed by Pakistan and the UAE. The following are some of the landmark deals which started off in 2019 and continued in 2020.

Cypark Ref's Sukuk Murabahah (Malaysia)

Transaction	Up to RM550 million (US$134.48 million)-worth of Sukuk under the Shariah principle of Murabahah (via a Tawarruq arrangement) based on Securities Commission Malaysia (SC)'s Sustainable and Responsible Investment (SRI) Sukuk framework to finance three 30 MWac solar PV projects, located at Terip Dam, Negeri Sembilan.
Lead bank	Maybank Investment Bank
Tenor	22 year(s)
Project cost	RM719 million (US$175.8 million)
Finance structure (77:23)	Equity: RM169 million (US$41.32 million) Sukuk: RM550 million

Deal uniqueness and structure: An SRI Sukuk Murabahah program pursuant to which the issuer may from time to time issue SRI Sukuk Murabahah under the Shariah principle of Murabahah (via a Tawarruq arrangement) where the aggregate outstanding nominal value of such SRI Sukuk Murabahah shall not exceed RM550 million at any one time.

Majid Al Futtaim's green Sukuk (UAE)

Transaction	Majid Al Futtaim, an Emirati real estate and retail giant, has launched the Middle East's first corporate green Sukuk on the NASDAQ Stock Exchange in Dubai valued at US$600 million issued under Majid Al Futtaim's US$1.5 billion trust certificate issuance program. Proceeds from the green Islamic bond, the company said, will be used to finance and refinance its existing and future green projects, including green buildings, renewable energy, sustainable water management and energy efficiency
Sukuk Amount	US$600 million
Tenor	10 years

Deal uniqueness and structure: The Sukuk issuance was more than six times oversubscribed with one-third of the investors coming from Asia. With the green Sukuk listing, the value of all debt instruments listed on NASDAQ Dubai by Majid Al Futtaim has reached US$2.4 billion. It was priced at 4.64% and will mature in May 2029. Both Fitch Ratings and S&P Global Ratings have assigned the Sukuk a 'BBB' rating.

Edra Solar's Sukuk Murabahah (Malaysia)

Transaction	Edra Solar has raised RM245 million (US$59.9 million)-worth of Sukuk Murabahah to fund its 50 MWac solar PV plant located at Kuala Ketil, Kedah Darul Aman, in Peninsular Malaysia (the Project). Edra Solar is a subsidiary of China General Nuclear Power Corp.
Lead managers	OCBC Al-Amin Bank, Standard Chartered
Project cost	RM306 million (US$74.82 million)
Financing structure (80:20)	Equity: RM61 million (US$14.91 million) Sukuk: RM245 million
Tenor	Ranging between one year and 18 years

Deal uniqueness and structure: The Sukuk issuance comprised eight tranches with tenors ranging between one year and 18 years. This is the first Sukuk issuance arranged under the ASEAN sustainability SRI framework and the first solar power project to tap the ringgit Sukuk market. The solar power plant has been rated 'AA2' (first in the category). The RM245 million Sukuk facility was successfully priced through the price discovery method.

Serba Dinamik Holdings's Wakalah Bi Istithmar Sukuk (global financial institution)

Transaction	Clifford Chance advised international energy services group Serba Dinamik Holdings (Serba Dinamik) on the international aspects of its US$300 million high-yield Sukuk.
Lead bank	HSBC
Lead managers	Credit Suisse, HSBC
Financing amount	US$300 million

Deal uniqueness and structure: This is the first-ever high-yield rated Sukuk from Asia, and Serba Dinamik's debut in the US dollar bond market. It achieved the lowest coupon for an inaugural high-yield rated issuer since 2017. The transaction combines a high-yield covenant package and credit structure with a Wakalah Bi Istithmar Sukuk and represents the first US dollar high-yield Sukuk offering in Asia Pacific.

IsDB's green Sukuk Wakalah (global financial institution)

Transaction	The IsDB successfully priced its first-ever green Sukuk amounting to EUR1 billion (US$1.19 billion) in five-year trust certificates. The proceeds shall be utilized to fund climate change and green projects in its 57 member countries. These include projects for renewable energy, clean transportation, energy efficiency, pollution prevention and control, environmentally sustainable management of natural living resources and land use and sustainable water and wastewater management.
Green structuring agent	HSBC
Rating	AAA
Financing amount	EUR1 billion

Deal uniqueness and structure: This is the first-ever euro-denominated and the first-ever 'AAA'-rated green Sukuk. The coupon is the lowest ever paid by the issuer. The Sukuk facility was priced at par with a profit rate of 0.04%, to be payable on an annual basis, making it the lowest-ever profit rate for a euro issuance by the bank. This is the IsDB's third public issuance in 2019. The landmark issuance is the inaugural trade based on the bank's recently created Sustainable Finance Framework and is also the first-ever 'AAA'-rated green Sukuk in the global capital markets. The trust certificates will be listed on Euronext Dublin, NASDAQ Dubai and Bursa Malaysia (under the Exempt Regime).

Liberty Wind Power's Islamic financing (Pakistan)

Transaction	Liberty Wind Power 1 raised PKR4.8 billion (US$29.99 million) to finance its 50 MW wind power plant to be located at Jhimpir, Sindh, Pakistan.
Lead bank	Faysal Bank
Participants	Bank of Punjab, Allied Islamic Bank
Offshore financier	CDC Group
Facility	i) SBP Islamic Refinance Scheme for Renewable Energy: PKR4.8 billion ii) Syndicated term finance facility (KIBOR-based): PKR4.8 billion
Tenor	i) SBP Refinance: 12 years (inclusive of a two-year grace period) ii) KIBOR-based STFF: 15 years (inclusive of a two-year grace period)
LCY financing amount	PKR4.8 billion

Deal uniqueness and structure: The transaction is for one of the country's multiple wind energy projects, which achieved financial close in 2019.

NASDA Green Energy's Islamic financing (Pakistan)

Transaction	NASDA Green Energy raised PKR4.7 billion (US$29.37 million) to finance its 50 MW wind power plant to be located at Jhimpir, Sindh, Pakistan.
Lead bank	Meezan Bank
Offshore financier	Islamic Corporation for the Development of the Private Sector
Facility	i) SBP Islamic Refinance Scheme for Renewable Energy: PKR4.7 billion
	ii) Syndicated term finance facility (KIBOR-based): PKR4.7 billion
Tenor	i) SBP Refinance: 12 years (inclusive of a two-year grace period)
	ii) KIBOR-based STFF: 15 years (inclusive of a two-year grace period)
LCY financing amount	PKR4.7 billion

Deal uniqueness and structure: The transaction is for one of the country's multiple wind energy projects, which achieved financial close in 2019; it is the only wind power project that is being financed 100% under Islamic principles.

Preview of 2021

It seems like 2021 will see a substantial jump in Islamic finance transactions that are renewable energy-based. In Pakistan, a few solar projects totaling 500 MW are in advanced stages of execution and will achieve financial close in 2021. Similarly, the climatic change concerns and the focus on responsible banking are also supplementing the growth in Islamic finance and renewable energy.

Conclusion

The Islamic finance industry is projected to grow in the low- to mid-single digits in 2020/21, following an 11.4% growth in 2019. S&P is of the view that the pandemic offers an opportunity for the Islamic finance industry to move toward more integrated, transformative growth which focuses on a higher degree of standardization, with greater emphasis on the industry's social role. Under the Renewable Energy Agenda 2030, governments around the world have set a target to build 721 GW of wind, solar, biomass, waste-to-energy, geothermal and marine power plants over the coming decade that would raise the renewable power capacity installed by 2030. There is a huge funding gap between sources available and sources required to fund the projects to meet the target. The Islamic finance industry is keen to narrow the funding gap and shall support governments to meet the Renewable Energy Agenda 2030. S&P has forecasted that the US$2.4 trillion Shariah compliant finance industry is expected to register "low- to mid-single-digit growth" in 2020 and in 2021.

Islamic retail asset management

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We live in times where consumers are increasingly aware of their choices and demand that values and purpose are embedded into products that they consume. In the financial context, today's generation seems less driven by the narrow definition of investing to generate returns and considers the social and environmental impact of the companies they invest in to be an important part of investment decision-making.

Millennials view their investments as a way to express their social and environment values, according to a US Trust survey on wealthy millennials. The structural shift that the investment industry is undergoing has profound implications for Islamic asset management. Consequently, purpose-driven investment solutions that promote responsible behavior, an inherent part of Islamic finance, could soon find itself in the mainstream.

Shariah compliant investments abide by Islamic tenets against usury and uncertainty. Shariah forbids irresponsible profiteering at the expense of others, and shuns businesses that harm the environment and damage our society.

For instance, interest or excessive interest that leads to slavery is prohibited in Islamic finance. It also prohibits investments where the payout is uncertain such as gambling or speculation. Investment in businesses such as those that deal with weapons/arms manufacturing, alcohol and brewing, tobacco or pork-related products are avoided. Islamic principles thus strive to create a sustainable and socially responsible financial system that largely appeals to the millennial investing attitude.

As the younger demographic cohorts push values-based investing to the forefront, Islamic funds along with environmental, social and governance (ESG) investing have emerged as the fastest-growing segments within the financial industry.

However, not all is rosy and the industry is faced with multiple challenges. Islamic assets remain concentrated, with the markets of Iran, Malaysia and Saudi Arabia accounting for more than three-quarters of the total assets. There is a prevailing notion among investors that screening for businesses that adhere to Islamic principles would lead to an additional layer of costs in terms of research and certification.

Review of 2020

Shariah compliant funds outperform conventional peers

Global funds, as measured by the performance of their benchmark indices, recouped most of their losses and entered positive territory in the third quarter of 2020 (Q3 2020). However, across the region, Shariah compliant benchmarks have outperformed their conventional peers.

For instance, the performance of the Dow Jones Islamic Market (DJIM) World Index stood at 14.3% (year-to-date, as of Q3 2020) while its conventional peer gained 0.9% for the same period.

The outperformance of Shariah compliant funds could be explained by differing sector allocations. Islamic funds lack exposure to conventional banking and the entertainment industry (alcohol, gambling, tobacco and cinema) — businesses that took a big hit due to the lockdowns. The information technology sector, driven by FAANG (Facebook, Amazon, Apple, Netflix and Google) stocks that contributed to most of the positive performance, has an overweight allocation in Shariah indices compared with the conventional peers, while financials that performed poorly among various sectors remain underweight in the Shariah index.

Table 1: Market performance up to Q3 2020

Benchmark	Shariah compliant index	Conventional index	Outperformance of Shariah indices
DJIM World Index	14.3%	0.9%	13.5%
DJIM Developed Markets	13.8%	1.3%	12.6%
DJIM Emerging Markets	19.3%	-2.1%	21.3%

Source: S&P Dow Jones Indices; index performance based on total returns in the US dollar

On the product side, we witnessed the launch of the first actively-managed Shariah compliant exchange-traded fund (ETF) — the Almalia Sanlam Active Sharia Global Equity ETF in September 2020. The ETF, currently listed in the London market, has the Royal Bank of Canada as the lead market maker. The introduction of actively-managed Shariah compliant ETFs would provide more choice to investors.

Preview of 2021

Despite the strong performance, scalability of business has remained a sore point for Islamic asset management. In the upcoming year, the robust outperformance of Shariah funds could perpetuate fresh inflows and entice a new set of investors — not limited to those seeking Shariah compliance. The trend could be evident among retail investors who typically act by buying into the best-performing funds. The opportunity could be capitalized by retail Islamic asset managers, aided by appropriate marketing efforts to attain economies of scale that are most sought-after in the fund management business.

Presently, ETFs remain a small proportion — amounting to less than 10% of overall assets under management in the Islamic fund landscape. Considering the flurry of Sukuk issuances, both from sovereigns and corporates especially in the GCC region, establishing ETF vehicles for Sukuk could make it easier for retail participation. The ETF segment offers immense potential for growth and we could see further products.

Conclusion

To conclude, potential opportunities are plenty for Islamic retail asset management in terms of product development and the widening investor base. Favorable tailwinds in the form of strong outperformance and enhanced focus on socially responsible investing have thrust Islamic asset management into the limelight. The industry should thwart the existing challenges and position itself favorably and scale up.

Retail banking in 2020: Learnings and moving forward

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2020 was mostly spent managing COVID-19. Almost all countries had schemes announced by their respective central banks which entailed a payment holiday or relaxation of some sort. This often required a change of systems and processes with Islamic banks closely working with their respective Shariah boards. We also witnessed that some policies announced by central banks were beneficial for Islamic banking clients. For example, profit accrued during the payment holiday period could not be capitalized on Islamic products which in some markets were not applicable for conventional banking clients.

Review of 2020

Business direction moved from growth to portfolio protection and stabilization. The credit underwriting criteria were tightened due to business slowdown with a greater focus on hard-hit sectors like hospitality, airline, etc. This was the time for banks, particularly Islamic banks, to demonstrate their true values by engaging with clients to ease the burden in settling their equated monthly installments for card, personal finance, auto or home finance.

Protecting the safety and health of bank staff and clients was also of immense importance. A big salute to the frontline teams working in branches, customer service, sales, collections and such who continued to service clients in a very challenging environment.

As we all glided into the new normal, what stood out was the accelerated behavioral shift toward digital. What probably would have been achieved in the next two to three years happened in six months. Banks which were already on the road to digitization had a relatively easy job compared to those who were still strategizing. Banks introduced new digital services ranging from remote account opening for credit cards and deposits to conducting webinars with their clients selling complex products like mutual funds or Takaful.

From an industry perspective, Islamic banking continues to grow with markets like Malaysia, Pakistan, the UAE, Bangladesh, Indonesia, etc, on a growth trajectory. In Pakistan, the government announced a roadmap to increase the share of Islamic banking from 15% to 25% by 2023 under the National Financial Inclusion Strategy.

In Malaysia, which spearheads the growth of Islamic finance, we saw that banks are managing their consumer financing portfolios well as a result of prudent underwriting practices — thanks to the regulatory guidelines for responsible financing. Also, Islamic banking subsidiaries keep their cost income ratio manageable as they leverage on their parent's infrastructure. With greater acceptance of Islamic products and the 'Islamic first' approach by some large banks, we will continue to see growth in Islamic deposits and financing.

Preview of 2021

As we embark on 2021, it is noticeable that the landscape for retail banks has evolved significantly due to the low interest rate regime and digitization of key financial services. The emerging themes for Islamic banks in 2021 are likely to be:

1. *Shariah governance standards*

   The growth in Islamic banking also brings greater demand from central banks to strengthen the governance culture and move toward greater standardization and transparency. For example, in the UAE we have seen an increased rollout of new regulations covering the operating model of Islamic banks, product structures and governance requirements. It is also expected that going forward we will see Shariah boards being more accommodative toward product structures and processes to accommodate the evolving consumer needs fueled by the recent pandemic.

2. *Islamic fintech*

   Fintechs will continue to challenge traditional banks which will have to choose between the 'compete' vs. 'collaborate' approach. Many banks will oscillate toward value-adding partnerships with fintechs, with the objective of reducing operational costs which will lead to competitive product offerings reaching a wider target market.

   With digital penetration on the rise and markets like Malaysia touching nearly 60% penetration of the total adult population in July 2020, the trend of minimal face-to-face interaction will continue as it has become the new norm. Client journeys will have to be redrawn and Islamic fintechs will have a great opportunity to play a leading role in this space.

3. *Socially responsible finance*

   There is a natural link between social responsibility and Islamic finance as Shariah puts an emphasis on maintaining a balance between wealth creation and wealth circulation. The focus on 'equitable distribution of wealth' and promoting the doctrine of 'Prevent harm and Do good' is deeply rooted as part of Maqasid Shariah (the objectives of Shariah). With this backdrop, Islamic banks should take the lead and develop products around concepts of endowment (Waqf), donation (Sadaqah) and almsgiving (Zakat). This approach will result in the introduction of new Islamic products which will provide a competitive edge.

Conclusion

2020 has taught us many lessons, the most important being to create a financial system which delivers a positive social impact. This presents an opportunity for Islamic banks to drive financial inclusion and contribute to creating a more sustainable and equitable financial system. Also, the accelerated need for digital solutions presents an opportunity for Islamic banks to redefine client journeys and develop more customer-oriented value propositions.

Risk management — liquidity under COVID-19 stress

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Governments around the world have launched a wide range of tax, financial, business and social measures to help organizations respond to and recover from the economic impacts of the global COVID-19 pandemic. No one could argue about the lack of visibility of this unprecedented situation and its impact on the short-, medium- and long-term outlooks on the economic and social situations. Indeed, the financial sector in Europe and globally has been struck hard and faced a dislocation during the beginning of the pandemic. As an example, compared with 2008, all the markets have been negative and no 'fly-to-quality' investments have been possible to manage risks and reduce volatilities.

Review of 2020

During 2020, the pandemic highlighted and increased the structural vulnerabilities associated with the financial markets and asset management activities, especially in the area of liquidity risk, which were identified by regulators as those that could potentially pose financial stability risks.

One key lesson was the importance of effective liquidity risk management to safeguard the interests and protection of investors, to maintain the orderliness and robustness of financial markets and to help reduce systemic risk, all of which support financial stability. The main weaknesses regarding the liquidity risk management process are (1) the design process of the investment strategies, (2) the day-to-day liquidity management of different portfolios, and (3) the existence of contingency planning.

Regarding the design process, an effective liquidity risk management process should be established. While being proportionate, the liquidity risk management process has to be supported by strong and effective governance, and take into account any obligations (eg investor redemptions, margin calls from derivative counterparties, etc). Finally, and more importantly, the liquidity risk management process needs to be effective in both normal and stressed market conditions.

At the portfolio and investment levels, the financial stress emphasized that due consideration needs to be given to the current and historical liquidity of the assets and instruments to be invested in under normal and stressed market conditions. On the investor side, asset managers should take reasonable steps to enhance the understanding of the target investor base, the concentration thereof and the expected redemption and divestment patterns.

In addition, it should be ensured that the liquidity risk of the portfolios and investments and the liquidity risk management process are effectively disclosed to investors and prospective investors. Disclosures should be properly designed, taking into account the nature of the assets the asset managers intend to invest in and the degree of sophistication of the investor profile. Disclosures should be proportionate to the risks.

The pandemic also highlighted a lack of day-to-day liquidity management of investment strategies; the liquidity risk management process, established at the design phase, should be effectively performed and maintained, taking into account the investment strategy, liquidity profile and redemption policy of the investors.

The liquidity should be regularly measured, monitored and managed. Due consideration should be given to the interaction of liquidity risk with other risk factors such as market risk or reputational risk. Investment decisions should integrate liquidity management and stress testing. Stress testing arrangements should be appropriate with regard to the size, investment strategy, underlying assets and investor profile of the portfolio, while taking into account other factors where relevant.

Stress testing should be based on reliable and up-to-date information and carried out at a frequency relevant to the specific strategy, especially in anticipation of reasonably foreseeable stressed market conditions to which the strategy could be sensitive.

Finally, contingency plans should be implemented and periodically tested to ensure that any applicable liquidity management tool can be used where necessary and if activated, can be used in a prompt and orderly manner.

For example, the testing of the operational capacity should be such that, to the extent possible and on a reasonable basis, asset managers can use all available solutions, including in stressed market conditions, that will allow for the continued orderly functioning of the strategy and for maintaining investor confidence in the management of the portfolio.

Preview of 2021

For 2021, we can see that the world is at a turning point regarding its positioning and capacity to face and manage the pandemic in terms of Islamic finance. In addition, with other stress events, such as Brexit entering into force in December 2020, especially with a 'No Deal' situation, there will be fierce competition between the UK and other EU jurisdictions to attract investors from the GCC and Asia (both for Islamic and conventional finance).

In such a situation, several jurisdictions will need a differentiation factor, for example, develop a specific framework for the rising appetite for green Sukuk. Another way could be to support the financing of SMEs in Europe and assets/infrastructure using Sukuk or using the newly established and easy to deploy Reserved Alternative Investment Funds structure.

Conclusion

2021 will be a major test of the human capacity to find an efficient way to handle the pandemic, its impacts and to simply find a way to return to a normal life.

A careful economy ahead for secondary markets

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The World Economic Outlook released by the IMF in October 2020 projected that the world would suffer a negative economic growth up to -4.4% in 2020, which is 1.4% lower than the April 2020 forecast (-3%).

As the global economy braces for an economic downturn and a prolonged recession, the Islamic secondary market — prominently stocks and Islamic bonds (Sukuk) — is not exempt from the adverse impacts. This brief article projects the 2021 outlook for secondary markets with a particular reference to the stock and Sukuk markets.

Review of 2020

A study by Badar Nadeem Ashraf titled 'Stock markets' reaction to COVID-19: Cases or fatalities?' in 64 countries over the period of January–April 2020 revealed a negative correlation between global stock market returns and COVID-19 confirmed cases and deaths. As the number of COVID-19 cases escalated, the stock market performance slumped.

The global stock market started to decline on the 20th February 2020, reached its peak on the 16th March and ended on the 7th April. The 16th March crash — called Black Monday II, recording the deep decline of up to 12–13%, was the largest drop and fastest fall in the global stock market in financial history since the Wall Street crash on 1929. Other devastating daily declines of the global stock market occurred on the 9th March, called Black Monday I, and on the 12th March (Black Thursday).

The stock market then demonstrated an uptrend in April but experienced a second crash in October 2020. For example, S&P endured the deepest shrink since June of up to 4.5%. This was mainly due to the exponential, sudden spread of COVID-19 and the uncertainty of vaccine development. In the US, for example, the number of daily cases in October reached 100,000 new cases (the 31st October 2020). This stock market crash marked the beginning of the economic and financial recession, which is anticipated as the worst crisis in the financial history post the Great Depression from 1929 to 1935.

The Islamic stock market was also severely hit by the COVID-19 pandemic in the first half of 2020. The Dow Jones Islamic International Titans Index ceaselessly declined from 5,283.5 in February to 3,756.63 at the end of March. However, the Dow Jones Islamic Index reentered a bull market gradually from 3,756.63 to 6,141.32 in early September. Information technology and healthcare are the two main drivers of the equity market performance, which contributed around 29.6% and 18.3% respectively to S&P Global BMI Shariah.

Apart from the stock market, the volume of Sukuk issuance in 2020, according to Fitch Ratings, is expected to be at par with or even better than 2019, despite the unprecedented, prolonged COVID-19 crisis. Government Sukuk are anticipated to contribute significantly to overall Sukuk issuance as part of government measures to cover the fiscal deficit and to finance COVID-19 policy-related expenditures. There are also emerging interests from financial institutions and corporations to issue Sukuk, benefiting from cheap funding costs, for their restructuring mechanism. According to an estimate from the Malaysia International Islamic Financial Centre, global Sukuk issuance as at the end of June 2020 reached US$73.5 billion: 45.6% of which was issued in Malaysia, followed by Saudi Arabia (23.6%), the UAE (8.2%) and Indonesia (7.2%).

In contrast, S&P projected a major drop in 2020 Sukuk issuance of up to almost 40%. It expected that total Sukuk issuance will stand at a maximum of US$100 billion, compared with US$162 billion in 2019. This is because many large companies reduced their capital expenditures and prefer to penetrate banking financing instead. Nevertheless, the emergence of the COVID-19 pandemic has marked a greater interest from both issuers and investors toward more socially responsible Sukuk instruments.

Preview of 2021

In the aftermath of the slower secondary market performance due to COVID-19, the global stock market is expected to enjoy a relief momentum in 2021 once a COVID-19 vaccine is released and the outcome of the US presidential election is announced.

Since the crisis we are facing nowadays is primarily a health crisis from the COVID-19 pandemic, the development of a vaccine will determine the duration, severity and magnitude of the crisis. If a vaccine is deployed early, economic recovery will be faster, thus giving a positive signal on the financial market performance, including the stock and Sukuk markets.

In particular, the Sukuk market is projected to remain positive in 2021 with an emphasis on environment, social and governance goals. We expect the pandemic to further reshape the future direction of Islamic finance by reinforcing its role toward addressing social issues, ie via the issuance of Waqf-linked Sukuk and green Sukuk.

Conclusion

Despite the careful and uncertain economy, we believe that the secondary markets, mainly the stock and Sukuk markets, will perform better next year primarily due to the promising development of a vaccine. The pandemic would also unlock new opportunities for Islamic finance to institute its value proposition by shifting its orientation toward more socially responsible and environmentally-friendly finance.

Islamic securitization pre- and post-COVID-19 era

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Securitization is a structured product under both conventional and Islamic finance. Securitization is the process of pooling various assets into an SPV besides financing the acquisition of these pooled assets by the issuance of securities through the SPV. Hence, Islamic finance mimics conventional finance in defining securitization since most financial Islamic products are based on the concept of asset-backing. Another similarity is the parties' involvement in the securitization process.

Nevertheless, there are two main differences. First, the underlying assets pool or portfolio should match the Islamic Shariah principles or the accepted Islamic financing schemes. Second, investors should have a share of ownership in the asset pool of the new SPV. In other words, investors participate in the securitization product based on a profit and loss generation mechanism rather than an interest rate as in conventional financing. Sukuk are considered the most common Islamic product used with securitization deals. So how did Islamic Sukuk securitization perform in 2020 especially in light of the COVID-19 outbreak? What is the contemplated outlook for Sukuk securitization in 2021?

Review of 2020

From a global perspective, the pandemic had a negative impact on conventional securitization deals. According to S&P's global securitization report, new issuances of conventional securitization in 2020 are expected to record an aggregate of US$830 billion. If compared with 2020's new issuance expectations prior to COVID-19, it should have recorded an amount of US$1.12 trillion. Hence, the pandemic resulted in a decline of around 26% in the global securitization market. The market of Islamic bonds or Sukuk is no different. As mentioned by Moody's Investors Service last August, global issuance of Islamic bonds or Sukuk is expected in 2020 to record an aggregate of US$170 billion, representing a drop of 5% ending four consecutive years of annual growth.

It is worth mentioning that most of the Sukuk issuances in 2020 represent sovereign Sukuk issued by governments to support their balance sheets against the pandemic's impact besides the major drop in oil prices. In other words, it is not a fully securitized product if compared with the conventional concept. Furthermore, if correlating the whole Sukuk market of US$170 billion to only the new issuances of conventional securitization of US$830 billion, Sukuk will represent around 20%.

This indicates that Sukuk securitization deals will witness a further drop than 5% in 2020 despite starting the current year with a positive outlook. This is evidenced by some Islamic market news detailing securitization programs launched prior to the pandemic. One example is the first asset-backed US$266 million Sukuk launched in Saudi Arabia last January.

The Sukuk proceeds were expected to be used to acquire real estate assets in Europe with a specific focus on Germany. Since then, few Sukuk securitization deals were conducted or announced except recently. Last September, KFH-Bahrain launched an Islamic securitization program offering local financial institutions and state-owned entities an opportunity to manage their liquidity positions and balance sheets through the issuance of a series of Sukuk Mudarabah.

Preview of 2021

According to expectations, the whole market of Islamic finance during 2020 will aggregate to around US$2.4 trillion. Such a decline is expected to continue during 2021. So what could Sukuk securitization expect in 2021? In line with international reports, the outlook is gloomy to some extent. But is there any window of opportunity?

In my humble opinion, to answer this question, we have to take into consideration two main pillars: LIBOR cancelation and the link of recourse concept with the issuance of credit ratings. Many issued Sukuk are referenced to the LIBOR rate which is expected to be canceled by the end of 2021 and replaced by the Secured Overnight Rate (SOFR).

It is worth mentioning that the SOFR rate is higher than LIBOR currently. Also, most Sukuk securitization embeds fixed cash flow streams. So what connects the two dots? Upon LIBOR's cancelation, Sukuk will not be affected from a technical perspective since it is fixed and Islamic bonds are non-tradable.

Nevertheless, new Sukuk issuances in 2021 referencing LIBOR might result in investors refraining from subscribing to the Sukuk offering. In other words, an investor will be better off with a conventional income stream referenced to the SOFR rate than with an Islamic product tied with the fixed canceled LIBOR. An investor could mitigate this by engaging in a series of Islamic swaps.

The other main pillar is finding a Shariah compliance and legal opinion that allows embedding a recourse clause on the Sukuk issuer. This stems from the expectations of a global economy contraction that will result in a downward impact on most sovereign and corporate credit ratings.

Conclusion

By definition, Islamic finance entails the conventional securitization concept in most of its products. It has a real window of opportunity if stipulated on slim market dynamics by turning it around to its favor.

Interaction key to ensuring more harmonious Shariah rulings

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The COVID-19 pandemic was not expected, and its impact has been felt across all industries. It has quickly evolved from being a public health issue to being a source of serious economic challenge. According to the Asian Development Bank, the global economy could suffer between US$5.8 trillion and US$8.8 trillion in losses, equivalent to 6.4% to 9.7% of global GDP as a result of COVID-19. Likewise, the IMF estimates that global GDP will fall even further by an additional 3% in 2020 if the pandemic does not recede in the second half of the year.

Despite all these challenges posed by COVID-19, 2020 witnessed many developments in the Islamic financial industry, particularly in the area of Shariah governance. This report highlights the most important Shariah governance-related developments and initiatives of the Islamic financial industry in 2020 and what is expected in 2021.

Review of 2020

One prominent initiative was the Kingdom of Saudi Arabia's Shariah Governance Framework for Islamic financial institutions. The framework, which came into effect in July 2020, was developed by the Saudi Arabian Monetary Authority as a result of the growing scale and complexity of Islamic finance business in the country, which has triggered the need to strengthen the Shariah compliance mechanism in its Islamic financial institutions.

In Kuwait, on the 1st September 2020, the board of directors of the Central Bank of Kuwait (CBK) laid down the principles and rules for the establishment of a Supreme Shariah Supervisory Board at the CBK. The idea of establishing a centralized Shariah board at the central bank has become vital to strengthen financial stability, minimize the risk of Shariah issues and enhance Shariah governance practices in Islamic financial institutions.

In Algeria, the country's central bank released its long-awaited Islamic banking regulation (No 20-02), which was published on the 15th March 2020, to govern the implementation of Islamic finance in Algeria. The regulation clearly mentions the term 'Islamic finance' instead of 'participatory finance', which was used in the previous regulation, and it has elicited many comments and concerns from the public. The Act defines the banking operations and activities related to Islamic finance and the rules and conditions that apply to them.

Another initiative worth noting is the issuance of the Shariah Governance Standards for Islamic Financial Institutions by the Central Bank of the UAE which are mandatory, and all Islamic financial institutions must set a Shariah governance framework in accordance with the standard, size and complexity of their operations.

In addition, the standards comprehensively stress the duties and key responsibilities of the board of directors with regards to the implementation of the standards within Islamic financial institutions and discuss the role and responsibilities of senior management and the internal Shariah supervision committee and their main duties.

The Central Bank of the UAE also organized a meeting of members of central Shariah boards from across the globe. This was done as the continuation of the first meeting, which was organized by Bank Negara Malaysia in 2018. The objective of this meeting was for the members to exchange their experiences and resolutions so that they can be of benefit to all. This kind of interaction will surely facilitate the convergence of the Shariah minds in Islamic finance across the globe.

Preview of 2021

2021 will be a challenging year, especially if the pandemic does not recede by the end of 2020. With economies battling the COVID-19 crisis, it is expected that there will be more global Sukuk issuance in 2021 to support fiscal stimuli and maintain the growth rate. Such an initiative has already been unveiled by the IsDB which has raised US$1.5 billion with its first-ever sustainability Sukuk to tackle the aftermath of the COVID-19 pandemic in its member countries.

Such innovation in the Islamic capital market sector, particularly in sovereign Sukuk, is considered as an alternative tool for mobilizing financing that could help governments to face the economic challenges posed by COVID-19 pandemic.

In addition, it is expected that there will be more efforts by regulators to establish a centralized Shariah body. The objective of the centralized Shariah body would be to foster greater connectivity and collaboration among Shariah scholars and financial supervisory authorities to unlock the full value proposition of Islamic finance. Even if that does not materialize soon, interaction among members of centralized national Shariah boards are expected to increase in the future so as to streamline Shariah resolutions across different jurisdictions.

Conclusion

To conclude, 2020 has been very challenging due to the COVID-19 pandemic, which has had unprecedented impacts on government finances, private sectors and financial institutions, including Islamic financial institutions. Having said that, it is anticipated that these Shariah governance initiatives will boost the punctuality and quality of Shariah-based decisions for Islamic financial institutions.

In addition, regulators, supervisory authorities and central banks should issue new guidelines and enhance the current Shariah governance framework to mitigate the impact of COVID-19. In other words, there is a need to update banks' existing policies and procedures and to strengthen internal governance and controls.

The overall monitoring mechanism must also be improved to contain the financial implications of the COVID-19 pandemic and to give some relief to individuals and SMEs facing financial hardship. This should include, among others, key parameters for debt moratoria, types of financing, tenors of financing, rescheduling or restructuring mechanisms and charges for deferment. It is also hoped that the Shariah fraternity will have more interaction so as to ensure more harmonious Shariah rulings across the globe.

Public–private partnership for Islamic SMEs to survive

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SMEs are catalysts of economic development globally. Islamic SMEs are considered beyond a general 'inclusion strategy', leading to their acceptance as employment generators and producers for niche sectors. As the global economy was abruptly occluded due to COVID-19, SMEs are particularly affected due to a number of reasons. While many large companies can quickly transform their production and marketing policies from a physical route to an electronic platform, the same is onerous for SMEs due to the cost associated with this quick transformation.

In addition, the additional cost of financing due to the long delay in sales recovery during the pandemic — since February 2019 until now — has forced millions of SMEs either to completely shut their doors or to significantly reduce their scope. Since a major portion of Islamic SME financing is done through non-profit-and-loss-sharing contracts, Islamic SMEs do not expect effective risk- or loss-sharing during this difficult time. Consequently, there are puissant infrastructural, regulatory and market-based transformations that become prerequisites to help SMEs survive the post-crisis impact until at least the year 2025. This may take a long-lasting toll on the several recent country-specific visions that include Saudi Vision 2030, Malaysia Vision 2025 (or Shared Prosperity Vision 2030), Africa Vision 2025 and the Indonesia Islamic Economic Masterplan 2019–24.

Figure 1: Four major problems for SMEs in 2021

Business pro-cyclicality	Lack of adaptation strategies	Limited e-commerce infrastructure	Reliance on personal finance and collateral

Source: Author's own

Review of 2020

Islamic SMEs were impacted from the beginning of 2020, even though not solely because of the pandemic. Due to geopolitical rifts affecting SME-centric Muslim-majority countries, including Malaysia, Nigeria, Sudan, Pakistan and Saudi Arabia, SMEs have experienced a suboptimal start. Then comes the mighty COVID-19. The World Bank projected a massive reduction in the GDP growth rate by the first quarter of 2020 for most of these countries, including a staggering -3.8% in Saudi Arabia, 0% in Indonesia, 1.6% in Bangladesh, -3.1% in Malaysia and -2.6% in Pakistan.

In a cycle of events, the reduced growth forecast will block essential strategic assistance for SMEs, including financing and cross-border trading. On the other hand, some countries tried helping SMEs by completely closing borders, but at the cost of a higher inflation rate: the general point-to-point price level grew by at least 2.5%. As a result of this globally unmatched fallout of the supply chain, SMEs are expecting a dramatic closure of businesses.

McKinsey and Company has reported from a survey by SME.Africa and SASFIN that 60% of the SMEs in Africa are expected to shut down their premises by the time COVID-19 is over. Mapping the impact of COVID-19 for South Africa, where 98% of the businesses are registered as MSMEs that are responsible for 50–60% of the country's employment, it is suggested that most countries should start a half-a-decade SME recovery plan.

The situation is often worse for Asian SMEs as the sources of supplies are more concentrated to China, India, Bangladesh, Vietnam and Taiwan. Some of these countries are heavily hit by the pandemic and may require a longer time to recover. Paul Vandenberg, a senior economist with the Asian Development Bank, envisioned that over 60% of the Asian SME workforce became vulnerable to the COVID-19 issue.

"More essential is to consider redesigning the SME business model that will enhance their capabilities to adapt to uncertainties. For instance, Waqf-based private equity companies can take over the development of innovative Islamic products"

A recent survey by Monsha'at, the SME General Authority of the Kingdom of Saudi Arabia, revealed that nearly all the SMEs (99.5%) found themselves in some sort of trouble including laying off employees (15%), pessimistic business confidence affecting revenue (66%) and a continued loss for the rest of 2020 (73%). Even though only a quarter of the SMEs trained their employees on the applications of e-commerce to diversity the operation, it was unclear how the policy initiatives supported the SMEs.

Preview of 2021

Unfortunately, 2021 may not be a recovery year for the lion's share of the surviving SMEs. Before quickly deciding on transferring all burden to the policymakers, let us relook the problems. I forward four major problems for SMEs for 2021 (Figure 1). SME businesses are profoundly pro-cyclical. Only 10% of the SMEs generally survive the first year of their life cycle. Therefore, SMEs and policymakers must initiate changes (1) to diversify small businesses to reduce their pro-cyclicality, and (2) to help SMEs survive the crucial first year.

SMEs are extremely poor in management planning, financial literacy and adaptation strategy in particular. According to the Asia Pacific MSME Trade Coalition Survey, SMEs may face a serious cash flow shortage due to limited knowledge of strategic and financial planning. As revenue falls due to COVID-19, SMEs will prefer to close their business than to proactively search for a restructuring.

In strategic terms, SMEs largely depend on regulatory incentives. During the pandemic, SMEs are left alone when the governments are busy feeding the most important economic and social urgencies. Most SMEs are limited in their use of e-commerce facilities. Most Muslim countries do not provide updated internet infrastructure and training facilities for the SMEs to effectively learn and join the electronic ecosystem. Due to limited financing for SMEs, Islamic SMEs rely heavily on personal financing. During this extreme economic downfall, potential investors in emerging countries may look into non-SME investment due to a shortage of personal finance and the unavailability of collateral.

Conclusion

The way forward is challenging. At the beginning of the crisis, researches pointed out the need for additional fiscal and monetary incentives for SMEs. Obviously, these are 'desperate measures for desperate times'. Low cost of credit, subsidizing wage and materials through bonded warehousing and relaxing or deferring tax payment are some of the more common suggested initiatives. Even though none of these are particularly unique to Islamic SMEs, these initiatives have met serious opposition.

As SMEs are already an incentive-dependent sector, the overreliance on the fiscal and monetary relaxations may force additional pressure on the financial market in the form of increasing government and private sector borrowings. Consequently, increasing inflationary pressure may reduce the real economic added value.

A general recommendation is to increase cross-border collaboration among SMEs from neighboring countries, leading to temporary trade bubbles. These bubbles, however, do not solve the financing crisis. As we go across this new normal, it has been suggested that countries practicing Islamic financing should engage in Waqf-based public–private partnership, going back to profit- and loss-sharing contracts, Zakat trust funds for investment and Qard Hasan-based financing contracts.

More essential is to consider redesigning the SME business model that will enhance their capabilities to adapt to uncertainties. For instance, Waqf-based private equity companies can take over the development of innovative Islamic products. We see examples such as Kohlberg Kravis and Roberts managing US$222 billion-worth of assets of 103 portfolios across 20 cities primarily based on private equities. Similar Islamic asset management companies can be set up to nurture Islamic SMEs.

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.

Diversifying approach in Islamic social finance

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The COVID-19 pandemic has been challenging for everyone. The multifaceted crisis seems almost unstoppable and has created devastating adversities. It has been claimed that Islamic finance has been more resilient during the financial panic in 2008. Accordingly, it is expected, to bring in its moral foundation (be it commercial or social), to deal with these current uncertainties. Islamic social finance (ISF) alone must not be seen competitively with other sectors, but rather as a complement to overcome the recession. ISF is thus supposed to be working with governments, private sectors, and philanthropists to support relief and recovery phases. This age is the momentum for ISF rediscovery with a forward-looking perspective and inherent strengths.

Review of 2020

Over 1,400 years, ISF has been instrumental as a safety net, contributing to addressing marginalization and vulnerability. The Islamic Social Finance Report by Islamic Research and Training Institute classifies ISF into philanthropy-based (Zakat, Sadaqah, Waqf), cooperation (Qard, Kafalah), and microfinance institutions. ISF produces a positive impact by mobilizing funds to close the financing gap for poverty alleviation, inclusive economic growth, and equality. A few Islamic commercial finance instruments, such as Takaful and Sukuk, apply the social investment model by including ISF. Such a mix of financial mechanisms leads to broader participation and hardship removal. To these ends, ISF has stepped into the limelight amid the pandemic. Historical findings and current trends are then explored to capture the prospects of ISF.

Zakat — a mandatory 2.5% levy charged on Muslim's wealth above a certain threshold — is an equitable redistribution mechanism. It transforms Mustahik (Zakat recipient) into Muzakki (Zakat payer). In a positive measure, it is supposed to prevent poverty by unlocking access and giving people options to survive. A median of 77% of Muslims in 39 countries reported paying Zakat regularly, with nine in 10 found in Indonesia, Malaysia, Thailand, Morocco, and Afghanistan as per Pew Research Institute. However, the actual collection has never reached its estimated annual worldwide value, US$550-600 billion, as discussed at the World Zakat Forum. Therefore, a revolutionary plan is required in Zakat disbursement, from consumptive spending (eg basic needs, cash transfer, medical expenditure) to expanding the beneficiaries' rights through a productive model (eg cash-for-work for those who lost their jobs due to the pandemic).

Waqf — an endowment with no reclaiming intention — is a more flexible charity. Under the principles of voluntary, perpetuity, inalienability, and irrevocability, it admits a longer spending horizon and income generation. Besides donating a plot of land, assets, or properties, Waqf substance has evolved in modern days. It can be in the form of cash, either permanent or temporary. Worldwide Waqf asset is predicted at between US$100 billion to US$1 trillion as stated in a report by World Bank, International Centre for Education in Islamic Finance, and International Shari'ah Research Academy for Islamic Finance. Convincing people through transparent governance, other than increasing literacy on Zakat, Waqf, and Shariah rulings, is crucial to boost ISF contribution. In 2020, disruptive technologies such as fintech and blockchain have been involved. For example, blockchain promotes accountability, efficiency, and traceability at once through immutable data distribution. It helps in the governing, recording, servicing, and managing of Zakat, Sadaqah, and Waqf database with a decentralized system.

Preview of 2021

There is an innovative practice of blended financing where Zakat is harnessed along with other resources. Zakat is channeled through a micro hydro power plant project to provide electricity for residents in the deprived villages of Jambi, Indonesia. The electricity leads to savings in energy costs. In turn, it enables the community to acquire better education, receive quality healthcare, and run businesses. That is just one example of how Zakat delivers the multiplier effect. This approach demands the government's intervention since a lack of public trust may be a challenge. The government may also facilitate the Zakat collection, given it is not a mere personal obligation but rather a common interest. In light of this, tax-deductible and tax-credit regulations on Zakat have been issued in Indonesia and Malaysia, respectively. The way ISF, in particular Zakat, assists universal social protection raises an interesting question. Social protection is mostly tax-financed, which likely imposes exclusion to those employed in the informal sector who cannot make taxation. Islamic history revealed, a guaranteed minimum standard of income, introduced by the first Muslim Caliph Abu Bakr (632-634): 10 dirhams is granted annually to each man, woman, and child, which was later increased to 20. In his successor's reign, Umar ibn Al-Khattab, unemployment insurance was included to extend equality. The nature of ISF allows Zakat to take part in this social protection, which expresses solidarity. The pandemic has been the impetus for the concept of basic income to return in some countries. Notwithstanding, a fair share needs to be concisely articulated on how Zakat fits compatibly into the scheme, rather than just who benefits.

Another innovation in ISF has come into reality by merging it with commercial instruments. The government of Indonesia has pioneered a social investment instrument: cash Waqf Sukuk. Instead of handing the coupon to Sukukholders, it is allocated for social projects. In its first issuance, the coupon was utilized for purchasing medical equipment to support the Retina Center at Achmad Wardi Waqf Hospital in Banten. Furthermore, this type of investment can help SMEs while providing a front-loading strategy for development purposes. Zamzam Tower in Saudi Arabia also demonstrates remarkable precedence through the issuance of Sukuk to finance the construction of a building on Waqf land. Thus, such Waqf combined with commercial products has proven to increase collection. ISF is of paramount importance, yet it has been long abandoned and less attractive than the commercial sector. The ethical and social values embedded in ISF portray its alignment with the UN Sustainable Development Goals (SDGs). It has gained attention from multilateral entities: the UN agencies and multilateral development banks including the IsDB, World Bank and Asian Development Bank. Apparently, innovative finance, an integration into policies, and social-commercial interaction will keep dominating the ISF mainstreaming in 2021 with digital connectivity and SDG adoption as the future enablers.

Conclusion

In the wake of a pandemic, any attempts to take advantage of ISF must concern health and economic aspects. Many countries have shifted from traditional to non-traditional funding since state budget and tax revenues are no longer adequate. In search of new financing, ISF has been considered as an emerging force in many forms. Nevertheless, ISF institutions' performance and talent competence within the ecosystem are criticized for the sake of continuous improvement and adaptation. A more sustainable ISF system must start by addressing these issues. Subsequently, a clear articulation of the Zakat core principles and the Waqf core principles is significant for optimizing ISF tools and institutions' competitive advantages, specifically at the project implementation level. Although with different rules governing their uses, ISF and commercial finance, as well as fiscal stimulus, can be mutually supportive when put holistically. This diversifying approach pushes the government and community to rethink and move beyond leveraging.

More sovereign Sukuk issuances expected next year

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With the current global pandemic posing severe challenges to the world economy, governments have been forced to provide economic rescue packages on an unexpected scale to mitigate the economic and social costs. According to the IMF, the economic impact of COVID-19 in 2020 will be worse than the outcome of the economic recession in 2008.

Since the first Sukuk issued in the 1990s, the total volume of Sukuk achieved is approximately US$1.3 trillion today. However, we have witnessed Sukuk issuances and achieved a total volume that slowly improved until 2010 because of limited knowledge and legislation implemented by the regulators.

Since 2010, Sukuk have become one of the main instruments for central banks and Islamic banks, especially those operating in Muslim countries, as well as new sovereign and financial institution issuances coming from non-Muslim countries like the UK, Hong Kong and South Africa and European government-owned export credit agencies' back-structured facilities.

Review of 2020

Sukuk were one of the niche products that showed strong resilience with total volume reaching US$130 billion as of the third quarter of 2020, about US$4 billion more compared with the same period in 2019. However, even if we like to be more optimistic for Sukuk volume to increase in 2020, the general expectation is for the total volume, except for sovereign issues, to be lower than 2019.

Especially in 2020, the main contribution to Sukuk was driven by green Sukuk issuances pioneered by the Islamic markets in Malaysia and Indonesia followed by hybrid issuances and inflation-linked transactions. For example, the Indonesian government issued a US$2.5 billion global Sukuk facility in June 2020, including a US$750 million green tranche — the first time a 'green tranche' had been placed in an Indonesian sovereign transaction.

Despite the decrease in the volume of Sukuk issuances by corporates in 2020, sovereign Sukuk issuances have become the main reason why the third quarter of 2020 has already reached a higher amount than the same quarter in 2019. In addition to this, the difficult economic environment has led to higher financing needs for sovereigns.

According to Moody's Investors Service in its August 2020 report, it was expecting a decrease in Sukuk issuances and the total amount in 2020 because of the negative impact of COVID-19 on the market, as well as the complexity of Sukuk and heavy operational requirements compared to conventional debt instruments.

Contrary to the rating agency's expectation, decreasing market rates, lower oil prices, the increasing number of investors and a new market for Sukuk (Taiwan's Formosa Sukuk market) have encouraged more sovereign Sukuk transactions, especially in the GCC region.

According to the Sukuk issuers' league table, in 2019, the Sukuk market was led by Malaysia followed by Saudi Arabia and other GCC countries; before the COVID-19 outbreak, more Sukuk issuances were expected from Turkey and Indonesia.

Chart 1: Sovereign Sukuk volumes (US$)

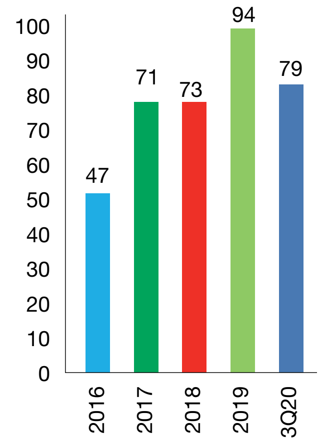
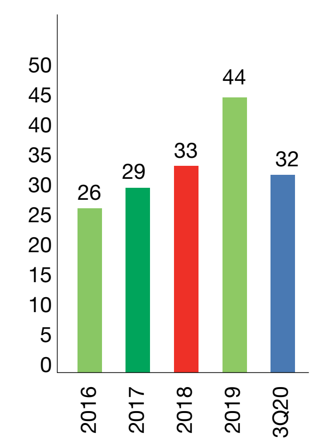


Chart 2: Corporate Sukuk volumes (US$)



Source: Global Sukuk Market Dashboard, Fitch Ratings

In fact, before the end of 2020, better pricing expectation by Sukuk investors compared to low-yield sovereign and corporate eurobond issuances would encourage sovereigns to execute more transactions. For these reasons, even though in 2020 the year-end volume would be less than in 2019, it is still creating an opportunity for the Sukuk market whereby issuers and sovereigns will bring their innovations and structures to the market in 2021.

Preview of 2021

Embracing new technologies and business models is essential to maintain the momentum in sovereign Sukuk issuances in 2021.

However, the unfortunate drop in the global economy in 2020 due to the coronavirus's negative impact on all sectors has resulted in governments and central banks having to concentrate on financing the markets with low pricing instead of issuing new transactions to prop up financial institution and corporate liquidity in 2021.

According to the IMF and economic analysts, sovereigns are likely to issue more Sukuk transactions in 2021 to meet their compensatory fiscal policy. Due to decreasing financial institution and corporate issuances, sovereigns can offer secure and risk-mitigated investment opportunities to match the expectations of Sukuk investors.

As mentioned earlier, sovereigns are likely to issue more Sukuk transactions in 2021 to meet their compensatory fiscal policy and this, along with the existing appetite of Sukuk investors from the GCC and Muslim countries, would make Sukuk, especially low-risk sovereign Sukuk issuances, more attractive to not only existing investors but also newcomers. However, investors, particularly the newcomers, will remain focused on sovereign issuances with stronger credit fundamentals.

Conclusion

One of the main reasons more sovereign Sukuk transactions are expected in 2021 is because COVID-19 has reduced output and increased government expenditure while decreasing the pricing for hydrocarbons.

Despite the negative impact of COVID-19 on the global market, Sukuk are still major alternative instruments for newcomers, offering a better price compared with conventional bonds and possessing stronger credit ratings — these are concrete reasons for the Sukuk market to continue to be alive and dynamic in 2021.

Islamic impact finance in the context of COVID-19

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Financing the UN Sustainable Development Goals (SDGs) agenda in OIC countries requires trillions of dollars. Obviously, governments' budgets are not enough to provide the needed financial resources. Thereby, the private sector in general and the Islamic financial sector in particular are required to bridge the financing gap and support the achievement of the SDGs. This is particularly true in the context of COVID-19 where social and economic challenges are skyrocketing while governments have little leeway in terms of fiscal and monetary interventions.

Despite innovative initiatives in green and social finance from financial engineering and technological standpoints, Islamic finance is still far from playing a leading role in impact finance. In addition, it is clear that the industry's efforts in addressing the pandemic's effects are still below expectations.

Review of 2020

As in 2018 and 2019, Southeast Asia is still leading the Islamic finance industry in catalyzing Islamic finance investing toward sustainable development. Malaysia maintained its global leadership with new sustainable and responsible investment Sukuk issuances: green Sukuk by Solar Management (RM260 million (US$62.96 million)), Leader Energy (RM260 million) and Sparks Energy (RM220 million (US$53.28 million)) and social Sukuk for affordable housing by Malaysia's national mortgage corporation, Cagamas (RM100 million (US$24.22 million)).

In Indonesia, the government tapped into the global Sukuk market once again by issuing US$2.5 billion in three tranches, one of which is a green Sukuk facility. Furthermore, the country issued retail Sukuk (IDR5 trillion (US$353.06 million)) as part of the government's efforts to finance the economic recovery from the COVID-19 pandemic.

In the GCC, 2020 has been an interesting year for Islamic impact finance. After Majid Al Futtaim's first-ever green Sukuk in GCC last year, the following green Sukuk issuances were successfully conducted in 2020: first, Abu Dhabi's Etihad Airways's US$600 million issuance was linked to its sustainability targets to reduce net emissions by half by 2035 and reach net zero carbon emissions in 2050.

Second, Saudi Electricity Company's US$1.3 billion facility was to finance its 'smart meter' rollout scheme and facilitate the Kingdom's transition to a low-carbon nation. Finally, in Turkey, Zorlu Energy made history by becoming the first green Sukuk issuer in the country (first issuance: TRY50 million (US$6.25 million)). The issue's proceeds were used to finance sustainable infrastructure and clean transportation investments.

At the development finance institutions level, the IsDB listed a US$1.5 billion Sukuk facility on NASDAQ Dubai and will use the capital raised to support COVID-19 relief initiatives. According to the IsDB, the Sukuk proceeds will exclusively fund social projects under the bank's Sustainable Finance Framework, with a focus on access to essential services and SME financing and employment generation categories under SDG 3 'Good Health and Well-Being' and SDG 8 'Decent Work and Economic Growth' for its 57 member countries, to assist them in tackling the aftermath of the COVID-19 pandemic.

Unfortunately, we have not seen in 2020 strong impact finance initiatives in the Takaful industry. There is no doubt that insurance, as a risk protection mechanism, is important to achieve the 2030 agenda for sustainable development especially in the COVID-19 context.

Preview of 2021

As in previous years, Southeast Asian and GCC countries should continue to lead the Islamic impact finance momentum through diversified and innovative structures. Will the COVID-19 crisis incite OIC countries in general to play an active role in sustainable finance? The answer is likely to be positive, especially after the first COVID-19 Sukuk of the IsDB and the Indonesian government on one hand, and the successful experience of COVID-19-related instruments in conventional finance internationally on the other.

Fintech innovation can play an important role in bridging the gap between sustainability challenges and Islamic finance in efficient and cost-effective ways. For instance, mobile and crowdfunding innovations can unlock financial inclusion by significantly reducing the costs for payments and providing suitable access to capital domestically and internationally for the unbanked, the underbanked and SMEs.

Data technologies can facilitate collecting, analyzing and distributing sustainability and impact indicators for better economic decision-making, better regulation and better risk management. Finally, blockchain can empower effective and efficient financial markets with a level-playing field and market integrity for long-term impact investors. It is fair to bet that technology will be an important part of the next Islamic impact initiatives in 2021 and will support the industry to fulfill its ethical, social and environmental promises.

Conclusion

Despite some successful impact finance initiatives especially in Southeast Asia and the GCC, they remain limited both in scale and scope. OIC markets have not yet seen the potential of the Islamic finance industry to drive sustainable development with positive environmental, social and governance outcomes. Undeniably, expectations from the private and public spheres are high with respect to social and economic challenges in the current COVID-19 context. The industry has no choice but to hasten the pace and leverage impact as a competitive advantage.

COVID-19 did not stop the Islamic finance push for standardization

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The Islamic finance industry has witnessed healthy growth over the last two decades, with predictions that the industry assets will reach US$3.5 trillion by 2024. However, the absence of standardization and harmonization continues to be a recurring issue facing the industry and preventing it from reaching its full potential. This article examines the key developments witnessed in 2020 and the gaps that still need to be filled to take the industry to the next level.

Shariah is a broad term, representing a system of beliefs revealed in the Holy Quran and the Sunnah. While Shariah scholars generally agree on the main principles of Islamic finance, there remain differences in interpretation between the various schools of Islamic religious scholarship. There are also instances where Fatwas allowing a certain product could be accepted in one jurisdiction, but are seen as controversial in others. This lack of harmonization across jurisdictions hinders funding options and cross-border cooperation.

Increased standardization in the regulatory and legal areas, which aim to describe rights and obligations, would also support confidence and strengthen supervision. In the Sukuk market, standardization could lead to efficiencies and cost reduction in the drafting of voluminous Sukuk documentation for issuers and offer greater transparency of Shariah rulings and resolutions, which in turn builds investor confidence.

This would be particularly important for driving corporate Sukuk issuance locally, regionally and internationally; these segments are currently dominated by sovereign issuance. In more exotic products like Islamic derivatives and hedging (Tahawwut), the use of standardized documentation could help reduce cost and lead time for negotiations.

Fitch Ratings has produced a framework that helps demystify the issue of standardization and harmonization in Islamic finance, and notes the gaps that needs to be filled (See Diagram 1).

Diagram 1: Islamic finance standardization framework — demystifying standardization and harmonization

Source: Fitch Ratings

Review of 2020

Despite the coronavirus pandemic, various initiatives were launched by regulators in key Islamic finance jurisdictions to aid standardization. In February, the Saudi Arabian Monetary Authority issued a Shariah corporate governance framework for banks engaging in Islamic banking, aiming to establish standards for Shariah governance practices. While the outcome of the new framework is unclear, slower progress on this is likely as a result of lower oil prices and the coronavirus pandemic.

In Malaysia, which is the most standardized Islamic finance jurisdiction, the presence of centralized Shariah requirements has been a key driver in the evolution of Malaysia's Islamic finance sector. As an example, Sukuk now represents about 60% of the country's local debt markets. The country is not only working on Islamic finance, but also directing efforts toward developing and enhancing a comprehensive Halal ecosystem and pushing ahead with Halal Industry Masterplan 2.0 – recognition of Islamic finance as the pillar of a Halal economy.

The UAE also launched an initiative in May to create a unified global legal and legislative framework for the Islamic finance sector, in partnership with the IsDB and the Dubai Islamic Economy Development Centre. The initiative is in response to calls for greater standardization within the sector. This follows the establishment of the Higher Sharia Authority at the Central Bank of the UAE in 2018, which mandated that AAOIFI Shariah standards have to be followed in the country.

In October, the Central Bank of Kuwait also approved the establishment of the Higher Committee of Shariah Supervision to underpin the governance of Shariah supervision. Among its roles, the committee will propose general guidelines for products and services offered by Islamic banks in Kuwait. These efforts are also likely to deepen standardization efforts in Kuwait. Turkey is also reported to have launched the legal infrastructure for participation finance and this is likely to pivot standardization.

Additionally, AAOIFI launched the Governance Standards in January and the International Islamic Financial Market launched new Sukuk Ijarah documentation templates in October, adding on to hundreds of standards and guidelines from over the years.

Preview of 2021

We believe that standardization will continue to be driven by a top-down approach at the regulatory level, which we expect to continue in 2021 and beyond. Furthermore, industry standard-setting bodies will continue to contribute notably toward standardization. In the GCC region, Fitch Ratings's research showed that standardization at a national level is starting to take shape. While we expect these initiatives to aid standardization efforts in the medium to long term, success will depend on their adoption by market participants and building a history of implementation. From a credit point of view, Fitch will continue to monitor how standardization in the Islamic finance industry progresses and comment on credit implications, if any, as they arise.

Conclusion

Notable strides were made in 2020 toward standardization, harmonization and centralization, despite the volatilities caused by the coronavirus pandemic and the oil price fall. However, the industry is not even close to achieving international or regional standardization, and in some cases, there is still little standardization even at the local level.

In 2020–21, the continued move by the regulators and industry bodies toward inclusive standardization will be vital for the future growth of the Islamic finance industry. AAOIFI, IFSB and a few other regional and international organizations have issued hundreds of standards and guidelines, but a full widespread, actual adoption continues to be limited globally.

If you play rugby, you cannot follow football rules

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Structured finance at the broader level can be divided into two categories: a) financial products instruments and b) structured solutions for raising financing for projects or business. Both categories find their space in the financial world when the existing product suite available does not fit in to meet the ever-changing market dynamics of an economy. Common examples of structured products may include equity-linked notes, interest/profit-linked notes, bonds/Sukuk-linked notes, commodity-linked notes, index-linked and forex-linked notes. In such products, the return is derived from the underlying security such as equity index, wheat, copper, other metals, minerals or the Sukuk portfolio. The other category may include securitization vehicles for project financing or business acquisitions in mergers and acquisitions and REITs. The basic purpose of structured finance is to identify and package risk in such a way that it can either neutralize or reduce risk embedded in a transaction.

However, in Islamic finance there is still no consensus on the permissibility of structured products that borrow ideas from the conventional financing system. This article attempts to discuss the situation with an out-of-the-box thought process.

Review of 2020

2020 will be remembered in human history because of the COVID-19 pandemic's devastating impact on economies all around the world in an unprecedented way. All activities and innovation in the financial sector effectively came to a halt; however, even by taking it as an exception the development of structured finance and product development in countries where Islamic finance has its forte have remained far behind unlike countries following the conventional financial system, specifically the developed countries.

There may be two possible reasons for this situation:

i) the concept behind structured finance products and solutions is taken as incompatible with Shariah and hence not considered as an avenue to go about, and

ii) where these are adopted, the products lack a standardized approach and harmonization in principles.

Another factor for their non-permissibility is the use of structured products for speculative purposes though these are also used by businesses to hedge the risk of unfavorable volatility in prices of their input materials, etc. This scenario has restricted hedging options available to businesses in 2020 as well.

Islamic banks in Malaysia, the UAE, Saudi Arabia and the GCC have been offering structured products but they still need to go into it more.

As per credit rating agency Fitch Ratings, more than 30% of Fitch-rated Islamic banks do not use derivatives, and most of the remaining 70% use it in a limited capacity, constraining it to instruments like profit-rate swaps and Islamic currency forward contracts. In countries where Islamic finance has a key presence, the derivatives market in general remains underdeveloped.

In April 2019, the over-the-counter (OTC) interest-rate derivatives turnover (daily average) in the UAE, Malaysia, Saudi Arabia, Indonesia, Turkey and Bahrain combined was only US$3 billion and geographically stood at less than 1% of global OTC interest-rate derivatives turnover, based on BIS data.

Furthermore, with the exception of the UAE, no other GCC country has an exchange-traded derivatives market, although Saudi Arabia had announced its plans to launch one in 2020.

Preview of 2021

2021 will remain overshadowed by the fallout from COVID-19. However, the Islamic finance industry can capitalize on efforts that are being put in place by Bank Negara Malaysia and the International Islamic Financial Market which have joined hands with the International Swaps and Derivatives Association to promote activities.

However, a million dollar question arises: can we play rugby by following football rules? If Islamic finance is different than conventional finance, then how can products and structures that are essentially based on conventional financing principles be adopted to fit in with Islamic principles?

In response, the Islamic finance industry should consider its own game plan. A possible area to focus on is slicing out risk according to each business sector of the economy and packaging products for each sector according to the merits and demerits of each. The principle to structure products can be to take risk according to sector-specific downward and upward business conditions, for example the construction and automobile sectors are cyclical in nature and the profit rate setting benchmarks should be different for them than for stable sectors, instead of having a one-fits-all benchmark.

Structuring products or solutions according to sectors' unique dynamics would enable the capture of risk in a systematic manner. Hence, Islamic financial institutions can have a portfolio of structured products and solutions for every sector of the economy with the right kind of business participation terms. This approach will promote entrepreneurial business sense at each Islamic financial institution level as their fingers will be right at the pulse of their portfolio businesses.

This is something very similar to the analytical approach at equity investment houses that know their portfolio business like a business partner. As far as the financial investment-related derivatives are concerned, just recall taking indirect exposures in other financial assets prior to the global financial crisis of 2008.

A historical crisis of its own class provides us with many lessons to learn from and to stop insisting to go beyond limits by creating bubbles. The BIS Annual Report of 2014 provides a useful insight about the global financial crisis and financial cycle boom and bust.

Conclusion

The Islamic finance industry should set the rules of its own game rather than unwinding and redeveloping conventional finance products and solutions. It may require reinventing the wheel but the pain has to be taken to fulfill the core purpose of its existence.

Higher Islamic syndicated financing volumes expected in 2021

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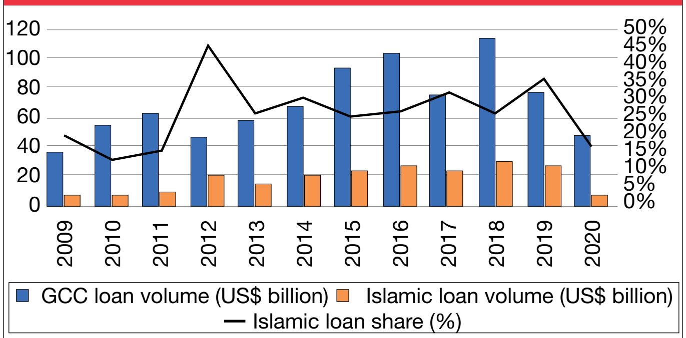
It was a challenging 2020 for the Islamic syndicated financing sector but the anticipated COVID-19 vaccine and stabilization of oil price is expected to aid recovery in 2021.

Review of 2020

Global economic activity slowed down in 2020, driven by the lockdown and uncertainty led by the COVID-19 outbreak. In the Middle East, North Africa and Turkey region, new syndicated loan volume contracted around 31% to US$73 billion year-to-date 2020 versus US$106 billion in the 2019 financial year, with total GCC loan volume contracting about 38% to US$48 billion against US$77 billion over the same period.

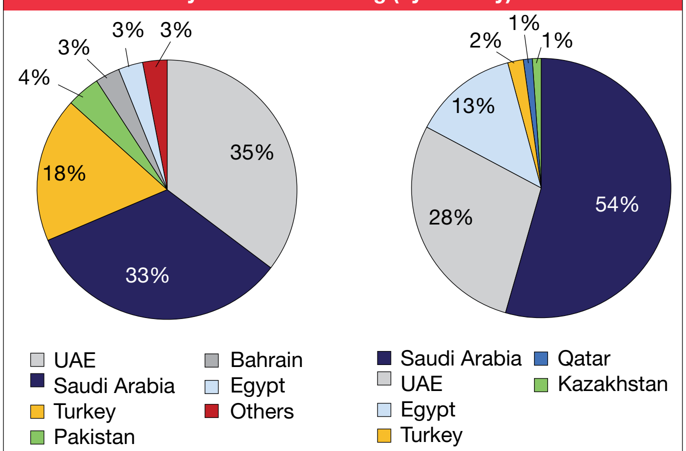
There was also a significant slowdown in overall Islamic finance volumes in 2020. According to S&P, the global Islamic finance industry is expected to show low-to-mid-single-digit growth in 2020-21 as compared to 11.4% in 2019. Due to rapidly changing market conditions, there has been a preference from some sovereigns, government-related entities (GREs) and corporates for conventional loans primarily owing to the relative ease and speed of structuring, documentation and execution; this was evident via the significant contraction in global Islamic syndicated loan volume, which decreased around 71% to US$8 billion year-to-date 2020 versus approximately US$28 billion in the 2019 financial year.

Chart 1: GCC Islamic syndicated financing volumes and share



Source: Bloomberg

Chart 2: Islamic syndicated financing (by country)



Source: Bloomberg

GCC borrowers continue to be the majority contributors of the global Islamic syndicated financing volume (primarily driven by Saudi Arabia at 54% and the UAE at 28%), however, Islamic financing continue to represent a considerably low share of the overall GCC loan volumes at about 16.7% year-to-date 2020 and 36.7% in 2019.

Saudi Arabia remains the largest contributor to Islamic financing in 2020 albeit driven from a small number of mega deals including the US$2.4 billion by Saudi Electricity Company, US$2.3 billion by Ma'aden Phosphate, and US$1.6 billion by Zain KSA; followed by the UAE, Egypt, Turkey, Qatar and Kazakhstan.

The Arab Republic of Egypt raised its debut syndicated US$2 billion conventional and Islamic financing facilities; the facility was more than 75% oversubscribed, and incorporated the first widely syndicated dual Murabahah structure, which shall pave the future course of Murabahah financings in the country.

Kazakhstan completed its largest non-oil and gas infrastructure development financial institution-backed US dollar-denominated financing of US$585 million for its Almaty Ring Road project (BAKAD), which incorporated European Bank for Reconstruction and Development and Eurasian Development Bank financings, and a US$100 million 14.5-year Murabahah financing from the IsDB. There was a sharp decline in Islamic financing volume in the financial sector at circa US$1.3 billion year-to-date 2020 against about US$7.8 billion in 2019, primarily as a result of the strong liquidity dynamics of GCC banks, and the significant stimulus packages announced by a number of the regional governments in light of COVID-19.

Preview of 2021

We see further financing requirements from sovereigns and GREs in MENA in 2021, and whilst the respective borrower class focused on conventional borrowings in 2020, we expect them to diversify their funding sources via competitive and readily available Islamic liquidity.

We see significant liquidity in the GCC banking system, Islamic banks and the Islamic arms of local/regional banks currently stand strongly positioned for 2021. An improvement on the economic front and potential requirement for new capex financing is therefore likely to result in an increase in Islamic corporate financings in 2021. On the other hand once the stimulus packages wear off some corporates will also look at restructuring and refinancing. We expect to see longer tenors in certain sectors such as hospitality and real estate.

In 2019 and 2020 we saw several issuers issue Sukuk in ESG (environmental, social and governance) format and we expect in the near future Islamic syndicated financing as well to be structured in green/social/sustainable format.

Conclusion

2020 was a challenging year in which for the first time we had to deal with the economic fallout resulting from a pandemic. We have seen strong improvements in the financial markets and the economy in the last quarter and remain optimistic about 2021. We believe the Islamic syndicated financing volumes are at a trough and the expected COVID-19 vaccine, the stabilization of oil price and a recovery of growth are likely to result in significantly higher volumes in 2021.

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.

Takaful in Asia — every cloud has a silver lining

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As with other economic sectors, COVID-19 has had a strong impact on the Takaful industry in Asia, 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 digitalization.

Review of 2020

Looking back at the year, Malaysia's General Takaful industry showed a positive growth of 0.6% in the first half of the year with a gross written contribution of RM1.64 billion (US$396.64 million) despite the pandemic.

However, the effects of COVID-19 are already visible — the industry grew 5% in the first three months of 2020, a result that eroded quickly over the next three months as COVID-19 took a hold. Compared with 2019, which showed a growth of 16.4% for the first six months, this year's performance has significantly dropped. Whether the industry will be able to surpass 2019's gross written income of RM3.31 billion (US$800.53 million) remains uncertain.

At the same time, the industry's net claims incurred ratio in the first six months of 2020 has dropped by over 3% to 53.3%, from 56.6% in 2019. Again, the impact of COVID-19 is clear as the market loss ratio in the first three months of the year was still holding at 59.8%. Lower car traffic and people postponing medical treatment were some of the major reasons for the reduction.

As the situation normalizes, one can expect the loss ratio to increase again. On the other hand, the Family Takaful business in Malaysia has shown an impressive result with a 10.2% year-on-year increase. The growth was mainly driven by robust sales of investment-linked products, despite volatility in the capital market.

As performance data from other Asian Takaful markets such as Indonesia and Brunei are yet to be available, much remains to be seen whether they can maintain the growth momentum from previous years.

The Takaful industry has so far managed the pandemic well. A recent Swiss Re consumer survey revealed that a majority of the customers in Malaysia (84%) felt that their expectations with regards to claims were well met.

COVID-19 has undoubtedly accelerated the digitalization of the Takaful industry. Physical lockdowns and social distancing have led to greater consumer demand for an end-to-end online customer journey, from researching for information to purchasing policies and submitting claims through digital channels. One in two (51%) Malaysians were open to buying Takaful online, although agents and brokers still play a strong role, and similar trends are observed in Indonesia.

The pandemic has also led to a higher interest in Takaful, especially in medical, critical illness and family products In Indonesia, 42% of the consumers surveyed were willing to consider switching from conventional to Shariah insurance.

Aside from consumers, the pandemic has also led to a slowdown of regulatory activities as regulators refocused their efforts on maintaining the stability of the finance industry including Takaful. As a result, some regulatory changes, such as the second phase of liberalizing motor and fire insurance in Malaysia, have been postponed.

At the same time, some key initiatives such as the requirements to spin off Takaful in Indonesia by 2024 are still going ahead. Similarly, Bank Negara Malaysia has issued new regulations relating to climate change and sustainability in Malaysia.

One key initiative which continued despite COVID-19 is the preparation for the upcoming implementation of IFRS 17. The Malaysian Takaful Association has set up a working group together with consultants and other stakeholders to address implementation issues specific to Takaful. Regular industry forums were held and several guidance notes issued to support the industry's transition.

Preview of 2021

While uncertainties remain about how economies and societies will recover in a post-COVID environment, four key themes have emerged as we look ahead to 2021:

1. Increased agility: To succeed in the 'new normal', Takaful companies will have to be more agile, 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. Accelerated digitalization: Companies will need to ramp up their digitalization efforts to create a seamless and efficient customer experience to cater to an increasingly digital consumer market. It will also enable better access to new customer segments such as young consumers and the lower income class.
3. Higher awareness and demand: As consumer awareness of the benefits of Takaful grows, and with government budgets stretched to support recovery, the private sector can play a key role in supplementing protection provided by the public sector in the past.
4. Value-based Takaful: 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. Having a value-driven agenda embracing these issues can further elevate the potential growth of Takaful.

Conclusion

'Every cloud has a silver lining' — it is up to the Takaful industry in Asia to optimize opportunities in the current situation to continue its growth in 2021.

The rebirth of Takaful in Europe

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According to the IFSB, the regions of Europe, North America, South America and Central Asia represent less than 2% of the overall Takaful market worldwide. In a difficult context linked to the lack of resources of European Islamic financial institutions and a rise of Islamophobia, this market which nevertheless has more than 16 million Muslims with one of the highest rates in the world of banking and insurance is struggling to take off.

This high level of insurance penetration could contribute to the development of the Takaful institutions in Europe if the players of the sector, which today is supported by a few start-ups and non-profit organizations, were financially supported to allow this market to realize its full potential, in particular through the use of the European passport, which allows any company having its head office in a member state to be able to offer its services in all the states of the single market area.

Review of 2020

In France, despite this context and the health crisis linked to COVID-19, 2020 has been prolific for the development of Takaful in Europe which continues to grow.

Conexcap, a French fintech specializing in Islamic finance, and Afi Esca Lux, a Luxembourg insurance company, officially launched Future Generation Life, a new Luxembourg life insurance contract that respects the principles of environmental, social and governance and Islamic finance.

Future Generation Life was designed through a master brokerage agreement allowing Conexcap to take care of distribution through its affinity network and Afi Esca Lux to devote itself to management. The solution is available in France, Belgium and Luxembourg.

Generation Life allows individuals to have a Luxembourg contract from an initial payment of EUR5,000 (US$5,916.09) and the innovative services of a robot advisor to manage the three types of risk profiles identified by clients: prudent, balanced and dynamic. In the long term, Conexcap and Afi Esca Lux expect to raise EUR100 million (US$118.32 million). According to Les Echos Etudes, the potential turnover of Takaful in France is estimated at EUR3.5 billion (US$4.13 billion), or 1.7% of the total insurance market.

Initiated at the request of Muslim funeral societies and organizations established in France, SAAFI, the Takaful wholesale broker based in Marseille, launched Sakina, the first Takaful offer in France intended to finance funerals and repatriation according to the principles of Islam. Sakina allows its holders to cover the costs of funerals and possibly repatriation toward the country of origin.

Sakina Takaful has several levels of guarantees determined according to the needs of the participants. They have the choice of between four levels of guarantee: EUR2,000 (US$2,358.77), EUR3,500 (US$4,127.84), EUR5,000 (US$5,896.91) and EUR7,000 (US$8,255.68) which are intended to finance repatriations to North Africa, Central Africa or even to the Indian Ocean.

In Germany, the Takaful Lebanese Emigrants Fund aims to create more cohesion and solidarity among the communities in this country. The aim is to release the families during the preparation, transfer and burial of the deceased — the relatives of the deceased no longer need donations to cover the high costs — to collect donations and to exempt them from psychological and bureaucratic procedures.

In Spain, the Mutual Previsora Agro-Industrial offers the only Islamic insurance in this country. This Takaful cover includes all the services that a family needs when a loved one dies including the respect of the Islamic rituals, all the administrative procedures necessary for repatriation and burial, repatriation and a round-trip ticket for the companion.

Preview of 2021

2021 will be a pivotal year for the development of the Takaful sector. The present players will have to demonstrate on the ground, thanks to their commercial results and the success of the distribution of their products, that Takaful has a future in Europe. It is up to them to make their offers meet the expectations of the market and participants. Moreover, with the development of Shariah compliant real estate financing growing in France through various Murabahah offers, the need for Takaful coverage for borrowers is felt. It is very likely that an offer that meets this need will hit the market soon.

The following diagnosis can be made in the current state of the market:

- A lack of supply with products restricted to personal insurance
- An absence of an offer meeting the needs of compulsory insurance
- The absence of a fully-fledged Takaful operator with offers available only through Takaful windows, and
- A lack of knowledge about Takaful and a lack of awareness and communication campaigns.

All of these elements are delaying the development of the Takaful market in Europe, especially since Europe has no specific regulations in this area. Compulsory insurance is difficult to develop due to the large capital required; it is appropriate for current players to demonstrate the viability of the market to be able to convince conventional operators to meet these needs via white label solutions. This will be the challenge for 2021.

Conclusion

Despite these obstacles, the future could be bright, given favorable demographic and socioeconomic data. The development of the internet and insurtech should benefit the players in the sector, who can thus reduce their distribution costs and reach a wider target, provided of course that they commit significant communication budgets. Changing consumption habits and making consumers aware of products more in line with their ethical and religious values should also help boost activity.

However, care must be taken not to fully control the risk of image and controversy linked to the development of Islamic finance in Europe and more particularly in France where voices have been raised, including against Halal food. It is therefore essential to opt for a differentiation strategy based on respect but also the embodiment of the alternative values proposed so as to also target non-Muslim people who could identify with the values of mutual aid, generosity and sharing.

Tax: Increased transparency to open up cross-border dealings

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Over the past decade, the Islamic finance industry has been recording a steady growth rate and edging itself up to double digits. In 2018–19, the Islamic finance industry registered a growth rate of 11%. However, 2020 brought to the Islamic finance industry and the world an economic crisis that this generation has not seen before.

A global pandemic, historic drop in oil prices and introduction of new taxes in the states where Islamic finance has major prominence have all had impact on the relatively young finance industry.

Review of 2020

Islamic finance is heavily concentrated in the GCC/oil-producing states, therefore, oil prices have an impact on the state of the industry. The first quarter of 2020 saw a significant drop in oil prices, bringing crude to its lowest level since 2002.

Further, because of the measures to combat and contain the COVID-19 pandemic such as lockdowns, the closing-up of borders, etc, countries that are central to the Islamic finance industry saw a drastic economic slowdown.

According to the S&P, Islamic bond issuance will drop to US$100 billion in 2020 compared with US$162 billion in 2019 and the industry will continue to see a downward trend in 2020 with an expectation of minimal recovery in 2021.

With pressures on the main income streams such as oil revenue and revenue from tourism in core Islamic finance counties, the GCC governments have shifted to tax to supplement their income. A major move from Saudi Arabia during the year was the increase of the value-added tax (VAT) rate from 5% to 15% effective from the 1st July 2020. This is a departure from the GCC Common Framework.

Additionally, Saudi Arabian also introduced a new real estate transaction tax of 5% for all disposal of real estate post-4th October 2020.

The most recent entry to the VAT fold in the GCC is the Sultanate of Oman with the release of a decree to introduce VAT at 5% in six months' time, taking the go-live date to April 2021. Qatar is expected to follow suit too within 2021.

2020 also saw major updates in the international tax space in the GCC. Every country in the GCC is either part of the Base erosion and profit-shifting (BEPS)-inclusive Framework or has the Multilateral Instrument (BEPS Action 15) in force in 2020. The Multilateral Instrument (MLI) is meant to implement a series of tax treaty measures to update international tax rules and to lessen the opportunity for tax avoidance by multinational enterprises to present BEPS.

Saudi Arabia has had transfer pricing (TP) laws in place since the 1st January 2019 with the MLI in force since May 2020.

The UAE is close behind with the MLI in force from September 2019 and has a country by country reporting legal framework in place effective for the 2019 fiscal year. The UAE is yet to have specific TP laws. In 2020, in response to the EU blacklisting it, the UAE introduced the Economic Substance Reporting Regulations which discourage unfavorable tax structures or harmful regimes and promote tax transparency.

Oman is also following a similar path as the UAE with the MLI in force from the 1st November 2020.

Preview of 2021

With the lockdown measures implemented in 2020, the world has experienced the importance of going digital. Digitalization would help growing industries such as Islamic finance to be more stable during volatile times. Going online would require a sound infrastructure and with methods of seamless information exchange. The GCC is forward-thinking in this aspect as this system of exchange of information is built into the spine of the common frameworks for tax in the GCC.

With the major players in the GCC supplementing core income with the introduction of taxes and therefore managing to keep the economy more buoyant, it would aid by providing a cushion to the Islamic finance industry to bounce up from.

Experts expect minimal to no recovery to be made by the Islamic finance industry in 2021. It would perhaps take more than a year for the industry to see an upturn and for these states to utilize the tax income by churning it back into the economy.

Conclusion

We expect that the events of 2020 would have a positive impact on the Islamic finance industry as since June 2020, the issuance of sustainable Sukuk saw an increase to the tune of US$4.12 billion. Countries such as the UK and Turkey in the past decade have acknowledged Islamic finance through the incorporation into legislation, with Turkey introducing tax concessions for the same. The introduction of the BEPS-inclusive Framework and transfer pricing laws in the Islamic finance-concentrated states of the GCC have led such states to move away from the label of tax havens. This increased transparency will open up cross-border dealings with the rest of the world to a greater extent and we believe that Islamic finance will see this effect in the years to come.

The evolving role of Islamic trade finance in the new normal

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Globally, the socioeconomic impact of COVID-19 has been devastating. Some of the world's strongest economic powerhouses have been astonished with just how quickly the pandemic has crushed their once-robust SME sectors, blocked trade and enterprise activities and accelerated global recession. For development institutions such as multilateral banks and financial institutions, the focus continues to be largely around vulnerable countries in the developing regions. Although the impact of the pandemic on these regions has been varying, concerns remain around the potential socioeconomic fallout stemming from interrupted access to healthcare and medical supplies, food staples and energy, among others. The SME sectors in developing regions have also been hit, with trade and export activities disrupted.

Review of 2020

Repurposing trade financing to meet critical interim needs

When the pandemic hit, the International Islamic Trade Finance Corporation (ITFC) swiftly repurposed its financing engagements to focus on the critical needs of member countries of the OIC. The ITFC's initial 'Rapid Response Initiative' pledged US$300 million toward helping OIC member countries purchase emergency medical equipment and supplies, as well as strategic commodities, such as staple food and energy supplies. Additionally, as part of its 'Recovery Response Initiative', a second, longer-term crisis effort, the ITFC has allocated a further US$550 million to support strategic sectors over the next two years.

Beneficiary member countries of the ITFC's rapid response measures have ranged from all corners of the developing world from the Middle East and Africa to Asia and CIS countries, where to date since the outbreak of the pandemic, the ITFC has provided more than US$600 million of financing. Examples include Egypt, where the ITFC repurposed a US$200 million financing package for the government in favor of the General Authority for Supply Commodities for the purchase of around 774,000 metric tons of wheat, and 100,000 metric tons of sugar.

In the Maldives, the ITFC extended US$15 million for the State Trading Organization (STO) for the procurement of staple foods, medicines and emergency medical equipment. In Uzbekistan, an US$8 million Murabahah-structured line of trade finance with private joint stock bank Trustbank was extended to support the import and pre-export financing needs of SMEs in the country. Other countries include Palestine, Senegal, Sudan, Kyrgyzstan and Tajikistan among others, where special emergency grants were extended.

Additionally, as a development partner to the Arab–Africa Trade Bridges Program, a coalition of nine strategic government, multilateral and development partners, the ITFC has also been working to ensure trade continuity between the two regions, focusing initially on pharmaceuticals and healthcare.

One of the key initiatives implemented in partnership with the IsDB involves supporting Institut Pasteur de Dakar based in Senegal, with medical equipment and biomedical research in the fight against COVID-19 across a network of laboratories in several sub-Saharan African countries including Benin, Burkina Faso, Cameroon, Chad, the Ivory Coast, Guinea, Mali, Mauritania, Niger and Togo.

Preview of 2021

COVID-19 and the role ahead for Islamic trade finance

With the global market expected to remain in a period of constant volatility, development institutions will need to remain focused on where the needs are and intervene accordingly.

Fortunately, ITFC financing is largely aligned with the critical sectors of most of the economies of its member countries. These sectors include energy, agriculture and SMEs. There are already established relationship structures with key state organizations as well as with financial institutions and other private sector enablers.

Leveraging these strategic partnerships, the ITFC will continue to extend trade development financing over the near term to help least-developed and developing economies buy food staples, medical supplies, energy products and basic commodities. The focus will remain on enabling high-growth, high-employment industry sectors like agri-food, pharmaceuticals, textiles and technologies to prosper through the enhancement of global value chains.

The strengthening of SMEs will also remain an ongoing priority, with increased collaboration with financial institutions and governments in member countries to channel capital toward SMEs and to provide capacity development to boost inter- and intra-regional trade flows.

Conclusion

Although the road ahead remains challenging, what is clear is that Islamic trade finance has played an important part so far in helping to reduce the immediate and near-term economic impact of the pandemic. Its role and importance will continue to expand as the crisis plays out. Despite the unexpected hurdles, global trade finance stakeholders must move forward and drive funds and operational support to those parts of the OIC regions that are most in need.

Emergence of 'Robin Hood' traders increases trading and brokerage activity

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Trading and brokerage activity witnessed a phenomenal increase during the coronavirus pandemic in the calendar year of 2020. Investments in equities, gold, Sukuk and cryptocurrencies gained significant momentum. The COVID-19 lockdowns led to a significant decline in global asset prices in March 2020. Since these record-low levels, most of the asset prices have recovered significantly. Investors sought refuge in the US dollar during the meltdown in asset prices and have gradually diversified their portfolio to include not only gold — considered as a traditional safe haven asset, which surprisingly decreased in price along with global equities in March 2020 — but also cryptocurrencies that are gradually being accepted as an alternative asset class for diversification of portfolio risk with significant advantages when compared to traditional physical assets. Shariah compliant instruments also gained significant interest due to better risk management principles and lesser volatility.

Review of 2020

Based on the latest available Futures Industry Association statistics, the trading volume of futures and options contracts on international exchanges across all asset classes increased from 25.8 billion contracts (January–September 2019) to 33.7 billion contracts (January–September 2020) — a record increase of 30.3%. Remarkably, the total trading volume in the period from January to September 2020 is already at 97.7% of the total trading volume for the entire previous calendar year of 2019 — this is indicative of the extent of volatility in asset prices attracting traders and investors. The major contributors include precious metals (124.1%), equity indices (108.7%) and individual equities (109.5%) as well as agricultural commodities (102%).

The significant increase in trading volume is primarily due to the momentum provided by 'Robin Hood' traders who are primarily investing in small and mid-cap stocks. This trend is seen in developed markets such as the US where millions of new trading accounts have been opened by Generation Z and millennials to take advantage of the decrease in stock prices due to the pandemic.

The spot trading volume of cryptocurrencies in the first quarter (Q1) of 2020 was US$6.6 trillion — an over 300% increase from US$1.6 trillion during Q1 2019. In Q2 2020, trading volume decreased to US$5.4 trillion as compared with Q1 2020, although this was an over 200% increase over Q1 2019. The trading volume of CME bitcoin futures increased to 1.58 million contracts in the January to September 2020 period from 1.3 million contracts in the same period during the previous year — an increase of 21.53%.

Cryptocurrency prices have been volatile since March 2020 due to the pandemic in line with other asset prices, thereby leading to an increasing trading volume in bitcoin derivatives used for hedging price risks. Recently, several positive opinions have been given regarding cryptocurrencies being compliant with Islamic finance principles. Several scholars have supported cryptocurrencies (particularly bitcoin) as a medium of exchange, hence permissible under Shariah guidelines.

Total Sukuk issuance in the January to September 2020 period reached US$130.5 billion as compared with US$127.3 billion for the same period during the previous year, based on reports from Refinitiv. GCC countries accounted for 41.3% of global Sukuk issued in 2020 as compared with 32.2% in the previous year due to the increasing requirement to fund the fiscal deficit because of low oil prices.

Decreasing interest rates by central banks have resulted in increasing bond prices during the last few months. Lower profit rates have also made it attractive for borrowers to issue Sukuk at a much lower cost of capital. Fixed income securities have provided excellent returns for investors in the previous year. An extended period of low interest rates is expected to cap price gains in the fixed income securities markets.

Preview of 2021

The outcome of the US presidential elections and the mass availability of a vaccine for COVID-19 are the primary drivers for determining the momentum and direction of the global economy, trade flows and recovery of asset prices in 2021 and beyond. Markets are expected to remain volatile due to the higher levels of uncertainty of these events. Investors are expected to flock to safe haven assets and Shariah compliant instruments due to increasing uncertainty in global markets amid the pandemic. Property prices are expected to recover gradually which can result in increased demand for real estate-backed Islamic finance products.

Conclusion

The trading and brokerage industry has witnessed a remarkable rebirth in terms of volume and activity, largely due to 'Robin Hood' traders emerging as a significant factor for driving price volatility. With investors confined to their homes and having nowhere to splurge their savings, investments in equities, cryptocurrencies and gold have skyrocketed in 2020. This trend is expected to continue in the years ahead due to increased volatility in asset prices. With the lessons learned from the crisis caused by the pandemic, the principles of Islamic finance will gain wider acceptability to secure investments and increase the saving habit.

Importance of an effective Shariah compliant repo market

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The recent disruptions caused by the coronavirus and the oil price slump are affecting Islamic banks' liquidity and highlight the need to develop deeper Shariah compliant repurchase agreements (repo) markets, according to Fitch Ratings report 'Liquidity Stress Highlights Importance of Effective Sharia-Compliant Repo Market'. The report mentions that, a better-functioning Islamic repo market would be credit positive for Islamic banks' funding and liquidity profiles by providing banks with an additional source of short-term funding on a secure and low-risk basis, especially in times of liquidity stress.

Fitch's report says that it can also provide some support to Islamic banks' earnings-generation capabilities through a lower cost of funding due to the collateral held. However, issues with Shariah compliance, the lack of standardization and regulatory hurdles are hindering the growth of the Islamic repo market and its acceptance among counterparties.

Review of 2020

The economic downturn caused by the coronavirus pandemic and the sharp fall in oil prices are reducing banks' liquidity in Islamic finance's core markets, namely GCC countries and Malaysia says Fitch. While each of these countries is at a different stage of development, Malaysia's money and repo markets are the deepest and most liquid. The country has well-developed domestic debt capital markets that drive a broad range of collateral eligible for repos under sale and buyback agreements (SBBA) with the central bank ranging from sovereign Sukuk to Islamic private debt securities. Funding options for Islamic banks in Malaysia are broader than in other countries due to the longer repo tenors available says Fitch.

In Indonesia, Bank Indonesia in May 2020 continued to strengthen the policy mix aimed at mitigating the risks from the COVID-19 outbreak, and maintaining financial market and financial system stability. It also strengthened the monetary operation and Islamic financial market deepening by introducing three new Islamic repo products called liquidity facilities, liquidity management and fund management certificates based on Shariah principles.

Meanwhile, in the GCC, the Central Bank of Bahrain is leading the way by introducing Shariah compliant liquidity management tools, such as the Islamic Sukuk Liquidity Instrument and Wakalah, an intraday credit facility available to Islamic banks against their tradable Islamic securities holdings (Sukuk Ijarah) according to Fitch.

Fitch says compared to their conventional peers, Islamic banks face several constraints to raise funding through repo markets, especially for bank-to-bank transactions. These constraints include differences in Shariah interpretation, lack of standardization and regulatory hurdles faced by Islamic banks. Malaysia's Islamic repo structure, the SBBA, is not viewed as Shariah compliant in GCC countries, where Murabahah, Ijarah and Tawaruq are mainly used. This lack of harmonization hinders growth according to Fitch.

To address the issue of standardization and provide an alternative to conventional repo Fitch said, the Bahrain-based International Islamic Financial Market published the Master Collateralized Murabahah Agreement in 2014. While the creation of the standard is a positive step, its uptake has been low with implementation mostly limited to the UAE. The adoption of AAOIFI standards has been compulsory for Islamic banks since September 2018; its impact on the Islamic repo market is evolving and is still being assessed.

Table 1: Features of the CCM product used in Malaysia

Product	Collateralized Commodity Murabahah (CCM)
Shariah structure	• Structured as a commodity Murabahah via Tawarruq with the obligation created through the commodity sale and purchase. The collateral is transferred to secure the deferred payment of the commodity Murabahah • Collateral arrangement is recognized as Rahn
Shariah conditions for the use of the collateral	• The collateral is not to be sold in the secondary market and must be retained until maturity. • If the seller intends to repledge the collateral, the seller is to obtain prior consent from the buyer.

Source: CIMB

Regulatory hurdles are another challenge. Some countries with less-developed Islamic finance ecosystems, such as Oman, Jordan and Morocco, do not have any Islamic repo facilities with central banks or have very limited offerings. This places Islamic banks at a disadvantage to their conventional peers, which is especially problematic given the current tight liquidity conditions according to Fitch.

Preview of 2021

In Malaysia, Bank Negara Malaysia on the 12th November 2019 had come out with a new Policy Document which sets out the revised requirements and expectations of the central bank on market participants (licensed banks and licensed investment banks) which enter into repo transactions involving ringgit and non-ringgit repo and reverse repo transactions including any outright sale or purchase of repo securities with an intention to repurchase or resell these repo securities at a future date. This encourages Islamic banks to sign the Collateralized Commodity Murabahah (CCM) agreement as part of liquidity instruments. Hopefully, this will lead to the standardization of agreements among Islamic banks globally where Tawarruq is viewed as Shariah compliant in GCC countries.

The liquidity of Islamic banks is still ample and flush with good preemptive action taken by the central banks. However, Islamic banks cannot be complacent with this surplus but need to find other alternative instruments for liquidity management. In my view, CCM or Islamic repo facilities are very important products where the agreements had been executed among Islamic banks and they are an important tool for liquidity management since they create and support opportunities for the low-risk investment of cash, as well as the efficient management of liquidity and collateral by financial and non-financial firms.

Should the economic disruptions caused by the coronavirus pandemic continue and oil prices remain low, I expect central banks across the GCC and other jurisdictions to increase repo facilities and provide additional sources of liquidity to banks. Most GCC countries have already announced that additional liquidity will be made available to support the banks if needed and this includes banks' access to repo funding at their respective central banks.

Conclusion

The rapid spread of the COVID-19 pandemic and its far-reaching effects on the domestic and global economy are anticipated to dampen credit demand and affect the performance of Islamic banks this year according to Ram Ratings. Most Islamic banks require the right liquidity management tools to fund their assets on a daily basis. Islamic banks should be more proactive in the Islamic repo market instead of just using the normal traditional ways of managing their daily liquidity.

The views and opinions expressed in this article are those of the author and do not necessarily reflect the official policy or position of CIMB.

Gender disparity amid pandemic and technology

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Women hold a special position in Islam. When asked whom one should respect, Prophet Muhammad responded "Your mother" three times before he said "Your father". Islam gave women the right to own property 1,250 years before the passing of the Married Women's Property Act. Islam gave women the right to inheritance, sustenance and many more. Most importantly, Islam introduces the concept of fairness and justice for all, affirming that the only thing that will elevate one's position is the depth of one's religious conviction.

People, however, continue to live the tradition. Take the US for example. Women could only vote in 1920 after the ratification of the 19th Amendment and yet even in the 1960s, US women needed their husband's permission to open a bank account in their own name. And only after Congress passed the Equal Credit Opportunity Act in 1974 that a single woman could get a loan without having to bring a man to cosign for her.

The Beijing Declaration and Platform for Action, adopted 25 years ago during the Fourth World Conference on Women, aims to ensure equal power and rights for women. In 2015, all UN member states adopted the UN Sustainable Development Goals where gender equality and empowerment of women and girls are set as Goal No 5. However, 2020 is about to end and the UN reported that not much has changed.

Review of 2020

In the World's Women 2020: Trends and Statistics online portal, the UN reported only 47% of women of working age participated in the labor market compared to 74% of men. Women globally held only 28% of managerial positions (2019), 18% of CEO positions of enterprises surveyed in 2020 and 7.4% of CEO positions in Fortune 500 corporations.

In the Islamic finance industry the gap exists. Comprehensive surveys and statistics on gender equality in the industry are lacking so as to present reliable data in areas that matter. That could be because Islamic finance is a relatively new industry in some jurisdiction or, in some others, it is prevailingly seen as the industry where women's participation is less expected.

There has not been any female Shariah scholar in the Middle East. The public record reveals an insignificant number of women holding executive leadership positions across the MENA region. Malaysia and Indonesia are the two countries where women's representation could be seen across the various areas that relate to the Islamic finance industry.

Alas, we are witnessing a decline in these two countries in the number of female leaders holding decision-making positions in the institutions or entities whose policies and/or actions could draw the face and fate of the industry nationally and globally.

But all is not lost. Despite all the negativity one can infer as the effects of the pandemic, it also forces the opening of new doors and opportunities to many including the Islamic finance industry. If we have to put three positive aspects that the pandemic has presented, they are the story of information technology, the story of survival and the story of resilience.

The pandemic forces people to resort to online options irrespective of personal preference; the pandemic forces people to the verge of survival; and as the pandemic has left many with no other options, people get creative and they resort to all available measures to survive and the story of resilience is now being written and guess what, more women have turned up to take their place as part of the digital economy.

One such story in the area of Islamic finance is fintech. While gender disparity exists in this industry too, the gap is comparatively narrower and more so in Islamic fintech. For example, 26% of Islamic fintech founders are women and that is one in every four, as compared to only 17% in conventional fintech. Similarly, a quarter of the Islamic fintech staff base is female.

Preview 2021

Looking forward, there is increased hope for a greater role for women following the election of Kamala Harris as the vice-president of the US. We do not expect much change to the landscape in terms of the various reasons that place women in the current position. However, the circumstances and the hope will motivate more women to rise, take part and play more active roles during and post the pandemic.

It is reported that there are around 800 million Muslim women worldwide of which over 150 million are active economic and labor participants earning close to US$1 trillion. Next year, more women with an Islamic finance academic background will graduate and join the workforce pool, and we anticipate that women will claim a larger share of the Islamic finance industry which is projected to reach US$3.5 trillion by 2024.

The World Economic Forum (WEF)'s Global Gender Gap Report 2020 projected the overall global gender gap will close in 99.5 years. A top-down approach is crucial. In 2021, we do not expect significant changes to the policy to achieve gender parity; not when the world continues to face uncertainty as to when the pandemic will end, as the economy struggles and people are focusing on living the new norms.

Conclusion

Despite policy efforts at the global level, we do not see a significant change to the regulations or policies or premeditated steps taken to achieve parity across countries. If anything, the statistics show that the gender gap remains wide in terms of equal pay, market participation, access and the chance to senior management and leadership. Nonetheless, we will see a surge in female participation generally and in the Islamic finance industry given the pandemic, and see that women are more adaptable and are survivors of the natural selection process. The pandemic forces people to move to a digital world. When it comes to gender disparity, the use of technology could close the gap as technology is blind — it cares not of its users' gender and anyone can have access irrespective of gender.

The WEF's Global Gender Gap Report 2020 states that the economic participation and opportunity gap is the only dimension where progress has regressed and it is estimated that we have to wait for 257 years before gender parity can be achieved. Hence, we need to see progress in terms of regulations and policies. We need national leaders' determination to ensure equal access, participation and opportunities for the overall benefit of the nations. The Islamic finance industry should be at the forefront of this for Islam is the religion that had accorded recognition of women's rights, position, etc, and the concept of equality, justice and gender parity over a thousand years before developed countries did.

COUNTRY REPORTS

Banking industry in Afghanistan stays positive for 2021 with more achievements expected

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Having a bank account is still a new concept in Afghanistan as people prefer to keep their money at home, or they invest in gold. For a total population of 37 million, there are only 12 banks operating in Afghanistan, including three state banks, seven private banks and two branches of foreign banks. It's been more than a decade since the development of the banking sectors in Afghanistan. There are still challenges and weaknesses, particularly lacking in areas such as professional expertise, a developed system, online banking, an internal control system and compliance.

Afghanistan is home to 37 million Afghans, with 99% of them Muslims and very strict with their religious practice. As per a World Bank report, only 10% of Afghans are banked. The involvement of interest in the mainstream finance system is one of the reasons behind the low participation of Afghans in the banking system. Likewise, since the collapse of Kabul Bank, Afghans have lost trust in the banking sector which has caused a further reduction of the banked population.

Despite all the challenges such as political and security instability, the banking industry achieved some milestones over the last decade: the first and only fully-fledged Islamic bank, Islamic Bank of Afghanistan received its license; Afghanistan launched its National Financial Inclusion Strategy; and the central bank's gross international reserves surpassed US$9 billion.

Review of 2020

Like other parts of the world, Afghanistan's banking industry suffered during 2020 due to the coronavirus pandemic. However, the situation is slightly different and tougher in Afghanistan compared with other countries. Since the start of the pandemic, while banking activities moved online in other parts of the world, online banking is still new in Afghanistan where a large number of customers do not have access to technology due to a lack of reliable electricity sources; a lack of fast and trusted internet connection; a limited number of ATM machines and points of sale around the country; and a lack of information, familiarity and trust with the online banking system.

Additionally, cyber fraud and customer information security are other challenges that banks are facing with an online system. Almost all transactions in Afghanistan are cash-based, so there is always a need for cash.

In a country where there are no money market instruments, lending is considered as the main source of income for banks. Nevertheless, this opportunity is also closely tied to the country's situation which makes it much harder to develop investments. For instance, there are huge profitable investment opportunities in the agricultural sector but due to security issues, banks are reluctant to take the risk. On top of that, due to a shortage of skilled staff in the Islamic banking industry, the central bank is trying its best to conduct different levels of training.

Despite all the challenges, Da Afghanistan Bank (DAB), the central bank, and other related officials remain committed to their goals and have performed well. Upon a trilateral MoU being signed between the DAB, Afghan Post and the Afghanistan Banking Association, for the first time in the country's history, Afghans have access to banking services via the branches of Afghan Post. This is a big step toward the financial inclusion of Afghans and an immediate solution to provide loans throughout the country.

The World Bank's board of executive directors has approved a US$400 million grant to help Afghanistan to "sustain the pace of key economic and public finance reform and support the country to manage current risks and uncertainties compounded by the COVID-19 crisis". This may provide some relief but much needs to be taken care of due to the outbreak of COVID-19, as consumption, exports and remittances have been hard-hit not to mention an ongoing conflict.

Preview of 2021

2021 is unpredictable, and depends on the pandemic situation and the "agreement for bringing peace to Afghanistan" that has been signed between the US and the Taliban. It also depends on how the peace talks between the Taliban and the Afghanistan government take place. There will be a substantial impact on Afghanistan's economy from the COVID-19 crisis as it takes years to recover with further limitations from the political and security uncertainties.

Conclusion

Despite the challenges, the banking industry in Afghanistan stays positive for 2021 and more achievements are to be expected. The trilateral MoU will pave the way for many Afghans to be involved in the banking system and more investments to be made. We are looking forward to the peace agreement and hope it puts an end to the decades of war and uncertanities in the country.

Regulation of Islamic finance operations in Algeria

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The new Algerian government action plan recently adopted by both chambers of the government introduces Islamic finance for the first time in Algeria. The most significant development of 2020 is the promulgation of a regulation governing Islamic finance by the Bank of Algeria.

Review of 2020

Regulation No 20-02 of the 15th March 2020 published in the Official Journal No.16 on the 24th March 2020, states that the Bank of Algeria has defined the operations and conditions relating to the provision of Islamic financial services by banks and financial institutions in country. The main condition is that any Islamic finance transaction does not give rise to the collection or payment of interest. Eight products that constitute Algeria's Islamic banking operations are: Murabahah, Musharakah, Mudarabah, Ijarah, Salam, Istisnah, deposit and investment accounts.

Banks and financial institutions planning to offer Islamic finance products in Algeria are required to first have prudential ratios in accordance with regulatory standards and to meet strict compliance with the requirements for the preparation and transmission deadlines. Regulatory reporting underscores the regulation. The Bank of Algeria requires prior authorization to allow banks and financial institutions to market Islamic finance products. Before applying for this authorization, the bank or financial institution must obtain certification of Shariah compliance issued by the national Fatwa authority for the Islamic finance industry.

In addition, the bank or financial institution is required to create a Shariah control committee, composed of at least three members, appointed by the General Assembly. The mission of this committee is to ensure the Shariah compliance of the bank's products and to control the activities of the financial institution relating to Islamic finance. To obtain authorization from the Bank of Algeria, the financial institution must also clarify the procedures to be followed to ensure the administrative and financial independence of the Islamic finance window from the rest of the activities.

The Islamic finance window must be financially independent from other structures of the bank. The accounting of the Islamic finance window must be completely separate from the accounting of other structures of the bank or financial institution. According to the regulations of the central bank, this separation must, in particular allow the establishment of all financial statements, exclusively dedicated to the activities of the Islamic finance window.

Bank of Algeria specifies, in this sense, that the independence of the Islamic finance window is ensured by a dedicated organization and staff including at the level of the bank or financial institution network. The regulation also requires banks and financial institutions that have secured authorization for the marketing of Islamic finance products to inform their customers of the rates and minimum and maximum conditions applicable to them. They must inform depositors, in particular those holding investment accounts, of the specifics related to the nature of their accounts.

Preview of 2021

For 2021, the National Economic and Social Council (CNES) considered that Bank of Algeria Regulation 20-02 on Islamic finance in Algeria "was not sufficient to meet the conditions for the success of Islamic finance in Algeria" citing in this regard the need to develop new skills trained in in-depth finance and big data in order to be able to analyze and control risks, especially commercial risks.

The new government will allow the establishment of financial markets contributing to the management of liquidity between Islamic banks emphasizing the urgency of creating institutions of legislative and regulatory control to support Islamic financing with a social dimension and to provide legal facilities to Algerian citizens.

Conclusion

The imperative is to revise Bank of Algeria laws and the Currency and Credit Law "to be in tuned in line with Islamic finance", adding that traditional banking, unlike Islamic banking, benefits from a state contribution of 3% in the coverage of the profit margin.

Economic darkness in Australia with glimpses of light for Islamic finance and investment

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At midnight on the 31st December 2019, the upcoming 2020 year seemed to be difficult but certainly not catastrophic for the Australian economy. The extensive bushfires in New South Wales and Victoria during December 2019–January 2020 seemed bad enough to slow the economy. However, the ABS economic estimates for 2020 still had unemployment to be less than 6% of the total available Australian workforce and projected GDP annual growth to be subdued but in the range of 1.6% to 2% annual growth over 2020.

The COVID-19 pandemic changed that scenario. While China and Europe were initially affected by the pandemic, Australia experienced its first known cases of COVID-19 in late February 2020–early March 2020. By late March 2020, Australia was in the first stage of lockdown and the effect on business and unemployment was severe. For both conventional banks and Islamic finance investment, COVID-19 created a myriad of adverse economic conditions that were difficult to manage during 2020 and most likely in 2021 as well.

Review of 2020

COVID-19 affected the Australian economy in a manner that has not been seen since the Great Depression of the 1930s. When the first lockdown of the economy was implemented in late March, the Australian government provided employment stimulus in the form of job retention and job engagement programs referred to as 'Job-keeper' and 'Job-seeker'. These programs provided employment subsidies paid to eligible employers to keep workers on for those businesses affected by the COVID-19 lockdown. Initially, the programs were meant to finish on the 30th September 2020 but these programs in a reduced form have been extended to the 31st March 2021.

Australian Treasury estimates show an annual budget deficit of AU$184 billion (US$130.83 billion) to account for all the economic stimuli provided by the Australian government to businesses and individuals. This equates to nearly 10% of the country's national income. Deloitte Access Economics estimates annual GDP to reduce to 0.8% for the year to June 2021 and then a further 1.1% decrease in GDP for the year to June 2022.

The unemployment rate is estimated by Deloitte to increase to 10% for the current calendar year (compare this with 5% unemployment for 2017/2018). Deloitte and other commentators are less sure of the longer-term unemployment rate as government stimulus measures scale back. Businesses have also been assisted by rental waivers and bank debt repayment deferrals. The major Australian banks have experienced a downturn in annual profits to the 30th September 2020. Similarly, superfunds have had negative returns over 2020.

For the Crescent Islamic superannuation funds, 2020 has seen negative annual fund returns. Crescent is Australia's largest and oldest Islamic superannuation fund. As at the 30th June 2020, the Crescent Wealth Superannuation Fund had AU$259 million (US$184.15 million) in member funds. Its returns have ranged from -2% to -3.3% for the year to the 30th June 2020.

Hejaz has not disclosed on its website its superfund return for 2020. However, the expectation is that the COVID-19 economic effects will similarly affect downwards the Hejaz returns.

The downturn in returns of the Australian Islamic superannuation funds during 2020 is consistent with the negative earnings return record of the larger mainstream Australian superannuation funds.

The Islamic home finance market has been resilient during 2020 despite the COVID-19 effects on the Australian job market and the general economic slowdown. MCCA and Amanah Finance have largely kept its home finance writing volumes consistent over the last 12 months. The MCCA Income Fund (Shariah compliant home finance) stood at AU$64 million (US$45 million) as at the 30th June 2020, a modest increase over the last 12 months.

Both Amanah Finance and MCCA appeared to manage their arrears book over the year. However, the challenge will come in 2021 when the government personal income support programs stop with potential adverse effects on client home finance repayments.

Despite the economic gloom, 2020 also proved to be positive for the Islamic finance and investment sector. The IBA Group is well advanced in its application for an Australian digital banking license. It expects, if all goes well, to start trading under the bank license during 2020.

Another exciting development during the year was the launch of the Thera Capital Management agriculture finance fund. This fund is to assist Australian primary producers fund their working capital and operational requirements. Its investors had included local and overseas wholesale and sophisticated investors. On the healthcare front, the Healthbridge Investment Fund was issued as an Islamic ethical investment fund catering to the Australian healthcare sector.

These three new products and services assist in providing Islamic finance and investment a broader audience than the traditional home finance and superannuation sectors where much of Australian Islamic finance and investment currently resides.

Preview of 2021

Australia in 2021 will still feel the adverse economic effects of the COVID-19 pandemic. Government stimulus programs will wind down from the 31st March 2021. This may create further economic turmoil. Unemployment is expected to peak during 2021 before some respite in 2022. However, the expectation from the Reserve Bank of Australia is that by late 2021 there is likely to be some economic rebound and improvement in annual GDP growth. This expectation according to the Reserve Bank needs to be cautioned by the success of COVID-19 control domestically and internationally over 2021.

Conclusion

It is true that 2020 has been a year of economic darkness and 2021 will also be difficult in economic terms. Yet, 2020 sowed the seeds for new Islamic financial products and hopefully this will provide further inspiration for other new products to be introduced in 2021.

The views expressed by Dr Franzese are his own and not necessarily those of any fund or organization that he may be associated with.

Bahrain: Consolidating change through resilience and innovations

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The first quarter of 2020 brought unexpected challenges onto the global economic stage, with the coronavirus pandemic causing systematic risk globally which caused a significant economic meltdown and social and healthcare challenges everywhere. This was further exacerbated by the drop in oil prices which similarly caused an economic slowdown in the GCC region including Bahrain. The country's economy is expected to show slow growth in 2020, and a budget deficit is projected during 2021-22 given the lower oil revenues.

Review of 2020

The country's GDP contracted by 8.9% in the second quarter of 2020 (Q2 2020) year-on-year (YoY), and 19.5% in nominal terms, as a result of COVID-19 market disruptions. The oil sector posted a 3.2% real YoY increase in Q2 2020, but declined by 47.9% in

Table 1: Bahrain's economic outlook

	2018	2019	2020F	2021F
Real GDP growth	1.8%	2.2%	2.1%	2.7%
Non-hydrocarbon sector	2.5%	3%	2.3%	3.1%
Hydrocarbon sector	-1.3%	-1.3%	1.4%	0.5%
Nominal GDP growth	6.1%	6.5%	3.1%	5%
Inflation (CPI %)	2.1%	2.1%	1%	2.5%
Current account (% of GDP)	-6.5%	-5.9%	-3.2%	-2%

Source: Bahrain Ministry of Finance and National Economy, Bahrain Economic Quarterly Report Q2, issued in September 2020

Table 2: Key economic indicators

GDP (current)	US$37.5 billion (2019)
Growth	2.4% (2019)
Financial sector contribution to GDP	16.1% (2019)
No of financial institutions	376 (January 2020)

Source: Central Bank of Bahrain (CBB), fact sheet nominal terms, as global oil prices dropped to their lowest level in more than two decades in April 2020. Table 1 shows the impact on the economy.

Financial sector

The financial sector remains a key economic driver in Bahrain and ranked as the largest non-oil contributor to GDP, representing 16.1% of real GDP as of 2019. The total banking assets continued growing to reach US$212.6 billion in July 2020 with Islamic banking assets at US$32.7 billion, as reported by the CBB Financial Stability Report, March 2020.

Bahrain fund industry

As at the end of October 2020, the number of mutual funds stood at 2,010 funds, of which 75 funds were Bahrain-domiciled, compared with 2,136 funds as of October 2019. The number of Shariah compliant funds stood at 84 as of October 2020, as reported by the Central Bank of Bahrain (CBB).

> "The new Sukuk Murabahah services offered through a digital platform provided by the Bahrain Bourse and the Central Bank of Bahrain stand out as a new innovative tool for liquidity management"

Insurance (Takaful)

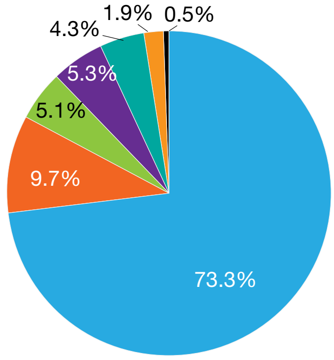
As of September 2019, the insurance sector represented 5.5% of the real GDP. Total assets in Takaful firms in September 2019 experienced an annual growth of 5.6%, reaching BHD202.4 million (US$533.87 million) compared with BHD191.6 million (US$505.38 million) in September 2018, according to the CBB Financial Stability Report, March 2020.

Table 3: Bahrain banking sector highlights

Assets	US$212.6 billion (July 2020)
Number of institutions	376 (September 2020)
Total number of banks	93 (September 2020)
Retail banks	31 (September 2020)
Wholesale banks	62
Islamic banks	19 (September 2020)
Islamic banks' assets	US$32.7 billion (July 2020)

Source: CBB, fact sheet

Chart 1: Islamic banks' assets by geographical classification (Dec 2019)



Source: CBB Monthly Statistical Bulletin

Regulatory changes and market trends

Islamic banks in Bahrain and elsewhere in the region have been focusing on the best opportunities that consolidate shareholders' sustainable business and continuity and looking out for possible mergers and acquisitions such as the consolidation strategy announced by Bank of Bahrain and Kuwait and Ithmaar Holding, the parent of Ithmaar Bank.

On the product development front, the new Sukuk Murabahah services offered through a digital platform provided by the Bahrain Bourse and the Central Bank of Bahrain stand out as a new innovative tool for liquidity management.

The Bahrain Bourse also introduced new guidelines and regulations to support its liquidity platforms by allowing the listing of the government's treasury bills and the short-term Sukuk Ijarah issued by the CBB on behalf of the government of the Kingdom of Bahrain.

Preview of 2021

The announcement of a vaccine for COVID-19 has resulted in positive sentiments around the world for improvement in the economy, albeit there is a long wait needed due to the rigorous and lengthy vaccine regulatory approvals. Bahrain, which has a vibrant services sector, will benefit from the ease in travel restrictions. The economy will continue to consolidate changes in digital strategies and guide businesses.

Conclusion

The Kingdom has been leading a digitalization change in the region, and has developed ecosystem pillars such the regulatory fintech sandbox and established Bahrain Fintech Bay to drive the digital transformation of businesses. The CBB and other government agencies have taken several awareness initiatives to support digitization transformation in businesses. These strategic initiatives make up a solid technology base for the current new economy practice that will require social distancing and travel restrictions. It will help the country guide and drive businesses to a more sustainable future, adapting to the new normal.

Islamic banking industry in Bangladesh: Trends and outlook

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Islamic banks have gained a stronger position than earlier in the banking sector of Bangladesh as one-third of all general banking activities are conducted through Islamic banks which hold 25.04% of total bank deposits, provide 24.93% of investments and handle 27.2% of the country's remittances. According to the Islamic Finance Country Index (IFCI) 2019 rankings, Bangladesh has moved up from 10th to 8th in 2019 and scored 43.01 in 2020 as reported by the Islamic banking and finance industry in its global index ranking. The IFCI report suggests that Bangladesh has seen more comprehensive development than some leading players like Saudi Arabia, Iran and other major countries associated with the GCC.

Review of 2020

Deposit investment and remittance

The Islamic banking industry holds a one-fourth share of the entire banking industry in terms of deposits, investments and remittances in Bangladesh.

As per sectoral analysis, out of the total investment, the trade and commerce sector (43.91%) is identified as the highest among all sectors. Industrial working capital financing is the second-highest (23.33%) followed by the large and services industry (11.55%) (see Chart 1).

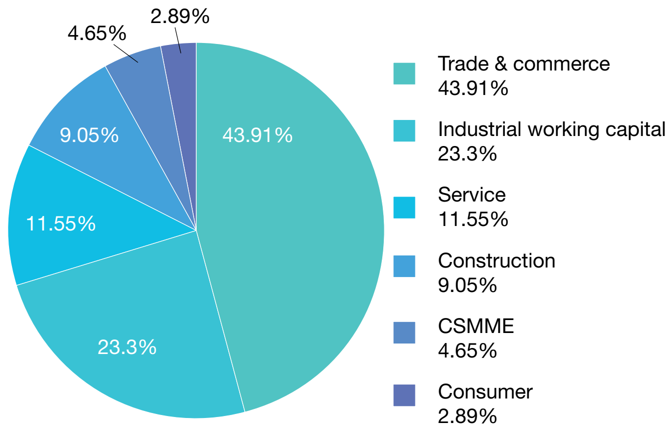
As per mode-wise analysis, it has been observed that the highest investments were made through the Murabahah mode (44.52%) followed by Bai-Muajjal (24.19%), hire purchase under Shirkatul

Table 1: Share of deposit, investment and remittance position of Shariah-based banks compared with total banking sector in Bangladesh (BDT million)

Items	April-June 2020			January–March 2020
	All banks	Islamic banks	Share of Islamic banks	Share of Islamic banks (%)
Total deposits	11,809,995	2,913,039.01	24.67%	25.04%
Total investments	11,006,389	2,754,659.63	25.03%	24.93%
Remittances	376,286.6	103,241.23	27.44%	27.12%

Source: Bangladesh Bank

Chart 1: Islamic investment (sector-wise)



Source: Bangladesh Bank

Melk (18.85%), Ijarah (5.13%) and others (7.31%) including Qard with security (see Chart 2).

Preview of 2021

Bangladesh Bank, the central bank, has permitted three conventional banks, namely Standard Bank, NRB Global Bank and Jamuna Bank to undertake conversion into full Islamic banks and start operations in early 2021. Sukuk will be formally launched by the end of this year with priorities on financing infrastructure and large manufacturing projects. Bangladesh Bank has already published new guidelines on the 21st October 2020 to prepare for its first-ever government Sukuk issuance in Bangladesh.

Islamic banks in Bangladesh are adopting the latest and emerging technologies from the Fourth Industrial Revolution and working to develop robust agent banking networks across the country. It is also worth mentioning that despite COVID-19, Islami Bank Bangladesh, the largest Shariah bank in the country, recorded US$11.54 billion (BDT1 trillion) in deposits in 2020, setting a milestone for the first time in Bangladesh's commercial banking history.

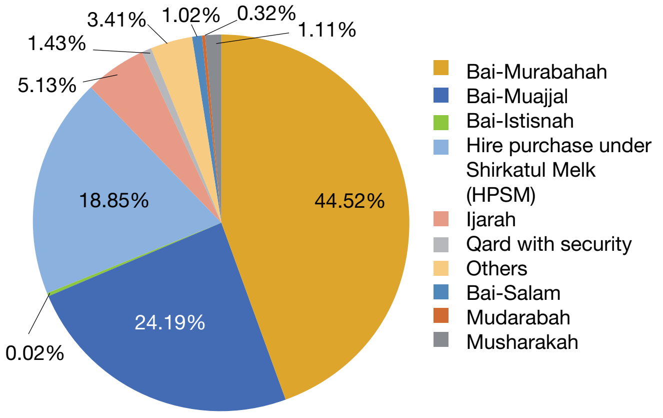
Kazi Khurram Ahmed, a director of Standard Bank and a member of the Shariah supervisory committee of the bank, opined: "The Islamic banking industry in Bangladesh is differentiating itself more and more from the conventional banks with compliance of full Shariah and governance with the aim 'to move beyond the profit', and to provide sustainable financial services through a responsible manner under Shariah." Standard Bank is in the final stage of converting into a fully-fledged Islamic bank and to start its operations in early 2021.

> "Islamic banks in Bangladesh are adopting the latest and emerging technologies from the Fourth Industrial Revolution and working to develop robust agent banking networks"

The existing challenges are:

- Absence of a legal framework for Islamic banking operations
- Service diversification due to the unavailability of organized markets to offload risks, and
- Lack of a skilled workforce.

Chart 2: Islamic investment (mode-wise)



Source: Bangladesh Bank

Recommendations to tackle the challenges are as follows:

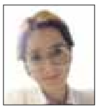
- Preparing a comprehensive regulatory framework which abides by Islamic law
- Developing legal codes for insurance and taxes
- Building capacity to deal with the increasing uncertainties involved in financial innovation, and.
- Organizing awareness programs to drive growth.

Conclusion

Islamic finance has more than 25% share of the total banking sector in Bangladesh, with the country itself having a 35% share of Islamic banking customers in the world, a 50% share of the global Islamic microcredit space and a 28% share in the MSME sector — this means Bangladesh plays a key role in the global Islamic finance market. Additionally, due to inherent characteristics, financial inclusion is an integral part of Islamic banking.

Despite the challenges that the Islamic banking sector is facing due to the pandemic, the overall growth of the Islamic finance market in Bangladesh has been possible with inclusive investments in infrastructure and the possibilities brought by Sukuk, particularly through the digitalization of products and services. Even amid the global pandemic, this year has been remarkable because of the Islamic finance landscape being both bullish and competitive against its conventional counterpart. With the ethical inclusivity and attributes that enhance stability, Islamic finance continues to play a promising role in the country's socioeconomic development, shaping a model of inclusive development for the country regardless of race, religion and language.

Islamic banking helps Bosnia & Herzegovina cope with economic crisis

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Bosnia and Herzegovina (B&H) is a small beautiful country in the heart of Europe, with a highly regulated banking market of 23 banks, mainly the offsprings of large European banks. Only one bank, Bosna Bank International (BBI), operates under Islamic banking principles. Over the years, after the 1990s aggression on B&H that had destroyed the economy and financial sector of the country, the banking sector has grown into a respectable, self-sustaining, profitable sector, a leader of positive changes in society.

B&H has a small open economy, predominantly dependent on the consumption and export of goods. At a time when all countries are experiencing economic stagnation due to the coronavirus pandemic, inevitably our small and slow-growing economy will feel the negative impacts of declining economic activity in the country and within its main export partners, primarily the eurozone. The importance of an adequately capitalized banking sector and its financing potential to support both businesses and individuals will therefore come to the fore in the coming months, to support solvency, investment and general consumption. It is expected that BBI, a strong and stable Islamic bank that has proven its support and devotion to the development of the country's economy with constant efforts to promote the country among foreign investors by organizing the largest investment conference in the region, the Sarajevo Business Forum (SBF), will lead the process.

Review of 2020

BBI started the year with extraordinary results in term deposits and financings growth, as well as year-on-year profit growth of 46%. After the first cases of COVID-19 were registered in the country, officials closed the borders, imposed a ban on the operations of many businesses and closed schools, restaurants, cafes, libraries, cinemas, etc. The decision led to a sharp slowdown in economic activity and an increase in unemployment, with decreased exports, consumption, etc. The banking sector was affected as well with a decline in financing activity, deterioration of the financing portfolio and new measures introduced to help businesses and individuals affected by the pandemic to overcome the negative consequences.

The main focus of BBI was to keep the high quality of its portfolio as the bank had the second-lowest non-performing financing ratio among large and peer banks in the market at the end of 2019. As a partner to its clients, the bank approved moratoriums on payments, grace periods and new financings for those affected by the pandemic. At the same time, as a socially responsible bank, the bank offered the expertise of its employees and partners to help the economy as urgent measures and a new strategy to cope with the new reality were needed.

On the SBF platform, BBI gathered domestic and international experts who prepared a strategy with the symbolic phrase "We can do it" with a plan and key guidelines for overcoming the economic crisis in B&H. With a focus on creating a self-sustaining economy for B&H, domestic

experts in this document offered concrete steps to be taken to save the country's economy and prevent a significant decline.

During 2020 and the pandemic, BBI achieved three times higher growth of total deposits than the whole market of B&H, which shows a high degree of trust and confirms the positive image of a strong and stable bank.

As everything went digital overnight, BBI dedicated itself to the organization of the SBF online webinar, which was held during the month of May. In 2020, four online sessions were held with an emphasis on successful practices from around the world for overcoming the economic crisis with a special focus on the development of strategic industries: energy, pharmacy and agriculture.

Even during the pandemic, BBI continued to search for excellence and implemented the best business practices and solutions. As a result, BBI received four awards during the pandemic: 'Best CRS Bank in B&H 2020' and 'Best Banking CEO of B&H 2020' by International Business Magazine Dubai; and 'Golden BAM for the quickest growth of deposits and financing in 2019' and 'Special Golden BAM for Idea of the Year' awarded by Bank and Business Magazine in cooperation with the Bank Association of Bosnia and Herzegovina for BBI's Card Guard application. BBI also became the first global payments innovation (GPI) member in the region to provide GPI tracking services to its clients.

Preview of 2021

It is evident now that the pandemic will continue in 2021 as well, along with the negative economic effects. BBI will continue to support its clients to overcome the difficulties and to offer its expertise and partners in order to help the economic development of the country.

The COVID-19 pandemic is changing life as we know it. Digital business must be the focus of future development. In 2020, we faced the sudden need to do everything online — from buying groceries, remote working to handling our finances. BBI will continue to pursue excellence in this field in order to ensure its clients have the best experience of banking from their homes.

Conclusion

BBI is one of the fastest-growing banks in B&H. In the previous years, it has strengthened its position in the segment of medium-sized banks and certainly paved the way for it to take a leading position in this segment in the next two to three years. Certainly, the corporate culture with deeply incorporated Islamic banking principles has helped in the process as clients recognized the devotion and commitment to work in the best interests of clients and society.

Brazil: A trade partner and investment destination

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Brazil's good diplomatic relationship with Arab and Muslim-majority countries has paved the way for it to become the destination of choice in trade and investments.

Although Brazil has not yet adopted regulations aligned with Islamic finance principles, it is a major partner for Muslim-majority countries in the export of Halal products, especially, animal protein products.

Review of 2020

At the end of 2019, Brazilian President Jair Bolsonaro visited Saudi Arabia and met Crown Prince Muhammad Salman who mentioned that Saudi Arabia would be willing to invest up to US$10 billion in Brazil. The investment would be made by the Saudi Public Investment Fund (PIF).

The PIF has invested in two Brazilian funds managed by Patria Investimentos, a fund manager that creates businesses in the infrastructure, real estate and agribusiness segments. The amounts involved and the economic segment of these funds were not disclosed. However, this is a clear demonstration that the PIF is, indeed, interested in investing in Brazil.

> “Brazil is a major exporter of agribusiness products to Muslim-majority countries, especially in the MENA region, and this trend is expected to continue in 2021”

This interest was evident when a meeting was organized on the 11th August 2020 by the Executive Office of the President of Brazil (Casa Civil), where the federal government presented to PIF representatives the main projects being developed in Brazil, especially in the infrastructure, energy and agricultural sectors.

During the meeting, Moreira Franco, the secretary of the Investment Partnership Program (Programa de Parcerias de Investimentos or PPI) presented the portfolio of PPI projects in areas such as transportation and sanitation. Representatives from the Ministry of Economy, Ministry of Infrastructure and Ministry of Agriculture also participated in the meeting.

It is always good to remember that Mubadala, an Abu Dhabi sovereign fund, has been investing for years in Brazil and it seems that it is always looking for possible good investments.

As to trade, Agribrasil, a Brazilian trading company focusing on the commercialization of grains, is planning to export transgenic soya to the MENA region.

In turn, Brazilian company Weg has entered into a transaction with Saudi governmental company Saline Water Conversion Corporation which operates desalination and electric plants. The object of the transaction is the supply of 24 medium voltage engines to be used in plants located in the Saudi western city of Yanbu for the pumping and transportation of water to the city of Medina.

Preview of 2021

Brazil is a major exporter of agribusiness products to Muslim-majority countries, especially in the MENA region, and this trend is expected to continue in 2021.

It is also foreseeable that Brazil will continue to be a destination of investments for Muslim-majority countries, particularly GCC countries. The Brazilian currency has suffered a devaluation vis-à-vis the US dollar. In view of this, Brazilian companies may be seen as 'cheap' for foreign investors, either by the totality of the company or by a portion of its capital stock.

As for the aforementioned PPI, the federal government has a policy in place to privatize certain activities by means of concessions for a determined period of time.

It is undeniable that an infrastructural shortfall is facing Brazil with the federal government planning to privatize more airports. Highways and port terminals could also be seen as possible target projects for foreign investors in 2021 with privatization also taking place at the state level.

Agribusiness is an economic segment that will be developed further in addition to the Brazilian pharmaceutical and construction services industries that have better opportunities through enhanced trade relations with the Arab countries.

Conclusion

The trend of trade activities related to agribusiness where Brazil is a major exporter to Muslim-majority countries should continue not only in 2021, but also in the following years. This is due to the fact that an increasing number of Brazilian companies have identified these countries as excellent markets for their products. Other companies in Brazil that offer different types of products should identify possible markets in these Muslim-majority countries — one good example is the cosmetic industry. It is also clear that foreign entrepreneurs see Brazil as a good destination for their investments.

Brunei Darussalam: Resiliency against the pandemic

Pengiran Sri Joedianna Pengiran Mohammed *is the executive director of macroprudential policy and financial surveillance and the head of corporate planning and development at Autoriti Monetari Brunei Darussalam. She can be contacted at srijoediana.mohammed@ambd.gov.bn.*

2020 was no doubt a challenging year for all countries worldwide due to the outbreak of the COVID-19 pandemic and Brunei Darussalam was no exception. Despite the difficulties faced during the ongoing pandemic, Brunei's Islamic financial institutions remained strong and continued to find ways to grow, as well as contribute to society through various corporate social responsibility drives.

Brunei has maintained its ranking as one of the top 10 performing Islamic financial markets out of 131 countries as reported by the IsDB in the 'ICD-Refinitiv Islamic Finance Development Report 2019: Shifting Dynamics'. The report, which took into account data accumulated in 2018, revealed that Brunei scored 45 points in the Islamic Finance Development Indicator index, ranking it tenth in 2019, and third in the ASEAN region, after Malaysia and Indonesia.

Review of 2020

The government of Brunei and Autoriti Monetari Brunei Darussalam (AMBD), as the central bank of the country, were cognizant that the country's people and the business sector would need assistance to weather the unprecedented pandemic, as well as to ensure any potential negative impact to the economy would be alleviated.

With effect from the 1st April 2020, the government, in collaboration with AMBD and the Brunei Association of Banks (BAB), launched an economic relief package valued at BN$250 million (US$186.74 million). This multipronged package included the deferment of principal payments for loan/financing of up to a year; exemption of fees and charges for deferment and restructuring applications for all businesses and individuals who had been affected by the COVID-19 pandemic. Further, outstanding balances on credit cards were allowed to be converted into term loan/financing for a period not exceeding three years for affected banking customers working in the private sector, including the self-employed.

Contemporaneously, in an effort to encourage social distancing and minimize physical visits to banks, AMBD with BAB agreed that online local interbank transfer fees and charges were to be waived for six months for all customers. The general public was encouraged to utilize existing digital payment platforms offered by banks and other payment system providers. As part of AMBD's continued support of the government's efforts in containing the pandemic, AMBD and BAB agreed to extend the waiver for online local interbank fund transfer fees and charges to all bank customers for another six months with effect from the 1st October 2020.

Like many other businesses, the financial industry, including Islamic institutions, was not spared from the impact of the pandemic as the institutions operated at different sites for business continuity, heightened their credit and risk monitoring, experienced reduced income due to lower investment returns and there was lower loan/financing demand as people were curtailing or postponing some non-essential activities. Nonetheless, the banking sector benefited from prudent regulation that ensured capital buffers were sufficient to ensure resilience during the pandemic.

As a result of the pandemic, the Takaful sector was also negatively affected especially those Takaful operators offering workmen's

compensation, savings products and travel insurance. However, certain business lines like those offering car insurance and certain Takaful products continued to thrive.

Supervision of Islamic financial institutions in 2020

One of the key developments for Islamic finance regulation was the strengthening of compliance to the Syariah governance framework. AMBD has conducted onsite examinations to validate the self-assessment compliance of the Islamic financial institutions in Brunei to the Shariah governance framework and internal Shariah audit framework.

As part of AMBD's commitment to improve the supervisory regime for the protection of Takaful policyholders in Brunei, AMBD issued six regulatory instruments (notices or guidelines) for Takaful operators, covering the establishment and maintenance of Takaful funds, re-Takaful management, recovery plans, online distribution and the surplus distribution of Takaful operators.

Additionally, in terms of the development of Islamic finance in Brunei, in line with the Brunei Darussalam Financial Sector Blueprint 2016–25, AMBD introduced the AMBD Islamic Bills Programme (AMBD I-Bills), of which the inaugural issuance was made on the 22nd October 2020. AMBD I-Bills are based on the Shariah concept of Wakalah Bi Ujrah, the first of its kind in Brunei.

Preview of 2021

AMBD is in the midst of reviewing and conducting industry consultation for the Guidelines on the Islamic Product Approval Process to enhance the approval process for product application by Islamic financial institutions. AMBD will also continue to issue Shariah standards and parameters for the Islamic financial institutions to provide them with a reference on the Shariah rulings associated with their respective Shariah concepts. By doing so, the Islamic product approval process promotes end-to-end compliance with Shariah requirements, with the ultimate aim of ensuring sound industry practices are implemented throughout the life cycle of Shariah products offered in Brunei.

Conclusion

AMBD will continue to explore other areas to be developed to promote the development of Islamic finance in the country as outlined in the Brunei Darussalam Financial Sector Blueprint (2016–25) in particular through fintech development, research capability and human capital development.

Canada making strides in the world of Islamic finance

Mohamad Sawwaf *is the co-founder and CEO of Manzil, an Islamic financial institution in Toronto. He can be contacted at mohamad@manzil.ca.*

With the introduction of many Shariah compliant products, 2020 is to be considered a milestone year for Islamic finance in Canada, pandemic included. This includes solutions that enabled the Muslim community in Canada to finance their home, invest their savings and spend their money according to their beliefs. What is encouraging is that these products have been established by new players in the Canadian Islamic finance landscape.

Review of 2020

The first and unique mortgage financing product based on a Murabahah (cost-plus) contract in Canada was launched by Manzil, with full compliance with the AAOIFI Shariah standards and the Canadian legislation, and later a Musharakah contract was added to its mortgage financing offering. The former resembles an open fixed-rate mortgage and the latter an open variable rate. This expands the mortgage offerings available to Canadian Muslims which currently include Aya Financial and Ansar Financial, both of which use a version of a diminishing Musharakah contract.

To ensure its source of capital to finance its mortgage products is Halal, a mortgage fund was established by Manzil, backed by the underlying Murabahah and Musharakah mortgages, which represent the first Halal fixed income fund in Canada. These products are offered to individuals and institutions through well-established Canadian investment and crowdfunding platforms (CI Direct, FrontFundr and Fundscraper) which allowed them to add a Halal investment offering to their product shelves. Hence, CI Direct Investing, an online-based platform of the largest asset manager in Canada, offers the only diversified Halal portfolio in which the Manzil Halal Mortgage Fund constitutes the fixed income part and is complemented by Wahed's FTSE USA Shariah ETF [exchange-traded fund] for the equity portion.

Early in the year, ShariaPortfolio started to offer its Halal investing solutions to individuals and institutions in Canada through its newly acquired Portfolio Management License. This gives Canadians the ability to access actively managed portfolios invested in Halal financial instruments. With the launch of its two US-based ETFs, SP Funds Dow Jones Global Sukuk ETF and SP Funds S&P 500 Shariah Industry Exclusions ETF, this became part of its passively managed mandate for Canadians should they seek it.

Most recently, a Halal Prepaid Visa card that acts as a Halal chequing account was introduced by Manzil in partnership with KOHO, a venture capital-backed fintech based in Toronto. This card provides the underbanked Muslim community a payment card with all bells and whistles, including cashback, without having to get into a non-Shariah compliant contract when opting for a credit card from a conventional bank.

Preview of 2021

The year to come has a bright outlook, even under the currently depressed economic outlook. Market players in Canada share a willingness to expand their offerings in order to not only capture more market share but to start to create this nascent industry

into a real one. Manzil is expected to launch the very first equity-based Halal ETF on one of the Toronto stock exchanges (Toronto Stock Exchange or NEO Exchange). An added benefit to this offering would be its forex hedging in Canadian dollars to avoid the currency risk since most of the underlying securities would be US dollar-denominated.

Wahed is also expected to deploy its portfolio management offering to the Canadian marketplace which will strengthen the Halal investment offerings in Canada and make them benefit Canadians seeking Halal and ethical investing.

On the financing side, a national financial institution in partnership with Manzil will be offering the very first Halal car financing program based on a Murabahah contract. Lastly, Manzil is also working with another national financial institution to introduce Halal small and mid-sized business financing, another first, in addition to a full digital wealth management platform to attract and create an ecosystem for Muslim advisors and their clientele with the products and solutions that can allow for a fully Halal financial lifestyle.

Canada's insurance marketplace does not currently offer any mainstream or sustainable Takaful-based insurance products; however, there are Canadian insurance companies gaining experience in Takaful products abroad as part of their mandate of sustainable insurance and we hope to see a structured Takaful company or product in Canada in the near future.

Conclusion

This Islamic finance 'revival' won't stop here and will surely constitute a base that can act as a springboard for Canada to become the North American hub of Islamic finance following the UK's path for Europe. Many Islamic finance institutions and fintechs start out with a long-term intention of establishing their presence in the Canadian market and many times it ends up as a short-lived stint. To give all these initiatives a safe and fair regulatory framework in which they can evolve, all levels of governments and regulators need to be involved. To that end, the National Council of Canadian Muslims and a prominent Islamic finance player are actively working on introducing this subject and its importance to the Canadian government in the hope that actionable steps can be initiated.

Central Africa: Traction and positive change expected in 2021 and beyond

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In 2020, the narrative of Islamic finance penetration was anchored by South Africa, Kenya, Nigeria, Senegal and the Ivory Coast. These nations led the growth of more than US$31.1 billion in Islamic finance assets. However, data about the Central African Economic and Monetary Community (CEMAC) region (Chad, Cameroon, Gabon, Equatorial Guinea, Congo & Central African Republic)'s contributions on these assets was hard to find. This is quite telling.

The CEMAC region saw customer demand for Islamic finance solutions and services grow anecdotally, but the documented returns and positive market impact did not seem to be aligning or playing out as it has in the rest of Africa.

Why and what does this mean for 2021 and beyond?

Review of 2020

A quick review of 2020 reveals unprecedented and unpredictable market dynamics across all sectors in the region. COVID-19 brought SME engagement to a snail's crawl, economic growth fell below 3%, reliance on oil and extractive imports softened and no new licenses for Islamic banks were issued in the CEMAC region.

Some of the big players such as Ecobank, Afriland Bank, Banque Populaire and others delivered Shariah banking services to address financial inclusion but this progress was overshadowed by a notable reduction in traditional lending which tends to be the focus of financial measurement and reporting in the private banking and finance sectors.

The reason that Islamic banking and Shariah financing is not better known or reported in this region is due to a lack of knowledge as well as low prioritization and no broad-based adaptation of Islamic principles to encourage financial depth. Customers are not informed of the benefits or they have choices. As with the growth of Mpesa in East Africa, fintech solutions that incorporate Islamic finance have had to thread their way through an ecosystem that barely defines the shortcomings from the viewpoint of Islamic finance.

Mpesa's unexpected growth and explosion was driven by the fortuitous meeting of smart innovation that was inspired by customer demand under the less-than-watchful eye of a regulator that was not up to speed on fintech innovations and their impact on the livelihoods of customers and businesses.

2020 might have been a different story in the Central African region if similar conditions existed for Islamic finance. 2021 could fare better with recognition and acceptance if the industry could define customer solutions through the lens of Islamic-driven innovations and guide the regulator through an Islamic finance sandbox.

Preview of 2021

2021 offers an opportunity to grow Islamic assets under management and assist the CEMAC region to rebound in a post-COVID-19 era. Ovamba predicts that investments and grants

will become available to underwrite data studies; marketing and customer outreach will become sought-after niche skill sets; public relations and communications will double down on educating interested stakeholders in the sector; and policymakers will seek to include Islamic finance as a necessary tool in economic recovery efforts. This will be successful only if the regulator actively supports and promotes solutions that serve customers for growth rather than regulate as a defensive response to what appears to be 'the unknown'.

2021 could see microTakaful as a strategic response to disaster prevention and the disrupted supply chains will take on a more domestic flavor with Murabahah and Musharakah soothing the way for risk-averse traditional banks and microfinance institutions that have yet to enjoy the non-interest-bearing revenues from alternative trade finance.

All indications point to strong trending from central banks globally to slow down economic attrition with government-backed stimulus plans. We see Sukuk built around diaspora remittances to boost liquidity, share risk and bolster capital markets. If these strategies are combined with consolidation of banks and Islamic fintech sandboxes, then there is every chance that 2021 could begin to claw back 2020's losses.

Conclusion

Of course, none of the aforementioned would be possible or effective without a policy shift. For the Islamic finance industry to reach its full potential in the CEMAC region, it will be imperative that legal statutes, policies and Shariah compliance dovetail efficiently to ensure a robust inclusion of Islamic finance at all levels of the banking and finance sectors. Ovamba recommends a two-tiered approach that incorporates simple messages to customers and a policy response to sandbox results will be most effective.

The CEMAC region should work on shaping the perception and expectation that Islamic finance has a meaningful application to businesses at the lower end of the pyramid where GDP growth begins. The approach should include demonstrable evidence of businesses that have grown and benefited from Islamic finance along with data from trade and capital-tracing from the informal sector. Realistically, this is a beginning. It will be 2022 and beyond before we see traction and positive change.

China needs Islamic finance for Belt and Road Initiative

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China is an important driver of the global economy, and the large-scale surplus liquidity of the Islamic financial system can play a role in the Chinese economy. To fully utilize the effectiveness of this liquidity depends on whether both the Islamic world and China can have a deeper understanding of Islamic finance. China has put forward two important strategies and initiatives: the establishment of the Asian Infrastructure Investment Bank (AIIB) and the Belt and Road Initiative (BRI). These allow financial institutions and companies to plan investments in a large number of infrastructure projects in emerging markets. This is a great opportunity for the Islamic financial community to obtain high-quality assets.

Review of 2020

After the dragon nation's economy was adversely affected by the COVID-19 pandemic in the first quarter (Q1) of 2020 with a contraction of the GDP by 6.8%, the Chinese government did tremendous work in combating the pandemic and achieved a successful recovery of the nation's economic performance as well as safety and stability for the daily lives of its people. At the time of writing this report, according to a survey by Allalah Consulting, China has already restored its economy and accomplished a 5.8% GDP growth in Q3 2020, and it is anticipated that China will produce an annual GDP growth of 2.2% for 2020. Nevertheless, not much progress has been made by China in terms of Islamic finance and the Halal industry during the year.

Preview of 2021

Islamic assets are mainly concentrated in places where Muslims gather in the Middle East, North Africa, Southeast Asia and South Asia. With the Muslim immigration wave, it is expected that in 2021, as the pandemic goes away, many non-Muslim regions such as the UK, Luxembourg, Singapore and Canada will be actively developing Islamic finance.

The Middle East is one of the important regions involved in China's BRI. There are many Islamic countries along the BRI. Hence, the development of Islamic finance in this region is important. Specifically, there are plenty of opportunities for Islamic finance in this region in the coming years.

Many countries strongly support the development of Islamic finance and many along the BRI have adopted Islamic finance as part of their national strategy for development. Among them, Malaysia, Bahrain, Saudi Arabia and Dubai have developed rapidly. In addition, some well-known international institutions have also started Islamic financial services, while Islamic financial services with good liquidity have been formed in some regions and cities. On this basis, under the leadership of China, strengthening cooperation between the AIIB, the Silk Road Fund and local financial institutions will allow Islamic finance to play a huge role.

In 2021, the role of financial communication will be strengthened. The most important thing for investment in countries along the BRI is infrastructure construction. At present, it is difficult to sustain

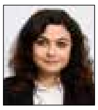
trillions of dollars in demand by relying solely on traditional bank financing or public–private partnership projects. Consequently, investment must go through international markets including Islamic finance, which gradually guides the entry of financial institutions and private capital. In addition, given that the region is dominated by Muslims, the development of Islamic finance can gain support from the local people. As a result, the support of the people and funds will effectively guarantee a smooth progress for the BRI. There is a huge demand for the development of Islamic finance, which is an important step in the internationalization of China's financial industry.

In addition to the aforementioned, starting from the first year of the second decade of this century, China's further development of Islamic finance, in terms of Islamic finance legislation by Beijing, a Sukuk listing platform by Shanghai and Shenzhen, a Halal industry by Xinjiang and Ningxia, and most importantly, Islamic finance education across the nation's cities, would definitely enable Islamic finance to flourish in the world's second economic superpower.

Conclusion

Looking ahead, the promotion of the BRI aids in China's financial penetration and innovation. Most of the Islamic countries along the BRI are developing countries, with a lack of financial products and insufficient financial innovation. However, with the advancement of global economic and financial integration, financial controls are gradually being abolished, and financial supervision will pay more attention to prudence and openness. And transparency is the best embodiment of the development and innovation of Islamic finance. From 2021 onward, being the leading Islamic finance advisory firm in the Greater China region with ample governmental, practitioner, academic and investor network resources, Allalah Consulting will help China's financial market strengthen cooperation with Islamic nations in the BRI framework, which will be of great help to China's financial penetration and innovation in the Middle East, thereby effectively accomplishing the ultimate objective of the BRI which is the well-being of both China and Islamic nations along the route.

Djibouti: Islamic investment center for East African region



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Identified as the financial hub of East Africa, Djibouti is a strategic country located in the Horn of Africa and close to the Middle East. The constitution of Djibouti declares Islam to be the state religion and its official languages are Arabic and French.

Djibouti has little natural resources and a limited industry; its economy depends on foreign direct investments and port services. The country's strategic location at the southern entrance of the Red Sea and close to the Ethiopian market has allowed Djibouti to develop its banking activity and encouraged it to pursue Islamic finance.

Review of 2020

Djibouti's national strategy is to enable infrastructure improvement and economic diversification in order to become an emerging country by 2035.

Like the rest of the world in 2020, Djibouti's economy was affected by the COVID-19 pandemic. It is, however, expected to recover once the sanitary crisis subsides.

Since 2011, Djibouti had started to adjust its legal framework to allow the establishment of Islamic banks (law dated the 22nd January 2011) and introduce the Islamic insurance instrument of Takaful (law dated the 9th June 2012). The government established, by the Order of the 30th October 2016, a National Shariah Council to oversee the sector.

However, there have been few legislative developments in Islamic finance in 2020 and some challenges remain for 2021, particularly pursuant to the pandemic.

Preview of 2021

In the context of a pandemic-stricken global economy, Djibouti should consider addressing the issues pending in its Islamic banking market and the framework surrounding Sukuk issuance as detailed in the following.

To date, four banks in Djibouti (Dahabshil Bank International, Saba Islamic Bank, Salaam African Bank and Shoura Bank) are Islamic and hold between 15% and 20% of the local financial market.

The Islamic banking sector had previously been on track for strong growth in 2020, but COVID-19 is having an impact. Relative to conventional institutions, Islamic banks are more exposed to SMEs, microfinance and retail lending. The performance of such banks is likely to remain subdued in the coming months.

These specific issues add up to the need for further harmonization in Islamic finance practices to ensure the stability of the sector. Furthermore, Islamic banks in Djibouti mostly offer Musharakah (partnership) and Murabahah (sale with markup) as financial products. To realize their complete potential, the banks should also offer other products such as Salam (sale of fungible goods) and Ijarah (leasing).

The Sukuk market is more concentrated and less liquid than its conventional counterpart. The process for issuance is costlier and more complex. As such, it is expected in the context of COVID-19 that the overall volume of issuance will be muted this year. Nevertheless, there have been signs that the pandemic could prompt an expansion in the role of Sukuk with respect to promoting sustainability and social Sukuk.

In order to benefit from this increased awareness of the potential of Sukuk issuance in exploring new sectors such as health and environmental sustainability, Djibouti must bring improvements to its national Sukuk issuance framework.

Investors will consider several domestic law issues, among which, specifically regarding Sukuk, is the nature of the underlying assets, as the transferability of title would require, among others, formalities necessary for the transfer of title to be effective under Djiboutian law, such as registration by the local authorities and the payment of any related fees.

Djibouti will also have to ensure that its tax regime does not penalize Sukuk issuances (notably due to taxes, rights or stamp duties applicable to the transfer to the SPV of the assets underlying the Sukuk) in comparison with conventional bond issuances.

Finally, the Sukuk structure should comply with Djiboutian civil law, in particular when usufruct (right 'in rem' to use and derive profit or benefit from property belonging to another) is used as the asset underpinning an Ijarah-based Sukuk.

Similar to the French Civil Code, Djiboutian civil law provides that a usufruct which is not granted to individuals may only last for 30 years. The Sukuk documentation will therefore have to comply with, and reflect, the said requirement.

In practical terms, there has been no Sukuk issuance in Djibouti to date. The country does not have access to international or regional capital markets and has no market for domestic government debt (treasury bills and bonds). It is crucial for Djibouti, through the central bank or a stock regulator to be created, to develop a domestic Sukuk market.

More globally, putting in place a framework which facilitates trading, price transparency, a diversified investor base and efficient clearing and settlement of Islamic finance transactions would help Djibouti overcome certain challenges.

Conclusion

Djibouti, due to its culture, geographic location as the connection between Africa and the Middle East and its heavy investment in infrastructure, is a perfect country to centralize Islamic investments in the East African region. The country's pursuit of Islamic finance has so far been remarkable, despite a difficult economic context with the COVID-19 pandemic. It should complete its path by putting in place a set of rules to promote Islamic financial solutions through banking products and Sukuk issuance.

Egyptian Sukuk industry leaps forward

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2020 has been a landmark year for the Sukuk industry in Egypt and for the Islamic finance market. Last year, although the legislative framework had finally been codified and the Financial Regulatory Authority (FRA) was given full powers to grant Sukuk issuance licenses, neither the private nor the public sector had shown any enthusiasm for the Shariah compliant financing method. The legitimacy of Islamic finance, as compared with traditional finance, was a significant barrier that the market needed to confront before unlocking the niche industry's economic potential.

This year, Egypt experienced its first corporate Sukuk issuance in 2020, and there are at least two more in the pipeline. The prime minister expanded the scope of possible Sukuk structures to encourage foreign investment. During 2021, the Egyptian government will take the next steps to grow the Islamic finance industry and establish the country as an African Islamic finance hub.

Review of 2020

Despite the effect of the COVID-19 pandemic on the global economy, Egypt is poised to see a growth rate of 3% by the end of the year. The real estate sector is one of the country's most active investment pools. Talaat Mostafa Group (TMG), Egypt's largest real estate conglomerate, took a courageous step and initiated the first Sukuk issuance, valued at EGP2 billion (US$127.81 million) to contribute toward funding the EGP8.5 billion (US$543.19 million) Open Air Mall in Madinaty.

The originator was a TMG subsidiary, the Arab Company for Projects and Urban Development, while the issuer was EFG Hermes, one of two companies which obtained an FRA license for issuing Sukuk. The Ijarah-structured Sukuk facility was approved by the FRA in April and the maturity date is in 2024, 57 months from the date of issuance. Both the Sukuk and the issuer were given 'A+' ratings with a stable outlook by MERIS.

Similarly, Amer Group, another real estate company, is also planning its own Sukuk issuance to finance the development of a project in New Minya City in Upper Egypt. While the value of the offering was initially estimated to be EGP2 billion (US$127.81 million), like the TMG issuance, Amer Group has not formally announced the value of its Sukuk because of the downward market trend in the light of a potential second COVID-19 wave.

Sarwa Capital is also expected to launch its EGP2.5 billion (US$159.76 million) issuance with a seven-year tenor.

While CIAF Leasing had announced last year that it planned to issue EGP50 million (US$3.2 million) in Sukuk to finance the purchase of new aircraft to be leased to tourist companies for charter flights, the company recently confirmed that it will cancel the issuance and instead pursue other means of financing. The company's decision emphasizes that the Islamic finance industry in Egypt is not yet strong enough as an independent sector and that its relative viability is still dependent on the creditworthiness of the obligors and the resilience of the industry toward which funds are being directed.

From the legislative angle, the Executive Regulations of the Capital Markets Law have been amended via a ministerial decree to include

agricultural Sukuk, irrigation Sukuk, forward sale Sukuk, project financing Sukuk and investment agency Sukuk. Previously, only four Sukuk structures were permissible in Egypt: Ijarah, Mudarabah, Musharakah and Murabahah.

Preview of 2021

Egypt's Ministry of Finance has been promising a sovereign Sukuk issuance since 2018. The government is currently in the midst of an infrastructural push to fundamentally transform Egypt in a way that has not been seen since the reign of Khedive Ismail. Once the seat of Egypt's government moves from Cairo to the new administrative capital, the futuristic supercity will host up to seven million residents who will be connected with the old capital, the suburbs of New Cairo and the 6th of October, and a scattering of satellite cities via a network of highways, bridges and a monorail.

It is a reasonable prediction that the government will issue Sukuk to help fund infrastructure projects, and that the tenor of such an issuance will be from five to seven years. Although the value of the issuance has not yet been confirmed, it would be a signal of strength and confidence in Shariah compliant financing if the value of the sovereign issuance exceeded that of this year's TMG issuance. At this stage, the Ministry of Finance is still gauging market interest and quietly consulting with investors to determine the likely subscription rate and adjusting the draft prospectus to ensure at least 100% subscription if not oversubscription.

From a legislative standpoint, Egypt would be able to attract more foreign direct investment if new regulations were drafted allowing foreign issuers to operate in Egypt without establishing an Egyptian company as the SPV.

Conclusion

The overall economic decline in the international bond market only seems to have partially affected Islamic finance in Egypt. By the end of 2020, the FRA will have authorized the issuance of a combined EGP6.5 billion (US$415.38 million) in Sukuk. 2021's sovereign Sukuk issuances will further raise the profile of Shariah compliant financing in Egypt.

Despite political noise, groundwork in the making for the long run in France

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2020 has been a challenging time for Islamic finance in France. The sector had to face the COVID-19 crisis at the beginning of the year, and more recently, had to bear the government's thesis of anti-separatism, meaning no business for Muslim individuals as customers per se. Yet, two main market segments remain active in the French market: home finance and life/death insurance.

Review of 2020

There is no correlation thus far between the growing French Muslim population, putting more graduates and potential savers on the job market and the rise of the Islamic finance sector in France, especially when compared to the UK — three million Muslims in the UK vs. six million in France — yet there are many more providers, banks, funds, asset managers in the UK compared to the handful of players in France.

Up to 80% of French Muslims have declared that they prefer eating Halal food and they participate in Friday prayers in mosques (source: IFOP). The level drops to 57% when it comes to expressing 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 a mere 10,000 retail clients who benefited from Islamic finance products overall in France, which is a huge gap from 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 European countries but to a North African country to better grasp what is at stake and what type of timeline we should have in mind.

Home finance in France (comparison with Morocco)

There are eight participative banks that operate in Morocco, all of them offering home mortgages through a network of around 150 retail agencies with north of 80,000 client accounts. In France, it is mainly Chaabi Bank with its network of 18 agencies that directly offer an account and a home finance solution, along with the fintech platform, 570easi and its four branches (including the overseas territory in Réunion Island). Since 2014, around EUR250 million (US$296.14 million)-worth of mortgages have been distributed to circa 1,500 families, compared to the EUR500 million (US$592.28 million) originated by Moroccan banks in less than three years — a volume twice as large in half the time.

It is quite easy to understand if we relate the success of such markets to the strength of their distribution network and diversity. There are 6.5 times more Islamic branches in Morocco than in France, and also the fact that a whole ecosystem is in place throughout Morocco, with full banks participating in the evolution of regulation in cooperation with the central bank. The gap is actually not that great if you factor in the size of the market on the demand side and on the supply side: it should have been by a factor greater than 10!

Markets tend to follow simple rules: the demand and supply law, and the deeper the network, the more virtuous the cycle goes.

The UK actually crossed the one billion Islamic mortgage size a long time ago, from the feats of one large player, HSBC Amanah, which exited the market a couple of years ago, leaving the local market open for the only fully-fledged Islamic retail bank, Al Rayan UK, whose mortgage book is half the size of HSBC's and with its Tolkien RMBS Sukuk issued in 2017 raising GBP250 million (US$330.89 million).

Preview of 2021

Mortgages in the form of a true sale Murabahah are provided on average with a 30% downpayment taken from clients' savings accounts (circa EUR80 million (US$94.76 million)).

In addition, more than EUR10 million (US$11.85 million) has been collected by the only sustainable and responsible investment Shariah compliant property fund available in the market, managed by Norma Capital and distributed by 570easi and its network (agencies, franchises and intermediaries).

Despite the relative growth of the retail mortgage and savings segment, Takaful companies have been quiet and most of the local initiatives have faced some development issues (ie Swiss Life). Fortunately, some start-ups are taking the lead in promoting new life/death Takaful:

- Death coverage by SAAFI and MUTAC, and
- A life insurance product based on a robo-advisory smart allocation by Conexcap (see **IFN Volume 17 Issue 35**)

Another major area for development is pensions, especially in the context of the PACTE Law, a French bill that creates a state-of-the-art unified regime for savings plans, including private pensions discussed in a previous IFN article.

Conclusion

A good test for the French market is the capacity of decision-makers to work in cooperation with start-ups. Interesting alternatives are emerging in the payment and neo-bank space, and in the insurance industry as well. And whether the mortgage or savings segment will get the scaling effect is still to be observed.

Islamic fintech to play key role in German market

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While Islamic financial products available in Germany are still relatively limited, Islamic finance has the potential for growth in the German market. Shariah compliant products are not only appealing to the Muslim community in Germany (4–4.5 million people as of October 2020) and foreign investors from Muslim countries, but also to non-Muslim investors who believe that investments should adhere to certain moral standards (in addition to legal compliance).

Germany offers an open market as well as the proper legal framework for the development of Islamic finance. German law sets its own requirements that need to be complied with when offering Islamic financial products in the German market. Even though Islamic finance products are in principle compliant with German law, a review of common Islamic finance products is a strict requirement in order to align compliance with the principles of both frameworks.

Consequently, when Shariah boards assess the compliance of financial products with Shariah principles, they are required to align their assessments with the relevant provisions of the German Civil Code (Burgerliches Gesetzbuch), Commercial Code (Handelsgesetzbuch), Banking Act (Kreditwesengesetz), Act on Limited Liability Companies (Gesetz betreffend die Gesellschaften mit beschränkter Haftung) and Act on Stock Corporations (Aktiengesetz), in addition to certain European directives that are relevant and applicable. For instance, Murabahah is a financial structure enabling asset purchase with delayed payment, which would entail two purchase agreements; consequently, these agreements should comply with the relevant provisions of the German Civil Code covering sale and purchase, as well as transfer of ownership.

Review of 2020

The current development of Islamic finance in Germany is evident in several sectors. In the banking sector, there are currently two Islamic banks operating in Germany:

(i) KT Bank — operating with a banking license since 2015, it is the first Islamic bank in Germany, and a subsidiary of Kuveyt Turk Bank, which belongs to the Kuwait Finance Bank Group. In 2012, KT Bank applied to the financial authority for a banking license, and received approval from the Federal Financial Supervisory Authority three years later. KT Bank holds an Islamic banking license, offers online banking services as well as a mobile app, and is represented today in Frankfurt, Berlin, Mannheim, Cologne and Munich. KT Bank offers participatory accounts that involve investing in Shariah compliant products; these accounts are based on the principles of Murabahah. KT Bank also offers inter alia Islamic deposits, credit business products and services, payment transactions for retail and corporate clients, investment opportunities based on profit-sharing and participation schemes, real estate financing and investor loans.

(ii) Insha — launched in 2017, it is the second Islamic bank after KT Bank and the first digital Islamic (fintech) bank in Germany. Launched by Al Baraka Turk, a subsidiary of the Bahrain-based Al Baraka Group, Insha offers Shariah compliant banking services. In addition to Al Baraka Turk, German fintech start-up solarisBank cooperates with Insha and supports its technology. In April 2020, the number of users for Insha's digital Islamic

banking services grew to 31,500, delivering a transaction volume of EUR29 million (US$34.43 million). Moreover, aiming to offer all classical banking products via smartphones, Insha has reportedly been developing a new app which allows customers to transfer funds to over 80 countries.

Furthermore, in the banking sector, there are other institutions that, inter alia, offer Islamic banking services. One of them is Zinsfrei, which provides Shariah compliant Islamic banking products.
Islamic fintech

Financial institutions worldwide have developed to not only provide Shariah compliant services, but also to technologize the Islamic finance industry. In Germany, Islamic fintech is not yet fully developed, as very few Islamic fintech companies have emerged in the German market so far. Nonetheless, with its strong economy and technological industry, Germany is likely to be a potential center for the development of Islamic fintech in Europe.

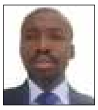
Preview of 2021

The potential for development and growth in Germany in my view lies in Islamic fintech. Islamic fintech is a fast-developing area globally, and Islamic fintech start-ups have emerged in Germany. The global reach of Islamic fintech and its flexibility in terms of structure and range will play an important role in such development in Europe and Germany. Islamic fintech will therefore help broaden the offering of Islamic finance products to a wider range of customers in Germany and Europe. Such will not necessarily be German Islamic fintech companies, but European ones as well. A good example is Yielders, a UK Islamic crowdfunding platform, which is expanding its operations in Europe and reportedly has been looking at Germany.

Conclusion

Financial and fintech products that are both Shariah and German law compliant will likely improve and innovate the investment sector in Germany. Germany is still a small market for Islamic finance, but is slowly improving and developing. Islamic fintech will play an important role in the future development of the German market and might provide a broad range of interesting products in Germany in the near future.

The push for Islamic finance development in Ghana



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Ghana is the second-biggest economy in West Africa, with a GDP of US$68 billion as of 2019. The economy continued to expand in 2019 as at the first-quarter GDP growth was estimated at 6.7%. The relatively high quarterly growth was driven by a strong recovery in the services sector, which grew by 7.2% compared with 1.2% in 2018 (World Bank, 2020). The 23 banks in the country have seen private sector credit grow stronger, mainly supported by the well-capitalized banking sector. Inflation continued to be in single digits in the first six months of 2019; gradually rising from 9% in January to 10.4% in October 2020 as a result of COVID-19.

The Islamic finance industry in Ghana is at the nascent stages with no presence of any Islamic banking. Over the years, advocacy and engagement with policymakers have seen the Banks and Specialized Deposit-Taking Institutions Act 2016 amended to include non-interest banking in Ghana. Based on this, Makkah Bank, a Saudi-based financial institution, was granted a provisional Islamic banking license in May 2015. The bank could not start as a result of a failure to meet other key requirements of the license due to a breakdown in negotiations between the partners according to a reliable source.

In terms of regulation, Ghana has never adopted any particular regulation to accommodate Shariah compliant banks or insurance. It is essential to mention that regulatory frameworks have been tabled twice before two different governments under the presidencies of John Kufuor and John Atta Mills.

Review of 2020

The absence of regulation has put potential Islamic finance sector investors in Ghana at a disadvantage when it comes to taxation. There is a potential double taxation in the case of Murabahah (sale plus markup), where the same asset is taxed at both the first and second sales. To address this, the tax authorities should consider, in the case of Murabahah, the first purchase price in the arrangement to be subjected to all relevant taxes, whereas the second sale price is exempted from value-added tax, stamp duty and capital gains tax. In the case of Ijarah (lease), the law should allow that when a customer acquires a house at the end of a lease period for a nominal value, the agreement executed between the financial institution and the customer is exempt from stamp duty and capital gains tax.

The Islamic Finance Research Institute in Ghana has emerged since 2019 with the main aim of carrying out Islamic finance research, training, technical assistance and the development of Islamic finance in Ghana. Salam Capital provides Islamic microfinance to its customers. Also, 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. Despite the entrepreneurial efforts in these initiatives, the issue of Shariah compliance remains a challenge as independent Islamic finance experts' certification of these products remains unknown.

A significant development in the Islamic finance industry in Ghana is the listing of NewGold Issuer on the Ghana Stock Exchange. This is an investment holding company managing the NewGold Exchange Traded Fund, which is a Shariah compliant exchange-traded fund launched by ABSA Capital. The fund allows institutional and retail investors the opportunity to invest in commodity markets and gold bullion.

Preview of 2021

As West Africa's top foreign direct investment (FDI) recipient, Ghana received more than a third of the region's inflows in 2018, reflecting the country's emerging skill base. With the African Continental Free Trade Agreement (AfCFTA) scheduled to start in January 2021, and with Ghana hosting the headquarters, Ghana's industry will absorb increasing raw materials from the region, scale up manufacturing and trade in processed and light manufactured products (African Development Bank, 2020).

In 2021, we are likely to see more proactive actions from the Bank of Ghana and the Ministry of Finance especially when the current government is reelected as they try to consolidate the financial service ecosystem in Ghana with recognition for Islamic finance's role in diversifying the financial service landscape and enhancing financial inclusion. Also, the hosting of the headquarters of the AfCFTA will see Ghana attract more FDI, including from Islamic banks, from 2021.

The implementation of the COVID-19 Alleviation And Revitalisation of Enterprises Support program by the government of Ghana regarding COVID-19 recovery "will require around GHS100 billion (US$17.08 billion) of spending and investment inflows to fully fund the initiatives". Given the severe fiscal strains, the government expects at least GHS70 billion (US$11.96 billion) to come from the private sector (Supplementary Budget of Government of Ghana, 2020)

The entry of ABSA Bank into Ghana with the acquisition of Barclays Bank Ghana will likely see the bank take an interest in establishing an Islamic banking window as it operates an Islamic banking window in South Africa.

Dar al Istithmaar is also preparing to launch its Islamic fund product called the Agric Fund, that seeks to issue a certificate to potential investors who may want to invest in commercial farming.

In the future, the evolution of the Islamic finance industry will see more attention on Shariah advisory services. This will be driven by the increasing number of Islamic finance experts emerging in Ghana as more Ghanaians travel to Qatar, Malaysia, Turkey and Saudi Arabia to study Islamic finance and then returning to 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 FDI into the country to drive Ghana beyond an aid policy and also 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 smooth operations of Islamic finance in Ghana.

Hong Kong diversifies Islamic finance prospects post-social and pandemic crises

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After the unprecedented local social unrest in the second half of 2019, Hong Kong was further adversely impacted by the global COVID-19 pandemic, such that micro and macroeconomic performances of the world's second-freest economy reached a historical low. In such extraordinary circumstances, Islamic finance development has been impeded to a slower pace amid this critical moment when compared with previous years. Fortunately, the 'Pearl of the Orient' has gradually resumed its economy after the enforcement of the National Security Law (NSL) and adopted effective public health measures to keep the pandemic at a controlled level, which collectively benefit the daily lives of the 300,000-strong local Muslim community in terms of safety, employment and business, which in turn will provide some further momentum for the development of the Islamic finance and Halal industry in Hong Kong.

Review of 2020

Despite the social and public health downsides, the existing sovereign Sukuk have been performing well so far and the Hang Seng Islamic China Index Fund has also been playing a persistent role and achieved an annualized return of 24.89% in 2020 — both of these indicating the healthy status of Islamic finance development in Hong Kong's financial market amid the crises.

The Halal industry, the highly correlated sector with Islamic finance, also showed the good work of The Incorporated Trustees of the Islamic Community Fund of Hong Kong (BOT) in terms of 122 Halal certificates issued to food factories, restaurants and catering kitchens in China, Hong Kong and Macau.

Allalah Consulting has been working closely together with local and overseas regulators, financial institutions, religious bodies, academics and other stakeholders, particularly in Sukuk, Islamic fintech and Islamic finance education, with a view of boosting awareness, innovations, inclusion and applications for the well-being of Muslim and non-Muslim audiences eager to embrace Islamic finance in Hong Kong.

Preview of 2021

Sukuk are always regarded as the most rapidly growing sector of Islamic finance and Hong Kong has fertile soil to make it flourish. As the economy gradually recovers and the pandemic is getting more controlled or going away, and from the tremendous performance of the previous three successfully launched sovereign Sukuk totaling US$3 billion in recent years, the fourth sovereign Sukuk issuance by the Hong Kong government as well as the inaugural corporate Sukuk issuance are very looking very likely to happen in 2021. The sovereign issuance is expected to be at least US$1 billion whereas the corporate issuance is anticipated to come from either Hong Kong blue-chip real estate property and telecommunication entities or overseas oil and pharmaceutical giants and with a value of not less than US$500 million.

With the successful operation of FWD Takaful — backed by Hong Kong business magnate Li Ka Shing — in Malaysia, the long wait by Hong Kong insurance market players for a Takaful product that can

be launched and offered to the Muslim population as well as non-Muslims who are interested in such Shariah compliant insurance products seems to be coming to an end. Unlike Sukuk, however, Hong Kong needs to expedite the enactment of Takaful legislation to make this promising business happen for the insured.

Halal certification coverage will be extended in the coming years as local Muslim consumers are more eager than ever to look for a bigger variety of locally made and imported food products and cosmetics while non-Muslim consumers now have a higher awareness of the merits of Halal product consumption in their daily lives. When the pandemic goes away and travel restrictions are relaxed, Halal tourism will be a catalyst to the economic recovery of Hong Kong, where more Halal-certified hotel and restaurant services will be in demand from both local and foreign customers. BOT is endeavoring to keep up its good work in this regard.

The Hong Kong Centre for Islamic Finance (HKCIF), under the management of Allalah Consulting, is continuing with its efforts to promote and offer Islamic finance education with strategic partnerships with worldwide renowned academic institutions. Being AAOIFI's educational partner, the HKCIF endeavors to make the relevant professional exams available in Hong Kong in 2021.

Conclusion

Hong Kong is a unique super-connector between China and the Islamic world under the Belt and Road Initiative, equipped with one of the world's most advanced financial systems as well as a solid legal system, professional talent pool, proven track record of successful Sukuk issuance, government's full support in fintech development and a significant Muslim population, among others, and as such, Hong Kong has a sound foundation and potential, especially in the new era of NSL enforcement and economic recovery post-COVID-19, to be able to accomplish some remarkable milestones in Islamic finance development in the next few years in various areas including Islamic banking, Sukuk, Takaful, Islamic fintech as well as Halal finance.

What's next for Islamic financial institutions in India

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Islamic financial institutions have emerged due to the non-Shariah compliant nature of conventional financial institutions that entails interest, uncertainty, gambling and activities prohibited from the Islamic perspective. One of the most essential aims of Islamic financial institutions is to provide fairness to their clients. The Islamic finance industry is growing at a rapid rate. Its products and services are offered globally. The ultimate vision of the emergence of the Islamic finance industry is to avoid the prohibited practices of conventional financial institutions.

The mission of these institutions is to ensure that their business activities are free from unfair and unjust elements for the betterment of all involved parties regardless of religion. However, this sector is at an incipient stage in India. The regulators, politicians, corporate sector and media should stand up now and bring awareness to the Indian masses about Islamic finance for the betterment of the country and its economy, otherwise financial inclusion will be just a dream.

Review of 2020

Tata Asset Management (TAM) has been providing investment management services to the Tata Mutual Fund across the entire risk–return continuum. These include ethical equity funds, balanced funds and debt and money market-oriented funds. In April 2020, TAM took a significant step up the ladder and formally joined the Dubai International Financial Centre, the leading international financial hub in the Middle East, Africa and South Asia region. The group derives its solidity and energy from its intellectual capital and its strong risk management framework based on in-built controls and balances.

Table 1: Monthly average value of Taurus's assets under management (January 2020 to September 2020)

Month	(Monthly average AuM) (crore)	Month-end AuM (crore)
January	39.85	40.03
February	40.62	39.16
March	34.72	32.23
April	34.2	36.72
May	35.91	37.08
June	38.17	38.53
July	40.01	41.65
August	43.24	42.25
September	43.02	43.66

Source: Taurus monthly factsheets

The TAM theory is concentrated on seeking consistent, long-term results. TAM aims at overall excellence, within the framework of transparent and rigorous risk controls. TAM's success is secured in a value-based method to the business that aims to ensure the financial future of its investors and deliver to them excellent quality of life, through performance, assistance and assurance.

In May 2020, Dr Tausif Malik, an American–Indian social entrepreneur took the ineluctable initiative and launched the world's first-ever Halal Angel Investors Network to promote innovation, Halal entrepreneurship and start-ups to tap into the US$5 trillion Halal consumer market which is expected to grow to US$9.71 trillion by 2025.

The Halal Angel Investors Network works in the same format as the traditional Angels Network, where it brings angel investors and start-ups together on one platform. But what makes this initiative unique is all projects undertaken will be Shariah compliant. For this purpose, the Halal Angels Network has tied up with Halal Board India & Halal Laboratories that will evaluate the Shariah compliance of projects and tap into the fast-growing Halal consumer market.

The 2019–20 financial year will go down in history as the year that saw the COVID-19 pandemic which led to complete global chaos. India and other countries across the globe imposed lockdowns from March 2020 onwards due to the large-scale spread of the pandemic. The latter half of the financial year continued to be as dramatic with the bushfires of Australia, the US–Iran near-war situation, the UK leaving the EU, the Beirut explosion, earthquakes, cyclones and such. Subsequently, the Indian economy struggled with a slowdown in several sectors notably automobile. However, despite the slowdown, India's stock markets continued to retain hope by consistently remaining at elevated levels.

According to the Taurus monthly factsheets over a period of nine months (January 2020 to September 2020), the trend shows that the monthly average value of assets under management (AuM) increased over the nine months except in March, April and May. Although the AuM increased over the nine months, the scheme has not declared any dividend for the last nine months.

According to the fund manager: "The investment strategy is stock-specific through a bottom-up approach. Considering the volatility in the market, we have chosen to remain well-diversified across sectors. The portfolio strategy is to protect the capital in volatile markets. The portfolio has high exposure towards IT, cement and infrastructure sectors."

Taqwa Credit Co-operative Society, also known as Taqwa Banking, emerged in 2015 as an effective tool for Islamic banking and finance with selected investment portfolios operating in the Karnataka state of India. The model is the first of its kind in India, and provides Riba-free financial services by offering reasonable returns on customer deposits and investments through various financing schemes covered by risk management.

According to its chief executive, no dividend was declared for the current financial year. This was due to the conservation of profits and continued investment in the business for the current financial year to optimize losses incurred by the company. The company recorded a loss of INR1.26 million (US$16,978.8) in the financial year ended the 31st March 2019. During the year, net revenue from operations of the company decreased by 28% from INR140 million (US$1.89 million) to INR100 million (US$1.35 million) due to deposits withdrawn which people had invested in many Ponzi companies.

Preview of 2021

A country is dependent on the human capital of extraordinary superiority to become a developed nation and maintain that status. This makes human capital the most valuable asset in an organization, a few notches more than other capital or equipment. It is for sure that human capital will increase in India. Many Indians will be completing their studies in Islamic finance from different universities across the globe. Among the biggest challenges to introduce Islamic finance is human capital in Islamic finance. It is hoped that in 2021, this obstacle will be reduced.

Furthermore, Shariah mutual funds are improving slowly. Still, there are many things to look into to improve Shariah mutual funds. Firstly, it is essential to increase the number of existing Shariah mutual funds. Secondly, financial education is needed to increase the people's awareness of the needs and benefits of Shariah mutual funds. And lastly, effectively marketing Shariah mutual fund schemes through continuous advertisements across different social media platforms will play a pivotal role in the success of Shariah mutual funds.

Another sector progressively booming specifically in the southern region of India is Islamic microfinance. Considered as a competent tool to encourage entrepreneurship, it helps the lower- to middle-class families engage in setting up SMEs. Islamic microfinance has an upper hand over its counterpart in maximizing its social services by tapping into the religious institutions of charity to fulfill the basic needs of the poor and acting as a safety net.

“To allow the Islamic microfinance system to contribute significantly and to revive the MSMEs, it is necessary to conduct in-depth research on the current status of the Muslim minority and the poor in India”

Islam gives utmost importance to helping the poor, the orphans and the destitute and therefore divides charity into two types: Zakat which is compulsory and Sadaqah, Waqf and benevolent loans which are voluntary. If Islamic microfinance is well established and regulated in India, the sector can become a powerful tool to draw financial resources from nonprofit-based and charitable organizations in the Middle East and other countries around the globe.

To allow the Islamic microfinance system to contribute significantly and to revive the MSMEs, it is necessary to conduct in-depth research on the current status of the Muslim minority and the poor in India.

Conclusion

No individual can deny that the Indian economy was already suffering from headwinds way before the pandemic arrived. India's GDP was on a descending trajectory even before the COVID-19 pandemic hit the country, mainly due to the demonetization exercise and the botched-up implementation of the goods and services tax that paralyzed the cash-dominated informal sector and small businesses. Besides, the pressure in India's financial sector, particularly among banks and non-bank financial companies, has also been rising before the COVID-19 pandemic.

Coupled with a philanthropic disaster and muted management response, the COVID-19 pandemic has mercilessly worsened existing vulnerabilities in the Indian economy. To cope, it is extremely important to introduce Islamic financial institutions in India. To some extent, these institutions will balance the Indian economy because many Muslims are not part of the conventional system due to prohibited elements. It is to be believed that if the government introduces Islamic finance, the majority of Muslims will participate in it. There is a high possibility of getting it approved if the bankers and corporate sector collectively request or apply for it.

Indonesian Islamic finance to focus on retail market

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The COVID-19 pandemic has changed the rules of the game in both business transactions and social activities in 2020. Restriction of activities, whether at the micro, country or global level, has changed the way people interact. Technology has become a very important thing in human life, both in social and business activities.

According to the World Bank's June 2020 report on global economic prospects, the pandemic is expected to plunge most countries into recession. The IMF in its World Economic Outlook report in October 2020 forecasted that global GDP will decline by 4.4%. Nevertheless, the effect is predicted to only be short-term; both the World Bank and IMF forecast the economy will bounce back in 2021.

Review of 2020

Indonesia's economy in 2020 is not as scary as predicted by many. It is true that negative growth has occurred in many sectors but with the incentives, subsidies and right policies by the government, the impact is not too worrying.

According to data from the Central Bureau of Statistics, Indonesia's GDP growth by the second quarter of 2020 (Q2 2020) was negative 5.32%, but the current year inflation rate in September 2020 was only 0.89%. The interest rate declined from 5% in 2019 to 3.8% in Q2 2020, while non-performing loans were still well controlled at 3.2%. Hence, Indonesia is one of the countries predicted to experience the least impact from the pandemic.

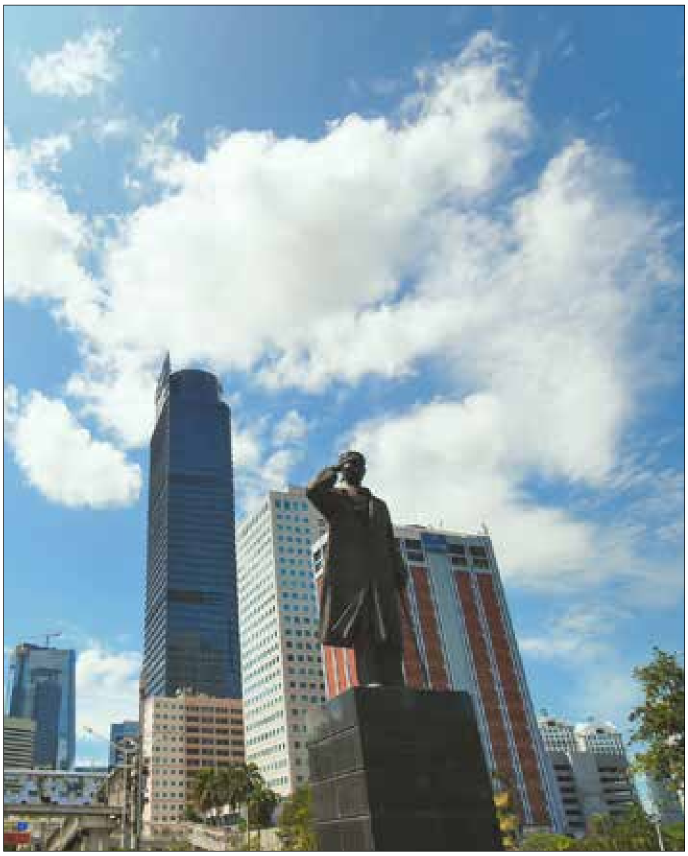
As of July 2020, despite the COVID-19 outbreak, the assets of the Islamic finance industry, excluding Islamic stock market capitalization, increased 10% compared with the previous year, from US$98 billion to US$108 billion. The asset value of the Islamic capital market was greater than Islamic banking with a market share of 61% of total Islamic finance assets. This increase was driven by the intensive issuance of government Sukuk during 2020. Apart from the regular issuance of Sukuk, the Indonesian government is still consistent in issuing green Sukuk, both sovereign and retail.

There were three retail Sukuk issuances in 2020, more than in previous years, all of which were oversubscribed by the youth. Other than that, the government of Indonesia issued a new retail Waqf Sukuk facility. There was an anomalous condition in the Indonesian Islamic stock market when the Islamic stock indices grew negatively, but the performance of transactions increased significantly, higher than the previous year.

Preview of 2021

The Roadmap of Indonesian Islamic Capital Market 2020–24 that was recently issued by the Financial Services Authority (OJK) will encourage the development of the Indonesian Islamic capital market to be more focused on the retail market, product innovation and financial technology without neglecting the compliance with Shariah principles.

Therefore, the Islamic capital market is still predicted to grow significantly in 2021 regardless of whether the pandemic has ended or not. The involvement of young people as Shariah investors will increase due to the easier way to conduct Islamic securities



transactions. Islamic financial literacy activities will be more intensive by using two channels simultaneously: online and offline. The public has become accustomed to online-based activities during the pandemic and this is a competitive advantage for conducting online literacy activities.

Other than that, the Indonesian Islamic banking industry will enter a new phase due to the government's decision to merge three state-owned Islamic banks. Several local government-owned banks are in the process of migrating from conventional to Islamic. The non-bank Islamic financial industry will further develop with the inauguration of the Indonesian Sharia Fintech Association by the OJK. The use of blockchain to reach financing for the micro and SME sector will increasingly become a reality because the regulator, along with the association, is conducting research on this matter.

Conclusion

With the hope that a vaccine for COVID-19 will soon be found and can be used for the public in 2021, this will certainly accelerate global economic growth. Referring to the IMF report in October 2020, it is predicted that the global economy will recover in 2021 with a projected GDP growth of 5.2%. Meanwhile, Indonesia is estimated to experience economic growth of 6.1% in 2021, higher than the global growth. This prediction will provide a positive impact to the growth of Indonesian Islamic finance.

As the fourth-most populous country in the world, Indonesia has a competitive advantage where 68% of the population consists of youths. Therefore, the development of Indonesian Islamic finance should focus on the retail market by increasing technology-based literacy and optimalization of Islamic fintech. Government support in the form of providing incentives, easiness for market players to innovate and legal certainty is important so that Indonesia will become the center of global Islamic finance in the near future.

Reforms in Iran's Shariah compliant financial system

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Shariah governance is a key concept in any Shariah compliant financial system. As a wholly Shariah compliant financial market, the banking sector and capital market are the two pillars of the country's financing system. The Shariah governance framework encompasses both the two aforementioned pillars, with the Shariah committee at the highest level of Shariah supervisory which is followed by other elements. Herewith, the Shariah committees of the two pillars have brought many Shariah-related concerns about the development of financial products. MAJID PIREH provides a brief description elaborating on the Iranian market changes in 2020 and what will probably happen in 2021.

Review of 2020

In a general snapshot in terms of Shariah-related aspects, 2020 was the year of reforms and developments. While the markets witnessed the introduction of new financial products in previous years, the market regulators in both segments (ie the Central Bank of the Islamic Republic of Iran and the Securities and Exchange Organization (SEO) of Iran) considered making the needed adjustments in the products as much as was necessary. During this year, certain Sukuk (such as Sukuk Manfa'at) and financing mechanisms (such as margin trading) were under the modification process. Moreover, the central bank introduced the Productive Credit Certificate as a Shariah compliant financing product in the banking system and the SEO developed Sukuk issuance and financing via Islamic treasury notes in the capital market.

As at the end of September 2020, the value of outstanding Sukuk plus Islamic treasury notes in the capital market reached to over IRR2,500 trillion (US$59.7 billion), a 60% increase in comparison with the corresponding figure at the end of the 21st March 2020 (ie the end of the Iranian year). As at the end of September 2020, the value of outstanding Sukuk issued by the government, municipalities and corporations has passed IRR1,830 trillion (US$43.5 billion). However, at the aforementioned date, the government was the issuer of over 82.5% of the financial products with the rest by corporations and municipalities.

In terms of financial institutions, 10 investment banks and five data processing companies were active in the market. Likewise, 30 portfolio managers and 244 funds were providing services to their clients following the regulations which the regulator had announced.

Preview of 2021

The market regulators have specific plans for both development and reforms in 2021. In the capital market, the SEO has announced its plans to attract investors' attention. At the same time, it has increased Shariah supervision by asking its Shariah committee's approval when issuing more types of Sukuk. Sukuk Manfa'at is a specific case in which the Shariah committee is deeply involved in the issuance process.

Additionally, in 2021 the capital market of Iran will focus more on finalizing sovereign Sukuk Wakalah issuance in order to develop government financing instruments. At the moment, Islamic treasury notes and Sukuk Murabahah are the two main government financing products. Besides Sukuk wWakalah, issuing white certificates in compliance with Shariah principles should be completed in 2021.

At the moment, unfortunately, there are no clear energy consumption reduction instruments in the financial markets and we hope newcomers can develop such vehicles. Facilitating sovereign Sukuk issuance in the market and making some adjustments to the Islamic treasury notes issuance process are other notable initiatives which the financial market will probably witness in 2021.

Conclusion

While 2020 was a year of many up-and-down trends in terms of the equities market indices, the market regulators initiated some plans to develop market financing instruments. The development of Sukuk Manfa'at, the introduction of white certificates in a Shariah compliant structure, reforms in the margin trading process and the development of Shariah compliant risk-hedging vehicles are some notable plans which the financial market will probably witness in 2021. The Iranian financial market had introduced many new Shariah compliant financial products in previous years, and now it is time to make reforms in the previously launched vehicles. While there is a long way to go to have a developed Shariah compliant financial market in Iran, but hopefully the future will be brighter in terms of the development of Shariah compliant products.

Ireland: Rise of sustainable finance to address climate change a unique opportunity for Islamic finance

Simon O'Neill *is a partner at Philip Lee. He can be contacted at soneill@philiplee.ie.*

The COVID-19 pandemic has crystallized the economic impact of climate change and its impact on biodiversity on a global scale, with its repercussions being felt across health systems and economies globally.

The WHO and IPCC Health Committee have predicted a century of pandemics. A frightening thought given the sudden death toll, health implications and economic disruption we have seen being caused by COVID-19, a pandemic caused by a pathogen jumping between species as a result of environmental degradation and climate change.

It is predicted that the pandemic will be among a series of climate shocks to occur across the world, including fires, floods, droughts, typhoons and other negative climate events, evidence of which we have already seen in the last 12 months with the wild fires in California and Australia, to mention a few.

The challenge now globally is to build resilience and sustainability in order to meet the Paris climate targets by reducing greenhouse gas emissions. From a financing perspective, it is estimated that nearly 50% of the risk exposures of euro area institutions are directly or indirectly linked to risks stemming from climate change, according to the European Commission Action Plan.

There is a growing realization of the necessity and opportunity for sustainable finance globally and in particular in the EU where the infrastructure to support the growth of a sustainable finance ecosystem is being implemented with urgency in terms of the EU taxonomy for sustainable finance, and other aspects of the EU Green Deal. Of course, the principles of sustainable finance and 'doing well while doing good' are not new to Islamic finance and this new world order presents opportunities for Islamic finance.

Review of 2020

2020 saw the full-scale impact of the pandemic hitting Europe, as the levels of infection rose across European countries and entire economies ground to a halt overnight like never before. It has led to extraordinary stimulus packages being developed across the EU to try to mitigate the impacts to economies. The EU Green Deal, a package of measures announced to support green finance and climate change, had to be revamped with a Resilience & Recovery/NextGeneration EU COVID-19 Recovery package worth up to EUR750 billion (US$876.75 billion) launched.

In Ireland, both Bank of Ireland and Allied Irish Banks (AIB), who are signatories to the UNEP Finance Initiative Principles for Responsible Banking launched in 2019, have developed comprehensive sustainable strategies and green bond frameworks, with AIB raising EUR1 billion (US$1.17 billion) in its first green bond issuance in September 2020.

In late 2019, the Euronext Green Bond offering was launched in Dublin as its center of excellence with Dublin continuing to be the leading jurisdiction of choice for the listing of green bonds in 2019 and 2020, and with over 85 green bonds listed since 2012. This, of

course, is not news to the Islamic finance industry as Dublin has long been a favored choice for listing Sukuk.

Preview of 2021

With the prospect of a crash-out Brexit now looking increasingly likely at the time of writing, Ireland as a location for finance in Europe remains a key alternative jurisdiction in the EU for companies and institutions to maintain their EU presence. Its strengths include being an English-speaking, common law jurisdiction, with an established and familiar legislative framework for corporates, a system of property registration and property rights.

The establishment of a joint implementation group to promote Ireland as a leading center globally for international legal services by the Law Society of Ireland and the Bar Council of Ireland reflects the opportunity and unique position Ireland will hold as the only English-speaking common law jurisdiction in the EU post-Brexit.

Conclusion

The continued rise and switch to sustainable finance is inevitable in order to address climate change which presents a unique opportunity for Islamic finance. The convergence of investment now directed toward green, ethical and sustainable investments plays to the strengths of Islamic finance and the Sukuk market with the potential for such products to be both green and Shariah compliant. Islamic financial institutions through their Shariah supervisory board structures and oversight have a unique competitive advantage in terms of the key components of green finance, the UN Principles for Responsible Banking and the EU taxonomy in terms of directing the use of funds, monitoring and reporting on compliance and impact and screening income flows and governance principles in terms of products and institutional governance and culture. These issues have always been a key focus for Islamic finance and are strengths which it can use in deploying investment in the green economy.

The future can indeed be bright for Islamic finance in Europe and globally by harnessing its strengths and available capital in combination with the EU taxonomy, which could be very potent in delivering sustainable investment that delivers real impact.

An alternative financing opportunity in Italy

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2020 has been a tough year for everybody and for the Italian economy in general. Never before in the history of the Italian Republic have we been faced with a health, social and economic crisis of such magnitude. As commonly known, a wholly unpredictable shock hit the Italian economy in February 2020, as COVID-19 began to spread nationwide. The economic forecasts are not good, but the Islamic finance field could offer good perspectives.

Review of 2020

With regards to Islamic finance, it must be said that in Italy, during 2020, economic players and public authorities have shown a growing interest in Islamic finance and also business operators have become more and more interested in the markets of the Muslim world, due to the fact that they are realizing the many opportunities that Islamic finance offers.

As a consequence, these players have increasingly requested innovative instruments for internationalization and are continuously trying to implement new strategies to access the Islamic finance field.

As an example, during October 2020, international financial services group Almalia, after the first launch in London, listed the world's first active global equity Shariah compliant exchange-traded fund (ETF) on the Italian stock exchange as well. The operational distribution and marketing support is provided by HanETF, a so-called white label platform that helps asset managers to bring new ETFs to the market, while an Islamic finance consultant oversees the investment screening process to make sure the ETFs remain consistent with Shariah principles. It is clear how this process has opened up a new avenue of growth in Europe's fast-expanding US$1.1 trillion ETF market.

Also, the promotion of Italy's mark of quality represents a unique opportunity for Italian companies and firms to expand their markets to the Muslim communities in the Mediterranean area and in the Middle East and to strengthen their business, so there is a deep interest on the accreditation process to get Halal certification from the Halal certification bodies based in Italy.

Preview of 2021

The consistent interest shown in the last few months will increase and the aim is to make finance practitioners more familiar with the process by which Islamic banks are introduced into a conventional system. An increasing number of commercial banks are considering the possibility of offering Islamic financial products and opening Islamic windows to reach a potentially new clientele, but the fact is that we are still waiting for a legislative road map that, by now, has remained in the drawer.

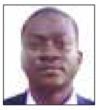
To achieve the implementation of one of the models that would authorize an Islamic bank to operate in Italy, it is necessary to provide an answer to some specific characteristics of an Islamic bank relating, for example, to the security of deposits, rather than to the requirement, that concerns all banks, to invest a part of the liquidity in "high-quality liquid assets".

Lastly, despite the efforts of AAOIFI and the IFSB to have uniform standards of interpretation of the Islamic law, lots of uncertainties still exist with regards to the issuance of Shariah compliant financial instruments, but the hope is to reach less uncertainty in the future.

Conclusion

Looking back on 2020, but even more looking forward to 2021, the certainty is that the presence of an Islamic bank in Italy would be an advantage for Italian enterprises, which would have the chance to access new and alternative financing opportunities in addition to the ordinary ones already offered by conventional finance, and for consumers, not only of Muslim faith, who appreciate the financial services of an ethical bank.

The Ivory Coast: Strengthening of regulatory framework for Islamic finance



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Islamic finance had bright prospects for 2020 in the Ivory Coast; however, a series of unfortunate events ended up completely suppressing any hint of growth. Hopefully, these obstacles can be quickly overcome to help the country move forward in 2021.

Review of 2020

The Ivory Coast in general had not expected such a drastic impact from COVID-19 on the economy. Islamic finance was obviously not spared from this disaster. The Central Bank of West African States (BCEAO) has taken a little more than 10 measures to mitigate the impact of the pandemic on the banking system and the financing of economic activity in the region in general and the Ivory Coast in particular. Islamic financial institutions are more vulnerable because they have to meet the obligations of these measures without enjoying the benefits.

In fact, in March 2020, faced with the severity of the COVID-19 health crisis, the central bank decided to increase the liquidity of the banks in the region including that of the Ivory Coast with support of XOF340 billion (US$603.5 million). This support could not benefit the Islamic finance system because the funds are based on an interest system.

These measures are accompanied by obligations such as the agreement to postpone repayment deadlines for companies affected by the pandemic and which are encountering difficulties in repaying the funds granted to them. Admittedly, this possibility is endorsed by Shariah for Islamic banks, but the refinancing window of the central bank is not Shariah compliant, so these Ivorian Islamic banks are finding themselves in a delicate situation.

It is important to note that in June 2020, the BCEAO launched the recruitment of a consultant responsible for the development of draft Shariah governance guides and standard contracts for products and services in line with Islamic finance.

Preview of 2021

For 2021, more interventions by Islamic banks are expected to be seen in the development of the local economy to curb the effects of COVID-19. The predictions of expansion and development of the Islamic financial system will either be annihilated or diminished given the new wave of infections raging in the west.

At the regulatory level, there is hope for the publication of a Shariah governance guide by the central bank to harmonize governance and contractual documentation in the Ivorian Islamic financial system.

Conclusion

Although much hope was placed on 2020, the pandemic crisis has imposed a status quo on Islamic banks and microfinance in the Ivory Coast. The central bank provided a number of responses to COVID-19 but these, unfortunately, did not take into account the specificities of the activity of Islamic finance. The future in 2021 is a little more worrying given the wave of infections in the west. However, a strengthening of the regulatory framework for Islamic finance by the BCEAO offers some hope for the future.

Sukuk as a feasible option for Japanese investors

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In 2020, investment into Islamic financial products by Japanese investors progressed to an actual implementation stage from the examination stage. New Sukuk investment by a Japanese investor was successfully completed earlier in 2020 by virtue of the precedent deal in 2019 that clarified the Japanese law/tax position on the treatment of Sukuk issued outside Japan. In other areas of Islamic finance, it is expected that the growing importance of environmental, social and governance (ESG) considerations for investment decisions would encourage the growth of Islamic finance in light of the ESG financing by financial institutions that include Japanese banks in the years to come.

Review of 2020

In April 2020, Japan's AEON Financial Service directly invested in Sukuk issued in Malaysia by its local subsidiary, AEON Credit Service. This was a significant step forward after the precedent transaction in 2019 whereby Japan's MUFG directly acquired Sukuk issued by Malaysian issuers. The 2019 transaction involved certain Sukuk Wakalah issued outside Japan. However, the legal and tax treatment of offshore Sukuk had not been clarified in Japan before the transaction. In Japan, the tax treatment of profits distributed to the holders of financial products is primarily determined by the legal characteristics of such financial products. As such, it was essential to identify the legal characteristics of such Sukuk and to ascertain the tax position of the Japanese investors before actual deals are implemented in practice. During the course of the aforementioned transaction in 2019, we worked closely with the relevant parties including Japanese tax and other authorities to examine the Japanese law/tax position of different types of offshore Sukuk under the relevant pieces of Japanese legislation.

As a result, the 2019 transaction paved the way for Japanese investors to acquire and hold Sukuk issued outside Japan. The new investment by AEON Financial Service in 2020 is living testimony that Japanese investors are looking to offshore Sukuk as one of their alternative investments to be included in their investment portfolio.

Another development we saw in 2020 was an expansion of the investor base for Islamic finance. A leasing company in Japan invested in a Shariah compliant lease transaction for a major hospital chain operator in Indonesia to install medical equipment to treat patients who contracted COVID-19. We assisted the investor with structuring the overall transaction by clarifying the implication of Indonesian Shariah law on the investment structure. It was the first Shariah compliant lease transaction in Indonesia for Japanese investors and we hope it will open the gateway for a wider scope of Japanese financial institutions, not just banks, to provide financing to their overseas clients in a way that will better meet their demands.

Preview of 2021

In Japan, the growing awareness of sustainability and decarbonization, as well as the quality of corporate governance, is enhancing the integration of ESG issues into investment behavior. This is represented by the recent expansion of the green bond market from JPY500 billion (US$4.79 billion) in 2018 to JPY800 billion (US$7.67 billion) in 2019. Legal frameworks for green bonds as well as other types of impact finance have been developed by a series of non-binding principles and guidelines following the publication of the Principles of Responsible

Institutional Investors (the Principles) by Japan's Financial Services Agency.

By August 2020, 286 institutional investors, including Japan's Government Pension Investment Fund, singed up to the Principles which are widely recognized and implemented in Japan. The most recent version of the Principles was published in March 2020, which recognizes "consideration of sustainability" as one of the core components of "stewardship responsibility" that institutional investors are encouraged to perform for their investment.

ESG finance is also supported by other guidelines such as the Guidelines for Green Bond and the Guidelines for Green Loan and Sustainability Linked Loan, both published by Japan's Ministry of Environment. These principles are largely based on the international guidelines such as the Green Bond Principles established by the International Capital Market Association or the Green Loan Principles established by the Loan Market Association.

These domestic guidelines in Japan are further developed by the Ministry of the Environment in its report titled 'General Idea for Impact Finance' published in July 2020 with a view to advancing ESG finance/investment as a part of the core business of Japanese financial institutions.

Against the backdrop of the foregoing, we have seen new efforts among Japanese financial institutions to embark on expanding their financial services to include Islamic sustainability-linked loans in the overseas jurisdictions. Islamic finance intrinsically involves social and ethical values and has operated to address these issues in various forms. As such, it is expected that ESG Islamic finance transactions will contribute to the further growth of the ESG finance market globally.

Conclusion

For Japanese investors, Sukuk investment has been tested and has become one of the feasible options in order to diversify their investment portfolio. ESG finance, which is intrinsically compatible with Islamic finance, is also expected to add momentum in expanding the variety of Islamic finance products provided by financial institutions including Japanese banks.

Cross-border Islamic financing in focus for Kazakhstan

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In 2009, Kazakhstan was the first county of the Commonwealth of Independent States (CIS) to introduce Islamic banking and Islamic securities. Still, however, little progress has been made in terms of the development of the Islamic finance industry, apparently because of inherent deficiencies in the Kazakh law which has civil law jurisdiction and does not recognize many international legal concepts. To address this issue, the Astana International Financial Centre (AIFC) was officially launched in 2018. The AIFC is modeled on the Dubai International Financial Centre and it has its own English law-based laws and regulations and even its own court and facility for arbitration (in effect, a 'one country, two systems' arrangement has been introduced despite the fact that Kazakhstan is a unitary state). One of the core pillars of the AIFC is Islamic finance, as the AIFC aims to become an Islamic finance hub not only for Kazakhstan, but for the whole of Central Asia and the CIS.

Because of the aforementioned initiatives of the government of Kazakhstan, there are currently in fact two separate legal and regulatory frameworks for Islamic finance created in Kazakhstan, ie one legal framework under Kazakh law with civil law jurisdiction and another one under the AIFC law with common law jurisdiction.

Review of 2020

As far as the overall economy is concerned, in 2020 Kazakhstan suffered badly from the COVID-19 outbreak, the price decline in oil and other commodities and a stagnant banking sector. As such, its future economic growth in 2020–21 largely depends on attracting foreign direct investment into Kazakhstan for the development of infrastructure and regional trade.

That is why the importance of the 66 km Big Almaty Ring Motor Road concession project (a toll road around the city of Almaty), also known as BAKAD and finally reaching a financial close on the 7th August 2020, cannot be overestimated. BAKAD is a groundbreaking public–private partnership (PPP) project for Kazakhstan because it is the first large-scale PPP project in the Central Asian region structured with the involvement of international advisors and investors through an open, international competitive process and in accordance with international best practices. The BAKAD project is supported by, among others, international lenders and the IsDB. BAKAD, therefore, is expected to pave the way for more PPPs in Kazakhstan with the involvement of Islamic finance lenders and investors.

Thanks to the AIFC and its perks, the first Islamic bonds have been listed on the stock exchange of the AIFC, the Astana International Exchange (AIX). The first cross-listing on the AIX of Sukuk issued by QIIB with a primary listing on the London Stock Exchange happened in March 2020.

Interestingly, Islamic banking is so far the fastest-growing segment of the financial sector in Kazakhstan. As of the 1st August 2020, the total assets of the only two existing Islamic banks in Kazakhstan reached KZT72.1 billion (US$166.65 million), while a year earlier this amount was KZT57.4 billion (US$132.68 million), meaning that their combined assets grew by 25.6% year-on-year. As a good example

of Islamic banking development, the Damu Entrepreneurship Development Fund for the first time signed an agreement with Al Hilal Bank in the amount of KZT7.5 billion (US$17.34 million) for the development of small and medium-sized businesses in April 2020.

Preview of 2021

The recent outbreak of COVID-19 shocked the world and in 2021, the government of Kazakhstan is expected to struggle to attract cheap financing in international capital markets and safeguard employment and the livelihoods of its people. To fight the pandemic, the Kazakh government has announced stimulus packages and will likely continue its support of Kazakh conventional banks channeling funds to the people; however, as many experts have noted, the ease of interest-based loans may create a debt trap for households and business firms in the long run, which will have a negative impact on the economic system.

To address these issues Kazakhstan plans to continue to develop the Islamic finance industry, including through the AIFC, in order to create alternative sources of financing for SMEs and state and municipal infrastructure projects. In 2021, therefore, more transactions are expected through AIFC cross-border Islamic financing from abroad (such as the Arab states of the Persian Gulf and Malaysia) for the purpose of financing SMEs and the implementation of big infrastructure projects like BAKAD in Kazakhstan.

Conclusion

Despite being home to a large Muslim population, Kazakhstan has not yet taken full advantage of Islamic finance. One may argue that Islamic finance is too complex to understand and to be used by the general population and SMEs in Kazakhstan. Because of the coronavirus pandemic and stagnant conventional banking sector in Kazakhstan, however, Kazakh SMEs do not have much choice any more as Kazakh conventional banks have effectively stopped financing SMEs. Islamic finance instruments, based on trade finance and risk-sharing mechanisms, therefore, can become a sound alternative for all Kazakh businesses independent of their religious views.

The Kazakh government should concentrate its efforts on attracting through the AIFC cross-border Islamic financing from abroad for the purpose of implementation of its big infrastructure projects, but it should not forgo further support and development of the domestic Islamic finance industry which can easily become a much-needed alternative source of financing for SMEs under the current legal frameworks of the AIFC and Kazakh law.

2020: Kenya's continued efforts in the Islamic finance sector

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2020 has no doubt been unique and the effects of COVID-19 have had a global impact on many fronts. In the Islamic finance sector in Kenya, there has been little development in new products or new entrants probably because a lot of effort has been channeled toward mitigating the impact of the pandemic. However, this did not stop policymakers and stakeholders from enquiring into ways of making Kenya a market leader in Islamic finance.

Review of 2020

The industry regulators have been focused on ensuring the stability and resilience of the entire finance industry. From the perspective of Islamic finance only, in June 2020 the Capital Markets Authority held a stakeholder webinar on activating the use of Islamic finance products and services. The National Treasury and the Capital Markets Authority noted that there has been a slow uptake of Islamic finance products and they intend to forge ways forward to establish a conducive environment for the development and growth of Islamic finance.

Stakeholders have identified a number of action points that would enhance the development and uptake of Islamic finance products in Kenya, including expediting the preparation of the National Policy on Islamic Finance, the government to show goodwill and act as pacesetters by issuing sovereign Sukuk, educating investors on Islamic finance products and setting a periodic review of the uptake and progress of Islamic finance products in Kenya.

Takaful Insurance Africa is already leading the way in creating awareness by launching the TIA E-Magazine. The magazine will be published on a quarterly basis and aims to provide information about the Takaful industry in Kenya and establish itself as a point of reference for research, articles and Shariah aspects of Takaful. At the launch of the magazine, Takaful Insurance Africa's CEO announced that the magazine's objective is to promote knowledge about the Takaful business locally in Kenya, regionally and internationally.

The Kenya School of Monetary Studies offers Shariah compliant banking courses to create awareness of Islamic finance and enhance the skills of finance staff working in the Shariah compliant banking sector. Certain other institutions also offer courses on Islamic finance.

As a response to COVID-19, Momentum Credit, a microfinance company which opened its eighth branch in Nairobi recently, has introduced its product called Sahih that allows customers to access finance by depositing logbooks with the financier. The product would grant the customer financing while at the same time not inhibiting the use by the customer of the asset or vehicle used to secure the finance. In October 2020, the Kenyan parliament amended the rules governing car loans and mortgages to be Shariah compliant to enable members of parliament and the Senate who profess the Islamic faith to access such financing. There are also calls to make the National Youth Enterprise Fund and Women Enterprise Fund to be made Shariah compliant to allow Muslim youth and women to access the funds.

Although Islamic finance is not restricted to Muslims, in Kenya the uptake is mostly from Muslims. The reason for this is that until Islamic finance products in Kenya become more attractive from a pricing or cost perspective, there appears to be no incentive for non-Muslims to choose Islamic finance over conventional finance, which they have been using for many years.

If Islamic finance products are able to demonstrate competitive pricing or better terms, then this would definitely be a factor which would assist in overcoming the lack of awareness as everyone would become aware and be attracted to the cheaper cost of financing particularly in current times.

Preview of 2021

It is hoped that there will be changes on the policy front and an array of new products suited to the market in 2021. The sovereign Sukuk may debut in 2021 with the Government in dire need of funding. Sukuk has been viewed as an alternative source of financing. However, this will depend on the macroeconomic environment, political climate and impact of COVID-19 which may either stimulate Islamic finance or derail its development.

The draft Takaful regulations which are pending approval may come into force in 2021 as well. It is expected that other subsectors of Islamic finance will continue awareness efforts with respect to Islamic finance products.

Conclusion

The impediments to the growth of Islamic finance are limited awareness, stakeholder inertia, perception problems and stiff competition from conventional finance.

The major conventional financial institutions do offer Islamic finance products so that Muslims are able to use Islamic finance over conventional finance. The general public will be more open to choosing Islamic finance if the products available have better pricing or more attractive terms compared to conventional financing.

Kuwait: Policy issues for developing the debt capital market

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The Kuwaiti growth model, similar to that of the GCC, is based on an oil economy that has created jobs in the public sector for nationals and resulted in positive economic and social gains in the past. However, with the declining relative importance of oil, its price is expected to persist near present levels and the growth performance is expected to be hindered by fiscal consolidation. Therefore, the development of an efficient debt capital market will boost the growth and fulfill the need for economic diversification and sustainable growth in the non-oil sector.

Review of 2020

The Kuwaiti Islamic finance market is a nascent but developing segment of the country's financial sector. While Islamic banking retains a 35% market share, other segments, particularly the capital market, have significant room for development and growth. Kuwait has the regulations and tax neutrality to enforce Islamic finance structures but lacks the holistic regulatory framework for Islamic finance of other developed Islamic financial markets.

The two main prerequisites for reforms are trust and partnership between the public and private sectors. Facing serious shortcomings in its long-term economic stability, Kuwait has a dichotomy of reforms versus being one of the last GCC countries to be affected by oil price volatility. Kuwait's budget has recurrent non-productive spending, institutional efficiency is low and the ease of doing business is one of the GCC's lowest.

Notwithstanding these deficiencies, the Kuwaiti authorities have taken steps to correct some of them. There are two important laws currently being considered by parliament, namely the Sukuk Law and the Public Debt Law. The approval of this body of legislation would greatly enhance the legal foundation of the financial sector by developing the tools and the right environment for local and international issuances.

While the issue of debt capital market issuances is increasingly becoming academic and standardized, the risks due to Kuwait's learning curve cannot be underestimated. The availability of human capital and institutional excellence in managing the strict deadlines remain the prime risks. Such a process can undoubtedly be highly critical for all stakeholders involved, ending with mature institutions such as the Kuwait Investment Authority and the Central Bank of Kuwait.

Preview of 2021

There should be a debate to articulate the key risks in Kuwait entering the international sovereign debt market with questions required to bring clarity such as:

- Will Kuwait continue to see the same budget anomalies in the post-debt budget?
- Can the country keep up with the scrutiny of international capital markets to address the anomalies? And through what governance framework?
- How can Kuwait use sovereign bonds and Sukuk as factors of stability and investment diversification, and not as 'crowding out' threats to the private sector?

Once a governance framework is put together involving the relevant national and international stakeholders, sovereign bond and Sukuk issuances can take place. This will represent an opportunity for Kuwait to invite a new type of scrutiny from international capital markets as to the sustainability of its budget.

A government's credibility as an issuer relies on sound and prudent debt management. The framework of sound debt management in many jurisdictions is based on having a clear debt management objective, proper coordination with a monetary and fiscal policy, a dynamic risk management framework, an effective institutional framework and a robust operational capacity enabling efficient funding and sound risk management practices.

Conclusion

Some experts have suggested a package of three policy measures to develop regional bond markets. Namely, a regional credit guarantee agency, a securities rating facility and a clearing and settlement capacity. Combined, these elements are the necessary infrastructure components upon which to build a regional securities market. The development of a robust government securities market in developing countries will often lead and aid the development of a private sector securities market. At the same time, private debt markets need other elements to be successful, most importantly: a disclosure system, a credit rating system and bankruptcy laws. Regulators should also avoid possible crowding out and legal restrictions that inhibit the development of a private sector securities market.

Finally, the establishment of an efficient debt capital market in Kuwait will have a positive impact on growth and spill over to other markets as a result of the required upgrade to market infrastructure.

Kyrgyzstan: Islamic finance to mobilize domestic resources and attract additional investments

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Islamic financing in Kyrgyzstan was established in 2006 with the support of the IsDB pilot project based on commercial bank EcoBank (currently EcoIslamic Bank). The aim of implementing Islamic principles of financing was to bring more economic freedom, sustainable competition in the financial market along with traditional banking and lending, and reviewing and adapting changes in the legal framework due to new global processes.

In 2018, the share of Islamic banking in the banking sector of Kyrgyzstan was 1.6% and in the microfinance sector it was 6%; by 2020 the indicators slightly decreased to 1.2% and 5.6% respectively. By looking at the numbers we can say that the share is meager; however, Kyrgyzstan has prepared a good regulatory framework for the Islamic finance sector to develop and gain more market share. In 2020, Kyrgyzstan has several players in Islamic financing — pilot bank EcoIslamic Bank, first licensed by the National Bank of the Kyrgyz Republic (NBKR); the Islamic Financial Center in Bakai Bank (Islamic window); in the microfinance sector there are Mol Bulak Finance and small Islamic microcredit companies Ak Nur Capital, Ak Karzhy, Kompanion Invest; and there is also leasing company Ijara Company Kyrgyzstan.

At this time, Islamic principles of financing have been legislatively introduced not only in the banking sector, but also in other financial markets such as insurance and securities. However, in practice, there are still future improvements to be made to provide Islamic insurance services (Takaful) or the issuance of Islamic securities (Sukuk).

Review of 2020

The major legislative role held by the NBKR is of great interest and it is making efforts for the development of the Islamic financing sector. The NBKR has established the Department of Islamic Financial Products under the Department of Supervision and Licensing Methodology. The NBKR is also working to introduce tools that will help Islamic finance organizations cope with liquidity during unstable economic and political situations.

The legislative framework for Islamic finance is quite large and in a constant process of improvement. The Jogorku Kenesh (Parliament) is considering amendments and additions to the Civil Code of the Kyrgyz Republic as part of Chapter 34-1 'Financing in accordance with Islamic principles of financing", where the main operations are described and explained. As of today, the regulatory and legal framework for Islamic finance has all the necessary documentation for the establishment and operation of Islamic banks and microfinance organizations in the Kyrgyz Republic.

In 2020, in different regions of the country, the number of branches and customer service locations has increased. As a part of investing in business projects (as a shareholder or investor), the Islamic Financial Center has expanded its presence in the market with several branches and savings banks throughout the country.

The coronavirus pandemic has made its own adjustments to the development plans for Islamic finance. Some commercial banks

had projects to open Islamic windows, including the two largest state banks — RSK Bank and Ayil Bank — but at the moment these organizations are in standby mode to obtain a license from the NBKR.

Preview of 2021

Despite the economic and political crisis in Kyrgyzstan, the potential for the development of Islamic finance remains large and underestimated. However, all active players in the market need to make every effort to disseminate and explain Islamic finance instruments to the public.

A lack of Islamic economic specialists has forced managers to hire specialists from Islamic countries to manage and regulate costs, and to learn technologies to render services to clients in the process of Islamic finance implementation. The need to introduce Islamic economic disciplines in universities is growing due to objective processes, the geopolitical position in the world, an increase in demand for highly qualified personnel with such specialization and the growing demand for an Islamic finance market.

Conclusion

As in many countries where Islamic finance is practiced, the main instruments for Kyrgyzstan clients are transactions such as Murabahah, Ijarah, Mudarabah and Qard Hasan. Since Kyrgyzstan is an import-oriented country, Islamic finance organizations have a large share in the trading sector, but nowadays Islamic finance is also expanding to agricultural, construction and personal lending.
The further implementation of Islamic finance in the Kyrgyz Republic will help to develop the real economy, meet the needs of all segments and achieve transparency in the financial sector. Also, Islamic financial instruments can be viewed as an opportunity to mobilize domestic resources and attract additional investments from large investors and international corporations to the country's financial markets.

A slow and uncertain progress for Islamic banks in Lebanon

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Despite the general rapid growth of Islamic finance and its increasing penetration in the global market, in Lebanon, this growth is slower due to a number of factors raised by Lebanese Islamic banks.

On the 7th September 2017, Al Baraka Bank, one of the first and largest Islamic banks in Lebanon, issued a press release stating that the workflow of Islamic banks in Lebanon remains extremely slow as a result of two main reasons: the first being the law governing Islamic banks issued in 2004 with its implementation regulations issued by the Lebanese Central Bank (BDL) and, the second being the monopoly held by traditional banks over banking activity. This does not seem to have changed in the last three years but rather it seems that the situation of the Lebanese banking sector as a whole has been worsened by a series of compounding crises hitting Lebanon.

Review of 2020

The situation of Lebanese banks in 2020, including Islamic banks, is a direct result of the recent rapid decline of the Lebanese banking sector. In October 2019, the Lebanese economy took a huge dive with the onset of the economic and financial crisis which led to a progressive and major devaluation of the Lebanese currency in the market. The financial and economic crisis was further exacerbated by the political crisis marked by the uprisings of the 17th October 2019 and other exceptional circumstances disrupting Lebanese life and the economy, including most notably the COVID-19 pandemic and the Beirut port explosion of the 4th August 2020. As a result, banks in Lebanon have enforced a number of informal capital controls such as limitations on international money transfers and withdrawals of cash from foreign currency bank accounts. This exposed the failings of the Lebanese banking sector leading to the progressive loss of faith and trust of the public in Lebanese banks.

According to the IMF's Working Paper on Islamic Finance, although there is no empirical evidence to this effect, Islamic banks appeared to demonstrate greater resilience to the recent [global] financial crisis compared with conventional banks given that, in theory, Islamic finance provides for an emphasis on risk-sharing, limits on excessive risk-taking and strong links to real activities. While generally Islamic banks may demonstrate more resilience than traditional banks, in Lebanon specifically, Islamic banks appear to be in the same situation as traditional banks and have imposed the same informal capital controls on their clients as the traditional banks have; these informal capital controls still apply to date.

Preview of 2021

As 2020 comes to an end, there are only four Islamic banks out of the 142 banks registered on the list of banks of the BDL in Lebanon, namely Al Baraka Bank, Arab Finance House, BLOM Development Bank and Lebanese Islamic Bank. According to the BDL, the number

of Islamic banks in Lebanon dropped from five to four; effectively, this lowers an already meager presence in the Lebanese market in comparison with the large and overwhelmingly dominant number of "traditional" banks in Lebanon. One explanation is that Islamic banks in Lebanon seem to suffer from a lack of general awareness among the Lebanese and their operations tend to be relatively unknown to the public. Consequently, although Islamic banking and finance could offer advantages and alternatives to traditional banking and finance, the Lebanese public generally refers to traditional banks and financings to cater to their needs, further reinforcing the domination of traditional banks in the Lebanese market. We do not see this situation changing any time soon.

Looking ahead to 2021, the situation for Lebanese Islamic banks is aggravated by the economic and financial crisis that is still looming over the Lebanese market in late 2020, and it is likely to continue its effects well into 2021 if no drastic changes are made to the Lebanese economy and the country's political situation. Currently, it seems unlikely that the Lebanese public would change its banking habits in 2021 without a strong push by Islamic banks to put upfront their services as an alternative to traditional banks during this crisis. This would be no easy feat knowing that Islamic banks have been affected by the economic and financial crisis in Lebanon and they are likely to consider measures to sustain their economic situation such as acquisitions, consolidations, recapitalizations or other measures.

Conclusion

The development of the Islamic banking and finance sector in Lebanon has been incredibly slow with this sector being dominated by traditional banks and also due to the situation of the Lebanese banking sector in general. The future of Islamic banks will likely be dependent on the future of the Lebanese banking sector as a whole, on the policy around capital controls to be adopted in the coming years and on whether the recent loss in the credibility of the banking sector as a whole can be regained from the local, regional and international communities.

It remains interesting to see in 2021 how the Lebanese Islamic banks will manage to navigate through the financial crisis in Lebanon in comparison with their traditional counterparts and whether they would be able to put upfront their services and relatively better resilience as a more attractive alternative for the Lebanese public.

Luxembourg to play key role in renewed growth of Islamic finance on European continent

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The open-door policy that Luxembourg brings to all its business partnerships resulted in a series of firsts in the European Islamic finance sector: the first country to authorize an Islamic insurance company (1983), the first to list a Sukuk facility (2002), the first central bank to join the IFSB (2010) and the first eurozone market to raise a sovereign issue in euros (2014). Today, the Luxembourg financial center is well established in Islamic finance, notably in the Shariah compliant fund and Sukuk areas. What have been the key developments in the last 12 months and what could 2021 look like?

Review of 2020

The most prominent development in Islamic finance in Luxembourg in the last 12 months has certainly been Luxembourg hosting the second Sukuk Summit of the IsDB in November 2019 and the commitment by the IsDB and the European Investment Bank to commit US$1 billion each in a five-year, joint program of green Sukuk to be invested in Africa and the Middle East.

The Luxembourg trade mission to the UAE in January 2020 headed by the Hereditary Grand Duke of Luxembourg, and led by the ministers of finance and economy, was an occasion to reinforce the link in Islamic finance between the two countries.

Luxembourg has seen a continued interest in Shariah compliant investment funds in 2020. Luxembourg is the number one investment fund center in Europe and the second in the world in terms of assets under management. The majority of funds domiciled in Luxembourg are Undertakings for Collective Investments in Transferable Securities (UCITS) funds, which are allowed to market their shares freely in all EU member states and are accepted in many non-European countries. This is especially the case in Asia, Latin America and increasingly in the Middle East. This makes Luxembourg the ideal location for the domiciliation of Shariah compliant funds intended for international distribution to retail or institutional investors. Because UCITS funds are designed primarily for retail investors, their main concern is safety, and their rigorous investment policies are consistent with Shariah law's prohibition of Gharar (uncertainty).

In addition, more flexible structures such as the Specialised Investment Fund or the Reserved Alternative Investment Fund, which allow for a wide variety of different investment strategies, can be used for Shariah compliant private equity, property or other alternative investment schemes mainly aimed at institutional or high-net-worth investors. Over the last 12 months, service providers in Luxembourg have reported a steady flow of new Islamic finance-related projects both in the UCITS and alternative areas.

While Shariah compliant funds still remain a niche market segment, over the past few years the concept of responsible investing has gained a lot of traction with both investors and asset managers globally. Environment, social and governance (ESG) integration and Islamic finance share complementary investment approaches with many common principles, such as being a good steward to society and the environment. The IsDB green Sukuk facility mentioned earlier is an example of the growing link between sustainable finance and Islamic finance.

Preview of 2021

A turning point in the development of responsible investing in Europe was reached when the European Commission presented its Action Plan on Sustainable Finance in March 2018. Things have accelerated since then and are set to develop at an even faster pace in the coming years. A recent study forecasts European ESG assets to reach between EUR5.5 trillion (US$6.4 trillion) and EUR7.6 trillion (US$8.85 trillion) by 2025, making up between 41% and 57% of total mutual fund assets in Europe by 2025, up from 12.7% at the end of 2019 (2022: The growth opportunity of the century, PwC study, October 2020).

This study also showed that investment into ESG will bring a fundamental restructuring of the investment landscape. About 77% of the 300 institutional investors stated that they intend to stop purchasing non-ESG products within the next 24 months.

> “Luxembourg is the number one investment fund center in Europe and the second in the world in terms of assets under management”

Responsible investing is increasingly driven by the growing recognition that ESG factors play a material role in determining risk and return, as well as shaping the industry. Next to the established specialized investment managers, mainstream asset managers have entered or are entering the market. This follows a similar trend as Islamic finance a decade ago when global players started launching Shariah compliant funds while initially only specialized players, mostly from the Middle East and Southeast Asia, offered Shariah funds.

Investment funds are a major tool for sustainable finance. Innovative capital structuring allows funds to combine private and public financing and thus to leverage public money for financially sustainable climate investments for example. Luxembourg has strengthened, over the years, its position as the number one domicile for responsible investing funds in Europe. Today, Luxembourg is the leading global ESG domicile with 21.2% of the ESG assets under management in the world (2022: The growth opportunity of the century, PwC study, October 2020).

Conclusion

I am confident that in 2021 the increased focus on sustainable finance in Europe will lead to a renewed growth of Islamic finance on the European continent. Luxembourg, with its leading position in sustainable finance, its unparalleled expertise in fund structuring and administration as well as its recognition of Islamic finance, will play a key role in this regard.

Charting new heights for Malaysia's Islamic finance landscape

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Malaysia has become synonymous with showcasing exemplary efforts that have led to the global rise and awareness for Islamic finance. From a modest beginning three decades ago, Islamic finance has become well-entrenched as a provider of a comprehensive ecosystem covering a diverse range of financial solutions to the government, businesses and retail.

Review of 2020

Despite the ailing repercussions brought on by COVID-19, initiatives by the government of Malaysia (GoM) and the private sector more than demonstrated the coalition of willingness to band together in support of stabilizing the economy. Malaysia's call to arms to protect lives and livelihoods began in February 2020. To date, the GoM has released RM305 billion (US$73.35 billion)-worth of economic stimulus packages with 46% geared toward households:

The advent of the pandemic, now more than ever, highlighted the urgency to ensure financial inclusion and the use of financial technology as a critical lever to achieve it. On the Islamic banking front, these two themes have taken center stage in product innovation, along with an emphasis on social financing.

The latter, in particular, reflected the country's aim toward more value-based intermediation. The lockdowns imposed by the GoM to control the spread of COVID-19 has catapulted the importance of digital connectivity, especially in serving everyone's financial needs and objectives.

Fortunately, Malaysians can lay claim to one of the most digitally connected societies in the world, with 80% enjoying broadband access, mainly through mobile networks, compared with the global average of 67%. Added to the fact that the nation has one of the highest levels of financial inclusion [measured by percentage of adults with at least one type of deposit account (2019: 96%) and number of deposit accounts per 10,000 adults (2019: 30,640)] among middle-income countries and these have helped the GoM to realize a number of financial inclusion measures, including Takaful.

As the nation battled the second wave of COVID-19, the reopening of the economic sectors slowed again posing concerns to unemployment levels. At the end of August 2020, the unemployment rate stood at 4.7% (August 2019: 3.3%) equivalent to 741,600 unemployed persons. The catastrophic loss of disposable income brought on by the contraction of the economy, closure of businesses, job cuts to manage companies' loss of income vs. overheads, etc, has pushed more people to the brink of poverty. Digital connectivity and access to deposit accounts have facilitated the GoM in supporting the Bottom 40% (B40) and Middle 40% (M40) — the income groups worst affected by the pandemic — via the distribution of cash aids for households with a monthly income of less than RM4,000 (US$962) and healthcare needs. Beyond the MySalam scheme, a national family insurance protection scheme for the B40 income group, and subsequently extended to the M40 income segment in 2020, Takaful providers were one of the first to respond to the immediate needs of the market by offering complimentary extension of COVID-19 coverage, and establishing a special fund for COVID-19 testing for medical insurance policyholders and medical Takaful certificate holders.

Table 1: GoM's initiatives for COVID-19

		Date	Amount (RM billion)
1.	Economic Stimulus Package 2020 (ESP1)	27th February 2020	20
2.	Prihatin Rakyat Economic Stimulus Package (Prihatin)	27th March 2020	230
3.	Economic Stimulus Package 2020 (ESP3)	6th April 2020	10
4.	Pelan Jana Semula Ekonomi Negara (PENJANA)	5th June 2020	35
5.	Prihatin Supplementary Initiatives Package (Kita Prihatin)	23rd September 2020	10
			305

Source: Ministry of Finance, Malaysia

Another landmark Islamic finance initiative was Malaysia's first digital Sukuk that combined financial innovation with social financing. The Sukuk Prihatin facility was issued on the 22nd September 2020 with proceeds used to enhance connectivity in rural schools, finance eligible microenterprises (with a focus on women entrepreneurs) and as research grants for infectious diseases, according to Ministry of Finance. The Sukuk carried a 2% annual profit payment, payable quarterly. Sukukholders have the option to donate part or all of the principal amount when the Sukuk facility matures in two years' time on the 22nd September 2022. As an incentive stimulus, all profits from Sukuk Prihatin are tax exempted and the principal sum donated is tax deductible.

In the same light, Maybank launched the country's first social impact deposit on the 15th October 2020. Under the campaign, the public with social finance objectives may place a RM1,000 (US$240.5) minimum Islamic fixed deposit for six months. Maybank Islamic will separately contribute 0.3% per annum to a special account, which is the Social Impact Assistance Account, for every deposit placement made during the offer period.

According to Maybank, the special account is to provide support to beneficiaries comprising Maybank Islamic customers identified and assessed by the bank to be in dire need of financial assistance due to loss of income or employment.

Preview of 2021

Moving forward, the highly anticipated Capital Market Masterplan (2021–30) and Malaysia Budget 2021 will set the tone in shaping the financing and investment future landscape. Notwithstanding Bank Negara Malaysia's GDP prediction to be between 5.5% and 8% in 2021, the wait continues to see the extent of the impact the GoM's economic stimulus initiatives will have in stabilizing economic conditions. Forecast/projection estimates will continue to be blurred at least until the end of 2020 before a foreseeable light can be obtained in foretelling the outcome for 2021.

Conclusion

In times of adversity, it has been remarkable how the silver lining has been the people rallying to become more socially conscious not just in aspects of public health and welfare, but also in supporting the local economy. Equally important is the participation from the private sector to also be responsible in re-energizing the economy.

Islamic finance development in the Maldives hindered by pandemic's shadow

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2020 seems to be the year of the coronavirus pandemic that has brought all economic activities to a halt domestically and internationally as well. COVID-19 began as a health crisis which later turned into an economic crisis that eventually led to a human crisis. The growth of Islamic finance in the Maldives has been hindered in 2020 by the shadow of this pandemic when on the 27th March 2020, the government decided go into a full lockdown of the country, with all sectors of economy including tourism, transport, communications, construction and wholesale and retail trade coming to a complete halt, stunting its growth over time and resulting in the real GDP growth falling exponentially.

According to the monthly economic update published by the central bank of the Maldives, the Maldives Monetary Authority (MMA), government revenue excluding grants declined 74% in July 2020 when compared with July 2019. The Maldives is a country that depends on imported goods and MMA said that between January and August, total imports to the country decreased by 30% compared with the same period in 2019. The whole world is suffering economically and financially due to precautions that had to be taken in view of COVID-19 for the survival of the human race and in this regard, the Maldives is no exception.

Review of 2020

The year 2020 could be considered as a dry year for the development of Islamic finance in the Maldives. 2019 showed the prospects for Islamic finance in the country as in that year, the third corporate Sukuk facility of the country, which was listed on the Maldivian Stock Exchange (MSE), was issued successfully by the Housing Development Corporation (HDFC) while the IPO of the only fully-fledged Islamic bank operating in the country, Maldives Islamic Bank (MIB), was oversubscribed and listed on the MSE as a Shariah compliant equity.

Therefore, based on 2019, it was perceived that in 2020, the country would take Islamic finance to the next level. Unfortunately, the whole of 2020 has been under the shadow of the pandemic which did not give any chance for any new innovations to be introduced to the market. The debt moratorium provided by financial institutions following the advice of the MMA did show to the market the differences between conventional and Islamic financial institutions in the sense that for Islamic financial institutions, no extra profit could be taken for the deferment in installment payments while conventional financial institutions practiced it.

Since the three corporate Sukuk facilities issued in the country generate returns from the Islamic financing facilities given by the HDFC by creating a Mudarabah relationship between Sukukholders and the issuer, it is obvious that the returns given to Sukukholders will be adversely affected. During the pandemic, the population of the country learned the importance of integrating Islamic social finance with technology as due to the lockdown, the Ministry of Islamic Affairs was unable to conduct the exercise of registering the poor and so it had to distribute Zakat based on the list of the poor registered in the previous year as administrative difficulties made it difficult for staff to be in the office when a health emergency was declared in the country.

MIB in its annual general meeting passed a resolution to distribute cash dividends of MVR35.44 million (US$2.28 million) which is MVR1.58 (10.18 US cents) per ordinary share. In May 2020, the International Islamic Trade Finance Corporation (ITFC) gave a US$15 million financing to state-owned company STO and in September 2020, the ITFC also provided a US$5 million financing facility to the Bank of Maldives.

The 7th Maldives Islamic Banking and Finance Industry Conference was also held virtually in 2020, providing a platform to discuss the way forward in shaping the Islamic finance industry of the Maldives. Though the president of the country announced that the government is going to issue an international Sukuk facility, it has not been issued yet.

In January 2020, the Maldives Center for Islamic Finance (MCIF) with the President's Office, Ministry of Finance, Ministry of Economic Development, Capital Market Development Authority and MMA conducted a symposium on strategizing Islamic finance in the Maldives.

Preview of 2021

2021 is anticipated to be an optimistic year for Islamic finance. Nothing lasts forever and hopefully the days of the pandemic will be over and stakeholders of Islamic finance in the country will be able to actively participate in realizing the goals that remained unfulfilled in 2020.

The MCIF is expected be able to work toward realizing its mission to strategize the Maldives as the hub for Islamic finance in South Asia. In this regard, more elbow grease is needed as the work that needs to be executed toward this mission is a lot and is not something which could be achieved overnight.

It is also anticipated that the only microfinance institution in the country, SDFC, would be able to offer a Shariah compliant Islamic microfinance scheme. In terms of regulation and governance, it is also hoped that the regulatory authorities would give paramount consideration to enacting laws on Shariah governance while the regulatory laws required for Takaful and non-banking financial institutions should be enacted for the sake of providing legal certainty.

Conclusion

Political will and support are prerequisites for any country to develop Islamic finance in a sustainable manner. Human governance and the belief in Islamic economic values should also be promoted in the hope that there will be enough talent to implement Islamic finance and economics in the country. Merely uttering words of hope will not be enough and hopefully in the upcoming year, more action in this regard can be seen. By then, hopefully, the shadow of the pandemic will no longer be seen anywhere in the world.

Digital pseudo-Sukuk to pave the way to better Islamic investments within Malta

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Along with the COVID-19 pandemic, 2020 saw increasing priority given to health matters and maintaining economic stability. Being exposed to the same conditions, Malta experienced slow growth within various sectors, including Islamic finance, as investment projects were shelved in order to handle the undesirable situation.

In contrast to 2020, 2021 provides a glimpse into a more fruitful agenda with respect to Islamic finance projects, which may indeed pave the way to the introduction of fully-fledged Shariah compliant investment projects.

Review of 2020

The outbreak of the pandemic has not only shocked the entire world, but challenged many countries and governments to respond adequately in order to flatten the curve and keep the pandemic under control. While such efforts may have been beneficial from a medical viewpoint, economic conditions have worsened.

This was also true for Malta, and the government took prompt action to reduce the spread of the pandemic. As such, a soft lockdown and social distancing policies were put into force. Like other religious establishments, the Mariam Al-Batool Mosque in Malta also had to shut its doors, and consequently Muslims had to practice their prayers from the safety of their own home.

Teleworking proved to be an effective tool and quickly became the norm, and Islamic finance courses have been delivered through such channels and thus the pandemic did not cause much hindrance with respect to delivering Islamic finance awareness.

Discussions with the Maltese government with respect to Islamic finance transactions had to be postponed in order to tackle the more pressing economic matters with respect to stimulus packages and financial aid to local businesses as well as trying to safeguard employment.

Preview of 2021

While 2020 took an unexpected turn for the worse, it was not all gloom and doom. A particular start-up company within Malta is expected to start operating in 2021 and is also in talks to launch a miniature form of Sukuk.

This Maltese start-up company within the manufacturing sector will be producing electric vehicles (EVs) for the local market. These EVs will be available to both end consumers and commercial entities, as the platform on which these EVs are built upon allows for a modular design to deliver the specific vehicles to the appropriate customer.

With growth in mind, this company will be launching a digital pseudo-Sukuk facility in order to obtain further investments. This form of Sukuk will be used as a pilot run, and funding will be driven by crowdfunding.

This pilot run will serve as a means for ethical investment, as this will not manifest itself in the structure of a conventional bond, but

merely in the form of assistance from the general public, including commercial entities. The online-based crowdfunding structure can either be equity-based or reward-based.

The equity-based crowdfunding option will allow potential investors to purchase shares in the company, and it is very similar to some conventional Sukuk structures, in which case both parties will participate in losses or gains, commensurate to the investment value.

On the other hand, the reward-based crowdfunding option will ask the community to help in exchange for a reward which is proportional to the financial support. Participants within this project are considered more as contributors rather than as full-blown investors.

Both crowdfunding options shall serve as studies to ascertain and test not only whether there is a market for such a product, but also to provide a practical basis on which Sukuk may be based. This type of digital pseudo-Sukuk will also be the first of its kind within the region and may also prove to be an incentive to other countries to move to digital platforms.

If the results provide a promising outcome, the following stages would be to launch and list Sukuk on the Malta Stock Exchange in order to capture a wider market with respect to investments, as well as be a catalyst to provide exposure to Islamic investments within Malta.

Conclusion

With Islamic finance activity put on hold in 2020, 2021 looks promising and we could see the launch of digital pseudo-Sukuk that may pave the way to better Shariah compliant investments within Malta.

The resurrection of Islamic finance in Mauritius

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The vision of Ghanim Saad Al Saad Group, Qatar (GSSG) and British American Investment Group (BAI) Mauritius was "To be the leading provider of Islamic finance and wealth management services in Mauritius". For the island, 2020 has seen its fair share of major historic events such as the COVID-19 pandemic, lockdowns, EU blacklist, oil spills and dead dolphins.

Review of 2020

First of all, it should be acknowledged that Mauritius, with a 17% Muslim population, was among the first non-Muslim states to have amended its regulatory framework to accommodate Islamic finance (see Figure1).

The decision to complement the conventional financial system with Islamic finance in 2006 was due to political will and was most welcome and as a result, the industry witnessed new Islamic finance operators in the market; Takaful was launched in 2009 and Mauritius Leasing later in 2010. Both were subsidiaries of the defunct British American Insurance Group, and CBC, the first Islamic licensed bank in Mauritius and a joint venture between GSSG and BAI Group, began its investment banking business in March 2011.

Although all licensed banks in Mauritius are deemed to offer Islamic windows, only HSBC (Mauritius) operated a window solely for its offshore clients in 2009 and Habib Bank has had its Islamic window services since 2014. However, HSBC shut down its Islamic window services in 2013 and Habib Bank offers only a current account through its Islamic window.

As it is evident from the global financial crisis, Islamic finance has proven to be resilient because of the nature of its products and instruments. What then could have been the main reasons for the fall of CBC in August 2020? In my personal view, the business model was not the right one as CBC was undercapitalized to run as an investment banking business. The situation deteriorated when BAI Group was put under special administration in 2015.

Furthermore, in 2016, the annual license fee was increased from MUR1 million (US$24,295.4) to a minimum of MUR3 million (US$72,886.3). However, the most significant change was the minimum capital requirement (MCR). In 2017, the MCR was increased from MUR200 million (US$4.86 million) to MUR400 million (US$9.72 million). For existing licensed banks, the increase was transitional — MUR300 million (US$7.29 million) by June 2018 and MUR400 million by June 2019.

As of June 2014, CBC had accumulated losses amounting to more than half of the initial capital invested and the GSSG was required to buy out the defunct BAI Group for the sum of MUR288 million (US$7 million). MUR107 million (US$2.6 million) was immediately paid and later MUR127 million (US$3.09 million) was paid to the special administrator after negotiations in 2016. However, it was unable to meet the MCR deadlines both in 2018 and 2019.

In addition, it is not clear why the proposed management buyout in 2020 could not be completed and this was the main reason how it came about that the CBC license was revoked in August 2020. Although the new business plan proposed was to transform the 'boutique' investment bank into a retail bank, meeting the MCR and the accumulated losses were the main obstacles to building trust and running the business.

Sadly, the revocation of the CBC license attracted the press, which contributed to negative publicity on the Islamic finance industry. The press's focus was mainly on the bid by former Goldman Sachs Southeast Asia chairman Tim Leissner's application in 2016 to buy the bank which was not acceded by the Bank of Mauritius (BoM) and CBC being allegedly connected with the 1MDB scandal. Rather, the focus should have been on the existing clients who have opted for interest-free transactions and who are now forced to engage in interest-based transactions.

Preview of 2021

While the setting-up and running of an Islamic bank in Mauritius is becoming more expensive, the rise of big data and artificial intelligence can help Islamic finance to reduce its operational costs in the long run. The Finance (Miscellaneous Provision) Bill 2020 now allows for Islamic digital banks, which could be an opportunity for established overseas digital Islamic banks to widen their operations. The 2020/2021 budget also provides for the introduction of new enhanced financial products such as digital currencies, insurance wrappers, variable capital companies and Sukuk. An inaugural Sukuk issuance could be the game-changer for the Islamic finance industry in Mauritius.

Conclusion

Mauritius with a friendly Islamic finance regulatory framework has significant potential for the industry, which could be either to start with a finance company or for overseas Islamic banks to incorporate a branch. Furthermore, being the bridge to Africa, the potential of Islamic finance is considered significant business avenues for its financial center. The future of Islamic finance in Mauritius is now in the hands of the policymakers and industry players.

Figure 1: The Mauritius regulatory framework: Islamic finance timeline

1941	Banking Act amended to include Islamic banking business	Waqf Act 1941 was enacted
2007		BoM issued guide-lines for conducting Islamic banking businesses
2008	Amendments : (1) Stamp- Registration Duty (2) Public Debt Mgt Act 2008 : Sovereign Sukuk (3) Income Tax Act 1995	
2009		BoM became a full member & FSC became an associate member of the IFSB
2011		BoM joined the International Islamic Liquidity Management Corporation
2012	Mauritius Revenue Authority issued statement of practice for Murabahah transaction	
2014		BoM hosted the Islamic Financial Services Board Summit 2014
2018	Amendments : (1) Income Tax Act 1995 - {27A) (2) Company Act 2001 {AAO IFI- FAS)	
2020		Banking Act to allow Islamic Digital Banks

Source: Author's own

Morocco: A challenging start for Islamic finance

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2020 was expected to witness new advancements in the Islamic finance sector in Morocco to implement a comprehensive ecosystem that would contribute in enhancing the competitiveness of the existing players. Nevertheless, COVID-19 had a negative impact on the different streams related to Islamic finance.

Review of 2020

Central Guarantee Fund launches Shariah compliant window

To accompany the financing activities of participative banks, the Central Guarantee Fund (Caisse Centrale de Garantie or CCG) launched its window, Sanad Tamwil, an entity that is exclusively dedicated to participative finance. Indeed, the window will contribute to achieving financial inclusion through facilitating access to financing granted by participative banks and windows to individuals and businesses through special guarantee mechanisms.

Therefore, the CCG added the following four new products to its current offerings:

- Damane Moubachir (a guarantee instrument dedicated to very small and medium-sized businesses covering participative financing instruments)
- Damane Dayn (a guarantee instrument dedicated to businesses with a turnover not exceeding MAD10 million (US$1.08 million))
- Fogarim Iskane (a guarantee instrument dedicated to people with very low income or volatile income to get access to housing or to land for construction), and
- Fogaloge Iskane (a guarantee instrument dedicated to the middle class and to Moroccans living abroad for the acquisition of a house or land).

The Higher Council of Ulemas approved all these products and instruments.

Reaction of participative banks

The COVID-19 crisis imposed a lockdown and generated an important economic impact on the activity of businesses and on the income of households. Moreover, in this context, people are less likely to invest and prefer to hold cash. As such, participative banks took the necessary measures to be in line with Shariah principles and to be beyond the expectations of their customers:

- Most participative banks gave the possibility to people impacted significantly by the COVID-19 crisis to postpone or reschedule their commitments without any fees. The eligibility criteria are clear. Those who have the necessary resources to fulfill their commitments are not concerned by this measure.
- Some participative banks allowed their customers to break their investment accounts before the term without any penalties or fees. This is to be considered as a sign of trust and compassion with customers in this period.
- All participative banks prepared their branches to receive customers safely and contributed in the efforts of serving governmental aids to people through their branches and ATMs.

It is worth noting that conventional banks in Morocco are granting loans with the support of the government (guarantee schemes) and are billing interests and fees for rescheduling current loans. In these hard times, the challenges are very intense but participative banks have proved their commitment to Shariah principles and values.

Product development issues

During 2019, the Higher Council of Ulemas approved four products — investment accounts, Salam, Ijarah Muntahiya Bil Tamleek and Istisnah — but participative banks have implemented only some of these products.

The gap between product development efforts and the implementation process can be justified as follows:

- Participative banks have many other ongoing projects (mobile banking, onboarding processes and such) with limited resources. Therefore, launching new formulas requires more time than expected.
- The Higher Council of Ulemas can amend the contracts. Thus, participative banks will redefine the risk profile of each product before deciding whether it is interesting to be implemented or not. In some cases, the new amendments can adjust the risk profile of the product and the governance committees can decide to postpone its implementation.
- The amendments of the Higher Council of Ulemas can modify the operating model of the product compared to other markets and since most of the information technology systems running in the Moroccan participative banks are more adapted to the GCC and the Middle East, any modifications to adapt them to the Moroccan Shariah requirements can take more time than expected.

The breakeven issue

The semi-annual financial publications of participative banks and windows in Morocco raised the issue of reaching breakeven and converting these institutions to profitable ones as a way to sustain their activities. Indeed, there are three trends observed in the market:

- Entities that have already reached their breakeven: in this category, there are two participative windows — Dar Al Amane and BMCI Najmah.
- Entities that have improved their financial results and decreased their losses compared with the previous year — Bank Assafa, BTI Bank and Al Akhdar Bank and Arreda (window).
- Entities that saw their losses increased — Umnia Bank and Bank Al Yousr.

Overall, these trends would be confirmed by the end of the year and participative banks and windows are making reaching breakeven a priority in order to ensure their sustainability and continuity. In addition to this, implementing solutions that can serve businesses and private banking customers is necessary to have new sources of growth for banks and windows in the mid-term. Once breakeven is reached, the participative banks and windows would have a new target: to reach at least the local return-on-equity (ROE) levels.

Preview of 2021

In 2021, participative banks would be under pressure in terms of breakeven and ROE improvement. They will be required to diversify their product offerings, target various segments and achieve a better performance. Meanwhile, the first Takaful licenses are expected by the first quarter of 2021. The launch of these new Islamic finance players would have a positive impact on the whole industry in terms of product offerings and deposit collection. Nevertheless, in the COVID-19 context, all the plans and expectations could be reviewed.

Conclusion

The Islamic finance industry in Morocco moved forward at a pace lower than that expected. Moreover, COVID-19 showed that Islamic banking brings a real added value to customers in times of crisis. Next year would be decisive to the existing players to reach breakeven to ensure their continuity and sustainability.

New Zealand: Idyllic for Islamic finance

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2020 has been the year of COVID-19, but New Zealand has been lucky with a small, isolated community and the nearest neighbor, Australia. So locking down its borders and controlling international movement through 14-day mandatory isolation facilities (five-star hotels) have been easy. The Muslim community is approximately 60,000, unsurprisingly most are children. The major Islamic financial institution is Amanah Ethical, which operates Shariah compliant KiwiSaver, a New Zealand superannuation scheme.

Review of 2020

The funds under management just topped NZ$30 million (US$20.01 million) (as at the 13th October 2020) with 1,474 members; it is estimated that the total market has about 5,000. Many Muslims, however, are still concerned that the investments are not held by a big institutional Shariah compliant financial service provider.

Amanah Ethical has shown that Shariah investment principles with strict application of AAOIFI rules can be a world winner. Compared to its non-Shariah competitors, Amanah Ethical has seen its members prosper. As a result, Amanah Ethical as at the 31st March 2020 is New Zealand's highest performing KiwiSaver plan, without any breach of the strict application of AAOIFI Islamic Financial Principles. The New Zealand media, however, will not report Amanah Ethical's performance which shows that despite the Christchurch tragedy, there are still many steps to be built in order to have more acceptance and tolerance of Islam in this predominately Christian country.

Preview of 2021

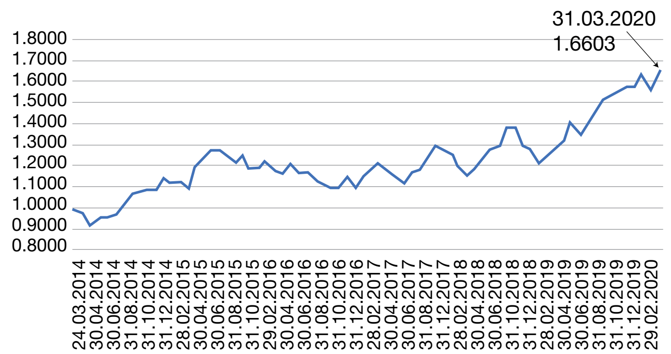
New Zealand held its tri-annual elections on the 19th October, with current Prime Minister Jacinda Ardern sweeping the vote. For the first time since adopting mixed-member proportional representation, we have a left-wing Labour government holding a single-party majority. The prime minister's handling of the COVID-19 pandemic has been rewarded by the electorate with voters sweeping the National Party vote throughout the farming community into her hands; her popularity due to the 'go early, go hard' isolation of the virus has shifted historically right-leaning voters to provide her with a landslide and historic victory.

Table 1: Amanah KiwiSaver plan performance returns (net of fees and before tax) until the 31st March 2020

Reporting period	Fund return (%)
Monthly	6.31
One year	24.59
Three years (per annum) *	11.99
Five years (per annum) *	7.98

Source: Jimmy Jiang, investment manager of Amanah Ethical

Amanah Growth Fund Unit Price: 24/03/2014 - 31/03/2020 (NZD)



Source: Jimmy Jiang, investment manager of Amanah Ethical

Expectations, however, are high for Ardern and her government to solve the financial ills caused by the pandemic and to commence a housing program to meet the desperate need for the lower socioeconomic sector of the population.

While the Muslim community is economically thriving, it has a desperate need for Shariah home finance products, which needs the help of a large Islamic bank that is willing to work in conjunction with Amanah Ethical to serve a wealthy and hardworking population. Local groups are attempting to build self-funding schemes but must comply with the strict regulation for financial offerings under the Financial Markets Conduct Act.

Amanah Ethical is working on a new product involving the financing of New Zealand agricultural and horticultural businesses, all secured on New Zealand's prime farmland. The aim is to replace the western style mortgages offered by the principally Australian banks, with an ethical alternative; the agreement will be a Mudarabah offering.

Conclusion

The New Zealand farming expertise is second to none, with quality soil, plenty of sunshine and despite climate change, plenty of clean fresh rainfall filling the rivers and streams.

The next three years will be very challenging as the New Zealand economy adjusts to the consequences of the ban on international travel. The economy was — through the 2010s — focused by the government on tourism as a major financial driver, and this resulted in many small business owners losing their business overnight when the first lockdown occurred. The ban on international travel has seen New Zealanders now exploring their own beautiful country, creating a new internal economic revival.

New Zealand has for the second year in a row been ranked by the Islamicity Index as the non-Islamic country that most fits Islamic ideals.

Sounds idyllic, New Zealand is.

Nigeria: Making the best of it

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The year 2020 will not only be remembered for the coronavirus but also for the policy responses and market developments that evolved as a result of it. Unlike Asia, America and Europe, Africa confronted the virus with reasonable preparedness having learned lessons from abroad and previous outbreaks of the Ebola virus. While this must have played a major role in keeping the number of cases relatively low, the playbook had a significant impact on the economy.

With about 65 confirmed cases, Nigeria commenced its lockdown phase fairly early in March 2020 presumably with the realization that its weak healthcare infrastructure could not deal with a pandemic of this magnitude. Nevertheless, the lockdown was still quite disruptive given that the economy is largely comprised of SMEs and a high number of daily wage earners and merchants. The impact reverberated in the financial system mainly through a dent on business optimism which prompted a risk-averse approach. Consequently, institutions pulled back investment and lending (which were already low) and those who had it, sat on cash. This cautious posturing eventually dictated the whole of 2020.

Review of 2020

In the first quarter of the year, the Nigerian government joined other countries affected by the coronavirus to place major cities on lockdown relatively at the early stage of the virus outbreak. At the time, the country was recovering from the impact of low oil prices and first-quarter GDP growth of 1.87% was gradually returning to pre-2014 levels. The Islamic finance market was also growing and three to six months prior to lockdown, we had welcomed a new entrant into the banking space. In addition, the only fully-fledged Islamic bank in the country had turned a profit and was on course to declare its first dividend. Things were generally looking up.

However, as the lockdown began, the socioeconomic landscape of Nigeria foretold gloom. The lack of digital infrastructure and heavy dependence on direct trading contributed to the woes in the business environment. This pressured personal incomes and business profitability. Consequently, lending and investments were low due to the elevated market risk and institutional cash balances gradually built up.

Thankfully, most companies kept to their social responsibilities and provided some reprieve to vulnerable segments. Private institutions, Islamic finance institutions inclusive, sponsored feeding programs and funded the provision of healthcare equipment to hospitals, among other initiatives.

Against this backdrop, the federal government made the best of the situation and issued its third sovereign Sukuk to fund road infrastructure. The Sukuk had a tenor of seven years and a rental rate of 11.2% — lower than the 12.4% inflation rate at the time.

Notwithstanding the sub-inflation coupon, the issuance was 4.5 times oversubscribed with significant participation from pension funds, non-interest banks, asset managers and other institutional investors. Indeed, even the retail segment recorded its highest level of subscription compared to prior Sukuk offers. The performance was not only reflective of the high level of liquidity in the market but also the increased familiarity and comfort with the instrument.

The market also witnessed the launch of another Shariah compliant mutual fund to bring the number of pooled investment schemes to seven. In addition, the first Islamic REIT was issued, more than seven years after the last conventional REIT issuance. This new issuance could increase the size of the REIT market by 47%.

Over the course of the year and as the lockdown was partially lifted, the federal government made efforts to spur private sector lending. In recognition of the growing significance of Islamic finance, the Central Bank of Nigeria extended 10 of its existing intervention schemes to the sector. The schemes are aimed at providing youth, agriculture-focused businesses and SMEs, among other focus segments, with affordable non-interest financing through Islamic finance institutions. This initiative was warmly welcomed by stakeholders in the non-interest community.

Preview of 2021

Although COVID-19 still lingers, I believe the market will grow bolder in 2021. I expect that the low-yield environment will prompt corporates to finally step forward and issue Sukuk especially in the real estate and manufacturing sectors. I also expect that the market will have better appetite for corporate risk.

On the sovereign side, the federal government should return to the Sukuk market after such an overwhelming showing in its last round. As the country strives to recover from the effects of COVID-19, we could see Sukuk being applied to other critical social infrastructure such as healthcare and education.

As an operator in the arena, I expect more entrants into this sector as success is typically an invitation to competition. The welcome increase in the number of Islamic finance institutions should create more synergy among participants in the area of advocacy and product development.

Conclusion

Overall, and with a deep sense of gratitude, we can draw the curtains on 2020 with a sigh of relief as the impact of the pandemic has so far been better than expected or not as bad as initially feared. The efforts of all participants — regulators, operators and customers — have in many ways contributed to the recovery from the depths of COVID-19. Given the market's huge potential, the road ahead is still much longer than the one journeyed and I expect that the industry would cover considerable distance in 2021, as we keep making the best of every situation.

Offshore centers continue to feature prominently in Islamic financing transactions

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As governments continue to implement restrictive measures to deal with the fallout caused by COVID-19, S&P remains of the view that the global Islamic finance industry will show low- to mid-single-digit growth into 2021. Offshore financial centers, such as the Cayman Islands, Jersey and Labuan, continue to support the growth of Islamic finance and feature prominently in Islamic transactions, notwithstanding the slowdown.

Review of 2020

The vast majority of global Sukuk issuances in 2020 were undertaken by sovereigns, quasi-sovereigns and banks which continue to use SPVs formed in offshore financial centers to increase liquidity.

In terms of sovereigns and quasi-sovereigns, the emirate of Sharjah issued billions under its unlimited Sukuk program featuring a wholly-owned and managed Cayman Islands issuer. DP World issued US$1.5 billion in hybrid perpetual Sukuk also through a Cayman Islands structure, whereas the IsDB issued billions under its Sukuk program structured in Jersey. Both issuing vehicles were set up as 'orphan' companies, meaning their shares are held on trust for charitable purposes by a licensed trust company and these issuers are also managed by independent directors.

Saudi Electricity Company (SEC) used a wholly-owned Cayman Islands SPV to float its US$1.3 billion Sukuk on Euronext Dublin. Similarly, Bahrain Mumtalakat Holding Company raised US$500 million through its wholly-owned Cayman Islands issuer.

In the aviation sector, hard-hit by COVID-19, both Etihad Airways and Dubai Aerospace Enterprise (DAE) tapped the international Sukuk markets in November. Etihad issued US$600 million-worth of 'transition Sukuk' under its US$3 billion program with an orphan Cayman Islands issuer, while DAE established its US$2.5 billion program and issued US$750 million-worth of Sukuk using a Dubai International Financial Centre (DIFC) company.

Numerous GCC banks made benchmark issuances using vehicles domiciled in popular financial centers. From the UAE and Qatar, each of Dubai Islamic Bank (DIB) and Qatar Islamic Bank (QIB) (issuing over US$1 billion), and Emirates Islamic, First Abu Dhabi Bank, Sharjah Islamic Bank and Masraf Al Rayan (issuing US$500-750 million) made drawdowns under their Sukuk programs using orphan Cayman Islands SPVs.

From Kuwait and Bahrain, Boubyan Bank and GFH Financial Group had successful Sukuk issuances of US$750 million and US$3 billion respectively, also using Cayman Islands SPVs. From Saudi Arabia, we witnessed two notable reset Tier 2 capital securities issuances by Riyad Bank (US$1.5 billion) and Arab National Bank (US$750 million) through Cayman Islands orphan entities. These were followed by a US$1 billion Tier 1 capital securities issuance by DIB (through a Cayman Islands issuer), and were preceded by a US$750 million Tier 1 capital securities issue by National Bank of Kuwait at the end of 2019, which instead chose a DIFC issuer.

Few corporates emerged to tap the global Islamic capital markets over the past 12 months, but several that did again turned to offshore centers. Labuan featured in two issues by publicly listed Malaysia-based companies. Axiata Group made a combined conventional and Islamic securities offering (US$1.5 billion) through two wholly-owned SPVs formed in Labuan and Malaysia, and Serba Dinamik Holdings listed US$200 million-worth of Sukuk at the end of 2019 through a wholly-owned Labuan company on the Labuan International Financial Exchange.

Preview of 2021

Socially and environmentally focused investment products were in great demand in 2020. This trend will extend into 2021 and beyond and continues to highlight the benefits of utilizing offshore centers.

Each of the IsDB, Etihad and SEC floated environmental, social and governance-focused Sukuk using offshore structures. The IsDB (using a Jersey company) issued a debut sustainability Sukuk facility to support its member countries through (and past) COVID-19. Etihad (through a Cayman Islands company) issued transition Sukuk, the proceeds of which will fund its conversion into more environmentally sustainable operations. This transaction was reported as the first sustainability-linked financing in global aviation, with the terms of the Sukuk linked to the airline's carbon reduction targets. The proceeds from SEC's issuance of green Sukuk (through a Cayman Islands SPV) will be invested in green projects aligned with Saudi's Vision 2030 objectives.

In 2021, offshore centers will retain their important role in both the structuring of Islamic funds — which in 2020 noted the launch of three such funds by SHUAA Capital using Abu Dhabi Global Market-incorporated cell companies — and the continued growth of the fintech sector. We witnessed in 2020 how Bursa Malaysia and Singapore-based fintech technology firm Hashstacs partnered up to develop a blockchain proof of concept with the aim of growing the bond market in Labuan by facilitating the issuance of tokenized bonds on the Labuan International Financial Exchange.

We believe Islamic finance would be advanced if more jurisdictions promoted (within their economies and legislation) its benefits, and this can be fostered by recognizing the ease with which offshore centers are used to structure Islamic finance products. For example, in 2020 we saw QIB issue the first Formosa Sukuk through an offshore Cayman Islands SPV. According to the counsel on the transaction, this is the first Reg S Sukuk issuance listed on the Taipei Stock Exchange and was made possible due to amendments to Taiwan's regulations.

Conclusion

Investors desirous but hesitant to make Islamic investments during this tumultuous period will need additional comfort and this can be provided by the reliable stable offshore centers. Offshore centers used for Islamic finance remain committed to implementing international standards recognized by the OECD, the EU and global investors.

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.

Oman: Resilient in the face of unprecedent challenges


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2020 has been exceptionally challenging for global economies. For Oman, add the crash in the oil prices, the global recession and the passing of its charismatic and widely loved and respected leader, Sultan Qaboos Said, in January 2020 and the nature and magnitude of challenges faced by the country were immense. The country yet remains resilient while it faces the challenges.

The Omani government, under the leadership of Sultan Haitham Tariq Al Said, has taken numerous measures to counter the economic impact of the pandemic and the decrease in oil prices; these include the reshuffling of ministries and establishment of a technocratic government, as well as increasing reliance on debt market funding and implementation of fiscal reforms. Whilst it is expected that the global recession may extend into 2021, it is projected that the Oman economy will buck this trend and make a small recovery.

The World Bank has predicted that the Sultanate's GDP will grow by an average of 4% in 2021 should conditions ease. Much will, however, depend on the global economic situation, oil demand, and the efficacy of regulatory measures taken by the government of Oman.

Review of 2020

The substantial decrease in oil prices and combined with the economic effect of the pandemic have materially impacted all GCC economies, including Oman. In this respect, and while no official and definitive data is available yet on the state of the Omani economy in 2020, the World Bank reports that, according to preliminary data issued by the authorities, Oman's nominal GDP has contracted by 3.9% in the first quarter of 2020.

The banking sector was not safe from the impact of the economic crisis, with KPMG reporting a decline in the average profits of Omani banks by 34.2% for the first half of 2020 compared with the same period in 2019 as a result of the reduction in credit flow, revenue compression and increase in non-performing loans.

These exceptional circumstances, however, did not discourage the government from prioritizing the needs of the populace and businesses affected by the ongoing crisis, and the Central Bank of Oman released two stimulus packages aimed at, inter alia, injecting liquidity of more than OMR8 billion (US$20.73 billion) into the economy, reducing interest rates and deferring maturity dates.

Additionally, Oman has begun tapping debt markets by launching its third local Sukuk issuance in September 2021 at a value of OMR200 million (US$518.26 million) and a US$2 billion international bond issuance, with further issuances expected before the end of the year. 'As of the date of publication of this article, Oman has also launched a retail Sukuk issuance expected to close before the end of the year.

The current economic conditions have pushed the government of Oman to take several mitigating measures to prevent government deficit from a further downward spiral. Hence, Oman

is currently experiencing a reorganization of its legal landscape and administrative apparatus led by the dynamic Sultan of Oman which has resulted in the promulgation of over 100 royal decrees in the last few months.

A number of these royal decrees are designed to reorganize and restructure the government of Oman and the underlying legislative framework of the government's functions with the aim of achieving the Oman Vision 2040 plan and establishing a technocratic government.

Several councils and authorities which have previously played an important role in the economy have been abolished and/or merged with ministries. In addition to changes in the form of the government, Sultan Haitham has enacted the long-awaited value-added tax (VAT) law by Royal Decree No 121/2020, scheduled to come into effect next year. The VAT law imposes VAT at a basic rate of 5% in Oman.

Preview of 2021

2021 will be a year filled with cautious optimism. While the COVID-19 pandemic and its economic effects have adversely impacted the globe, it is expected that the regulatory reform in Oman will continue into the new year and its positive effects should become visible in the form of an increase in foreign direct investments and diversification of the country's source of revenue away from the traditional hydrocarbons sector.

At the time of publication of this article, the Government has announced its intention to introduce income tax on high income earners in 2022, which would make it the first country in the GCC to impose such tax.

Conclusion

2020 has been a difficult year for Oman and the rest of the GCC region. However, decisive action was taken by way of reorganization of the Government and other fiscal and regulatory reform led by Sultan Haitham. These reforms are reflective of Oman's realization of the necessity to adapt its policies to economic realities which are expected to continue throughout 2021 in order to face the challenges ahead with resilience.

Islamic finance in Pakistan remains resilient to pandemic

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The outbreak of the global COVID-19 pandemic that started at the beginning of 2020 has brought all business activities to a standstill with an unparalleled and unforeseen impact on human lives, economies, societies and livelihoods. The pandemic resulted in one of the worst health crises across the globe and severely impacted key economic indicators. Economic shutdown has created issues like demand and supply shocks that echoed through the global economy.

The world is still dealing with the pandemic situation and many countries have slowly started to revive their economy by resuming trade and businesses. There has been an enormous loss in the past few months both in terms of the economy and human lives.

Due to the impact of the pandemic, governments and financial regulators have deployed sizeable stimulus packages and various assistance programs in order to contain the crisis and stabilize the economy. This includes addressing demand and supply disruptions, maintaining cash flows and keeping workers employed.

Like other sectors and industries, the global financial services industry also suffered from the impact of COVID-19. The industry is still facing challenges such as health, liquidity, credit risks, etc. Similarly, the Islamic financial industry is also not immune to the brutality of the pandemic. At the beginning of 2020, the industry was expected to perform well but due to the pandemic and lower oil prices, the outlook on global finance has changed.

However, the Islamic financial services industry of Pakistan has achieved a sensible and stable performance during the 2020 fiscal year which includes banking and non-banking segments. At present, the Islamic financial services industry consists of Islamic banks, microfinance banks, Islamic mutual funds, Modarabas, Takaful companies and Islamic REITs. Commercial and microfinance banks operate under the State Bank of Pakistan (SBP) while the rest of the sector are supervised by the Securities and Exchange Commission of Pakistan (SECP).

Review of 2020

The Islamic banking industry which has a major share of the Islamic financial services industry has progressed well in Pakistan. According to the Islamic banking bulletin of the SBP for the period ended the 30th June 2020, the Islamic banking industry performed well. Overall, the market share increased to 15.3% as compared with 14.2% in the same period of the previous year. Year-on-year growth was recorded at 21.4% and 22% for assets and deposits respectively. The branch network of the Islamic banking industry also increased from 2,913 branches to 3,274 branches during the 2020 fiscal year which reflected a growth of 12.4%.

Despite the difficult operating environment, the results of the banking sector was very encouraging. Meezan Bank had a 65% growth in profits according to the recently announced results of the third quarter of its current financial year. The impressive performance was due to the expansion of its operations in various fields across the country. Faisal Bank also converted a majority of its branch network into Shariah compliant banking and it emerged as a strong fully-fledged Islamic commercial bank.

During the pandemic, the SBP issued several directives and took remedial measures in order to dampen the adverse effects of COVID-19 and to enable banks and development financial institutions continue to fulfill their role in funding the real economy. The SBP has provided regulatory relief by revising the prudential regulations for corporate/commercial banking, consumer financing, agricultural financing, microfinance, SME financing and housing finance.

> **“It is worth noting that a large portion of the country’s population is still attached to the agro-economy, but its real potential is still untapped”**

These initiatives included the rescheduling and deferment of borrowed facilities, reduction in the policy rate from 13.25% to 7.25%, a new concessional refinance facility for wage and salary payments and funding to hospitals and for the setting-up of new industrial units and such.

Encouraging activities in the issuance of Sukuk were seen within the financial market and a good number of Sukuk facilities were issued during the year. The most notable Sukuk issuances were the energy Sukuk and housing finance Sukuk issued by the Pakistan Mortgage Finance Company. The said Sukuk were tax-free and it was the first time that they were introduced in Pakistan. Besides, the government of Pakistan also issued sovereign Sukuk Ijarah to support Islamic banks in managing their excess liquidity.

Recently, the SBP also took the initiative to facilitate non-resident Pakistanis to open a Roshan Digital Account (RDA) for conventional and Islamic banking. The RDA provides digital banking facilities including access to online banking and domestic fund transfer including investing in government bills, the stock exchange and the real estate sector with an option of full repatriation.

Non-resident Pakistanis can also invest in three-month to five-year Shariah compliant savings certificates such as the Islamic Naya Pakistan Certificates both in foreign and local currencies. This is an innovative banking solution for millions of non-resident Pakistanis and also for the first time in Pakistan’s history.

On the other side, non-banking segments such as Takaful companies, Islamic mutual funds, Islamic REITs and Modarabas also made satisfactory progress despite the difficult operating environment due

to the pandemic. The SECP also provided regulatory and other relief measures in order to reduce the impact of the pandemic on non-bank finance companies.

Preview of 2021

Pakistan, being the second-largest Muslim country in the world, has great potential for the expansion of Islamic finance. At present, the market share is around 16% and the government of Pakistan is targeting to increase it to 25% by 2023 under the National Financial Inclusion Strategy for Islamic Banking. The recent move to promote the construction industry and mortgage financing is creating opportunities for Islamic financial institutions to engage with the Islamic mortgage financing segments where there is a need for borrowers to obtain Shariah compliant financing.

The revised instruction of the SBP for Islamic banking windows to expand the scope of operations would also help to enhance the market share of the Islamic financial services industry. At present, the share of Islamic financing to the agricultural and SME sectors is very low and the SBP is very keen for the growth of the said sectors by engagement with Islamic banks through Shariah compliant financing. It is worth noting that a large portion of the country’s population is still attached to the agro-economy, but its real potential is still untapped.

Conclusion

Although the markets have restored their operational position amid the pandemic, expecting the same level of performance is unrealistic since the virus has not completely vanished. COVID-19 cases are still increasing and Pakistan may experience an uptick in cases once again. Social distancing is likely to be the catalyst for Islamic banks across many countries to accelerate their digital transformation strategies especially for financial inclusion, which is also a core issue for Pakistan as well.

COVID-19 has raised several challenges for the economy and businesses and these recent examples have demonstrated how it has increased awareness of the potential of Islamic finance. Digitalization can play a key role in the success of the Islamic financial services industry. The potential market for Islamic fintech services is vast in Pakistan. As such, fintech has the potential to play a major role in the Islamic finance industry primarily to improve processes and cost-effectiveness, while maintaining Shariah compliance.

Palestine: A promising investment avenue for Islamic finance

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Banks in Palestine nowadays can be classified into Islamic banks and conventional banks. Conventional banks constitute about 82.7% of the banking system and more than 88.3% of total branches, while Islamic banks constitute about 17% of total banks and branches.

Economic activities in Palestine suffered during the lockdown in the second quarter of 2020 due to the coronavirus pandemic and are expected to only stabilize in the second half of the year if the current conditions prevail. The fiscal position has worsened not only due to the outbreak but also due to a political standoff that is disrupting the flow of revenues. The outlook remains precarious and subject to numerous political, security and health risks.

Review of 2020

Following three consecutive years of economic growth below 2%, 2020 is proving to be an exceptionally difficult year as the Palestinian economy faces three crises — i) resurgent COVID-19 outbreak, ii) severe economic slowdown, and iii) another political standoff between the Palestinian Authority (PA) and the government of Israel — that are disrupting clearance revenues.

Following a fiscal crisis in 2019, the Palestinian economy was projected to slowly recover in 2020. However, the pandemic outbreak seems to be largely weighing on economic activity. Living conditions are difficult with a quarter of the labor force being unemployed and 24% of Palestinians living below the 2011 purchasing power of US$5.5 a day — even prior to the recent outbreak. A larger than expected decline in aid and a further spread of the virus pose significant downside risks.

Growth in 2019 was estimated to have been weak, reaching 0.9%, as economic activity was disrupted for most of the year due to the fiscal crisis. Notably, this outturn is a result of Gaza registering minimal positive growth following a steep recession in 2018 (-3.5%), while growth in the West Bank in 2019 was expected to reach the lowest level over the last five years (1.1%), down from 2.3% in 2018.

Going forward, measures put in place by the PA since early March 2020 to halt the spread of the pandemic outbreak, while effective in limiting the spread of the virus, seemed to have resulted in disruptions in economic activity, especially in the West Bank. As a result, the economy is expected to contract by 2.5% in 2020.

Preview of 2021

There are significant risks to the outlook. If the pandemic outbreak is not controlled soon, its impact on economic activity and livelihoods is going to be severe in Palestine. Under this scenario, drastic measures are expected to be put in place including a complete lockdown of the West Bank and Gaza and a ban on movement between cities.

A difficult year is already assured even with no further escalation of public health measures. While some measures to curb movement and gatherings are still in place, most activity remains open. Assuming that the lockdowns remain limited, the severe first half contraction will likely avoid a repetition, though not sufficient to offset the losses in the first half.

Consequently, GDP for 2020 is expected to contract by about 8%. A **modest bounceback** is expected in the forecast period with growth averaging 2.5% as full normalization of activity is not expected to occur before the second half of 2021. The poverty rate is projected to stall around 27.5% in 2021.

Private sector representatives have also announced plans to cut pay by 50%. The largest impact would be through a decision to stop the entry of more than 140,000 Palestinian workers to Israel, as these workers and their families account for a third of private consumption given their higher take-home pay.

A sharp reduction in the number of tourists is also expected to contribute negatively. The lack of policy tools, such as fiscal stimulus, liquidity injections or external borrowing could leave the economy vulnerable. The impact on consumption could be severe and the economy could contract by more than 7%.

Islamic banks in Palestine focus on their social role toward the community by explaining well the different aspects of the Islamic banking sector and clarifying the features of the offered services as well as the dedicated social responsibility to the community.

The customers' perspectives regarding Islamic banks are considered as a cornerstone for success. Hence, the Islamic banks in Palestineb are developing a questionnaire that aims to explore the reasons of preferring to deal with Islamic banks.

Hence, Palestine in particular is given a wide focus so as to recognize why Islamic banking is dominating, whereas the economy in general is unstable in terms of growth and performance. Islamic banks in Palestine play a significant role in the growth of society in terms of market share as well as their international outreach. These elements together help to attract non-Muslims too.

Conclusion

As mentioned earlier, a difficult year is already assured even though most activity remains open. Assuming that the lockdowns remain limited, the severe first half contraction will likely not be repeated, though not enough to offset the period's losses.

GDP for 2020 is expected to contract by about 8% with a modest bounceback in the forecast period with growth averaging 2.5% as full normalization of activity is not expected before the second half of 2021. The poverty rate is projected to stall around 27.5% in 2021. On the fiscal side, the outlook depends on whether there is a resumption of clearance.

Forging ahead with Islamic banking

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The passage of Republic Act No 11439, otherwise known as 'An Act Providing for the Regulation and Organization of Islamic Banks,' was a milestone for Islamic banking and finance in the Philippines. For the longest time, the country had no legislative framework for the establishment of Islamic banks in the country, but this changed with the enactment of the Islamic Banking Law in 2019.

It is true that, in 2018, the 'Organic Law for the Bangsamoro Autonomous Region in Muslim Mindanao' (Republic Act No 11054) was enacted and did authorize the parliament in that autonomous region to craft a law for the formation of more Islamic banks, apart from Al-Amanah Islamic Investment Bank which, to date, is the only existing bank of its kind in the Philippines. However, this 2018 statute is regional in scope. The Islamic Banking Law of 2019 is national in scope and application.

Review of 2020

The Bangko Sentral ng Pilipinas (BSP) took steps to implement the Islamic Banking Law. It clarified that indeed it is open to allowing more Islamic banks to operate in the country. Not only that, the BSP will also permit existing universal and commercial banks to open Islamic banking units that are distinct and separate from conventional banking units. Moreover, qualified foreign Islamic banks can operate in the Philippines by (i) establishing a wholly-owned domestic subsidiary bank, (ii) acquiring an existing domestic bank, or (iii) forming a local branch office, in each case with BSP approval.

In addition, the BSP has prescribed a Shariah governing framework (SGF) for Islamic banks and Islamic banking units. The SGF requires the appointment of an independent Shariah Advisory Council that will approve and certify product structures and their documentation, in addition to issuing opinions and clarifications on Shariah compliant matters.

The BSP has even released a primer on Islamic banking fundamentals, to address "the low awareness and capacity on Islamic banking and finance not only for the regulators but also for the industry players and other stakeholders". The primer, which is in a question-and-answer format, covers the core features of the Islamic Banking Law. It goes into the key distinctions between conventional and Islamic banking, as well as the requirements for establishing Islamic banks or Islamic banking units in the Philippines.

In turn, the Bureau of Internal Revenue (BIR) issued its own regulations implementing the Islamic Banking Law's "tax neutrality" provision which is designed to provide a level-playing field in terms of taxation between Islamic banking and conventional banking, so that Islamic banking transactions will not be disadvantaged tax-wise in relation to their conventional counterparts. Basically, the BIR ruled that the tax treatment of Islamic banking transactions will be "based on their economic substance rather than their form" and where an Islamic banking transaction is "economically equivalent to a conventional bank product, the tax treatment of the two should be the same."

All in all, the stage was set for an Islamic banking ascent in the country but for the intervening coronavirus pandemic which has

disrupted nations worldwide and adversely affected commerce and industry nationally and internationally.

Preview of 2021

The march toward Islamic banking in the Philippines would depend, in large measure, on the success of the government in curbing and controlling the pandemic. Should the pandemic ease and ebb, the disrupted momentum toward an energized Islamic banking industry in the Philippines would resume.

Assuming this is the case, 2021 will see the opening of Islamic banking units within existing conventional banks, and the filing by foreign Islamic banks of their applications with the BSP and the Securities and Exchange Commission for the establishment of their desired Islamic banking presence in the Philippines (whether via a stand-alone subsidiary which is a separate juridical entity, or a branch office which is an extension of the legal personality of the offshore head office).

In the meantime, the BSP and the banking sector would be expected to continue raising public awareness in Islamic banking and finance, as well as encourage and promote the emergence of a pool of scholars or experts on Shariah law who will make up the Shariah Advisory Council mandated by the SGF.

Conclusion

The future of Islamic banking and finance in the Philippines remains positive, with the requisite legal and regulatory infrastructure already in place. With the economic contraction caused by the pandemic, the government is expected to look for all possible sources of funding its budgetary deficit. For the longest time, a planned maiden Sukuk issue has been on the drawing board. The time has come to refocus earnestly on Islamic banking and finance.

Qatar: Hope in uncertain times

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2020 has been a challenging year for markets around the world as they continue to deal with the impact of COVID-19. During the second quarter of 2020, the economy of Qatar declined due to COVID-19 restrictions and preventative measures, but the market remained resilient despite the consequences of the pandemic on the economy. As the government eases lockdown restrictions, Qatar's economy appears to be recovering. According to projections by Trading Economics, the GDP of Qatar is expected to reach US$160 billion by the end of 2020.

Review of 2020

On the 24th September 2020, Moody's Investors Service announced its review of ratings in Qatar, affirming that the long-term issuer and foreign currency debt ratings on the government of Qatar are at 'Aa3', with a steady outlook. Moody's explained that the strong ratings are a result of Qatar's large hydrocarbon reserves, the high levels of per-capita income (which was US$132,886 in 2019), the government's strong net asset position and Qatar's effective macroeconomic policies.

A number of Islamic banks announced their results for the period ending September 2020. Masraf Al Rayan reported a net profit of QAR1.66 billion (US$448.04 million) for the period ending the 30th September 2020, which is a 0.53% increase compared with the same period in 2019. Qatar Islamic Bank (QIB) also announced its results for the period ending on the 30th September 2020. QIB's net profit remains stable, amounting to QAR2.22 billion (US$599.19 million), which is in line with its net profit of 2019. QIB also reported a total income of QAR5.96 billion (US$1.61 billion), a 4.4% increase from the income reported in 2019. In addition, Al Ahli Bank announced a net profit of QAR500.78 million (US$135.16 million). Islamic banks in Qatar have been implementing strategies to mitigate the effects of the pandemic, and these results highlight the banks' efforts over the last few months.

During 2020, the State of Qatar introduced a number of new regulations and notable regulatory reforms, including the public–private partnership (PPP) law, the executive regulations of the foreign investment law, the law on ownership of real estate by foreigners and amendments to the labor law in an effort to improve the economy and encourage foreign investment in the State. On the 1st September 2020, Qatar witnessed the first PPP agreement of its kind in the education sector as Barwa Real Estate Group and the Public Works Authority signed a PPP agreement to develop eight public schools in Qatar.

Technology and innovation have been an area of focus for Qatari banks for the last few years, and a move toward digitalization and innovation was further accelerated by COVID-19, which pushed financial institutions, including local Islamic banks, to invest in and offer new digital products and services to meet the needs of their customers. In February this year, Qatar International Islamic Bank (QIIB) launched the SWIFT gpi payment system, which facilitates international payments and offers full transparency to customers. QIIB announced the completion of the implementation of the third phase of the SWIFT gpi system in October 2020, making it the first bank in Qatar to complete the implementation of this program. The SWIFT gpi system provides instant information on the status of transactions, and allows customers to track their transfers in a quick

and efficient manner. QIIB announced that the system also provides a number of other services, including high-tech features, which will be announced in the near future.

Preview of 2021

As we have seen this year, local Islamic banks in Qatar have been swift in adopting new technology and in launching their own digital programs, and we expect this momentum to continue in 2021 as part of Qatar's fintech strategy. Qatar Central Bank (QCB) announced that it plans to launch sandbox technology to enhance computer security on a state level. The governor of QCB stated that the sandbox technology "will pave the way for a new era of financial services in the State of Qatar, as part of the financial inclusion strategy, which will be launched soon at [the] state level".

As part of Qatar National Vision 2030, the government intends to invest nearly QAR60 billion (US$16.19 billion) in infrastructure and real estate projects over the next four years. GlobalData expects construction output to grow by 3.8% between 2021 and 2024. In addition, the ratification of the PPP law is expected to encourage private sector involvement and investment in the development of infrastructure in the State. We anticipate that these factors will boost the Islamic banking sector in Qatar, as banks will be eager to participate in financing infrastructure projects.

According to investment bank Societe Generale, Qatar's GDP is expected to rise to more than US$200 billion in 2021. Societe Generale added that Qatar's GDP per capita has been estimated to reach US$72,554 in 2021, compared with US$70,737 this year.

Conclusion

With COVID-19 cases around the world continuing to spread and countries starting to reinstate lockdown measures, the future of economies remains uncertain. Nevertheless, we expect that the support of the Qatari government, including the amount of subsidies offered to private and public institutions, the shift toward digitalization and the number of regulatory reforms, will assist the financial market and local Islamic banks through these uncertain times.

Online format for Islamic financial instruments in Russia

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The global coronavirus pandemic which covered Russia at the beginning of 2020 caused quarantines and the lockdown of citizens which have blocked business activity of different industries, including Islamic financial institutions. The severe business and social environment decreased the income level of the population and the corporate sector. Retail business was active only in terms of food and beverage supply. Thousands of small enterprises could not restore their activity for even three months after the cancelation of the lockdowns.

However, existing Islamic financial institutions are battling the external obstacles and have introduced remote channels of communication with customers. Now clients are able to make a lot of transactions online (open and close accounts, sign documents via an electronic signature, transfer money, attract money from investors, obtain a Halal debit card, etc).

All Islamic finance educational programs in leading Russian universities have strong demand from potential students and all are now in the online format. The online format allows the intake of students from any location with internet connection and decreases the fares for education.

Review of 2020

The speed of growth of Halal projects in the real and financial sectors of Russia in 2019 decreased or even stopped in 2020 because of the coronavirus pandemic. But economic depression has led to an adequate response from volunteers in Russian Muslim regions who initiated charity programs. Owners of small shops in Chechnya and Dagestan canceled all the debts of the poor people who suffered during lockdowns. This initiative became huge and very quickly spread all over Russia. Other people voluntarily bought food and beverages in shops to give for free to senior citizens and the disabled, multi-children families and other vulnerable groups of Russian Muslims, popularizing the Islamic idea of charity.

The Russian regulator in 2020 concentrated its main activity on the legal and methodological aspects of Islamic finance, organizing only online consultations with experts.

Islamic finance is active in the following regions in Russia: Tatarstan, Baskorkostan, Dagestan, Chechnya and the Nizhniy Volga region. Although all the major events of Islamic finance and the Halal industry were canceled, demand for such events is expected to continue next year.

Despite declining business activity in Russia, large state-owned Russian financial institutions continued to realize their plans for developing Islamic financial transactions. After state banking corporation Vnesheconombank opened its branch in Abu Dhabi in the UAE in 2018, the biggest state bank, Sberbank, launched its branch in the UAE in October 2020 for Shariah compliant transactions in Middle Eastern countries.

Islamic finance has been included as an educational course in all programs of Islamic universities in Russia. The Central Bank of the Russian Federation supported the proposal of the Participating Banking Working Group to the Ministry of Education of Russia to include Islamic finance as an educational course in the Bachelor of Economic compulsory program in every Russian civil university. So, despite severe obstacles, Halal activity in the financial sector in Russia found possibilities to develop in 2020.

Preview of 2021

The speed at which Islamic finance develops in Russia in 2021 will depend on different factors. On one hand, it is difficult to forecast how quick Russia's national economy will recover after the severe impact from the coronavirus pandemic. Generally, it will depend on state support at the federal and regional levels and the efforts of business organizations and the population itself.

On the other hand, Islamic finance as a model is more attractive during crises, when its stable and low-risk activity attracts conservative private and corporate investors. Growing demand for Islamic financial instruments in Russia began in the middle of 2020 and will continue to increase in 2021.

I hope that quarantines will ease in 2021 which will allow major international events in the Halal industry to be held normally.

In 2021, I expect there to be an increasing number of Islamic finance educational programs in Moscow and other regions. The programs will become more advanced, and will have more variants and options for students of different levels. We hope that Russian universities will find experienced partners among leading universities in Malaysia, Egypt, Bahrain and other Islamic countries to organize joint educational programs in different forms.

Conclusion

In 2020, despite the economic crisis caused by the global coronavirus pandemic, Islamic financial institutions have transferred their business to the online format, which attracted more customers from all over Russia and other countries. Universities are also providing online educational programs for students and inviting global experts in Islamic finance, popularizing the Islamic finance model among the population and business leaders.

Although there is growing interest in the Halal business and Islamic financial products in the banking, insurance and stock market sectors among the population and business institutions, only the supply of Halal food and beverage was successful. The reasons are the same like for previous years: absence of Islamic finance legislation, absence of a friendly fiscal policy, lack of stable Islamic finance investors, no attractive conditions for foreign investors, no governmental programs for the promotion of the Halal sector in Russia and such.

In general, 2020 was worse than 2019 in terms of Islamic finance industry development. But there are signs of recovery. In 2021, Islamic financial institutions will be more in demand because they have an advantage during the crises in terms of their stability and risk control to attract retail and corporate customers. The Islamic finance sector should use this unique possibility for breakthroughs and to take more business in the national financial market.

Saudi Arabia under rapid transformation

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Despite the COVID-19 pandemic, the economic and social reforms which the Kingdom of Saudi Arabia (Kingdom) embarked on at the inception of Vision 2030 have largely continued. Many of these reforms are aimed at market liberalization, while adapting to the new realities of the current pandemic. Partly due to the pandemic, a record number of bankruptcies and restructurings have been filed in relation to the relatively new Saudi Bankruptcy Law. Certain sectors continue to evolve evidenced by the number of mergers that have occurred in the banking and insurance sectors in 2020, in addition to the merger of SABIC and Saudi Aramco. Saudi Arabia also had its first unicorn in November 2020, when Western Union acquired 15% of stc pay valuing the entity at US$1.3 billion.

The Kingdom also continues to make significant investment in creating new cities such as Red Sea and Neom. We also note the continued focus on the entertainment sector in continuing to license new movie theater operators and focusing on developing the tourism sector.

Review of 2020

In 2020, the Kingdom saw significant development in its legal and regulatory terrain aimed at liberalizing the economy, increasing non-oil revenues and improving investors' confidence. In the following, we highlight some of the significant examples in the Saudi market in 2020.

- *Assuming the G20 presidency*: In December 2019, the Kingdom assumed the G20 presidency from Japan. The Saudi G20 presidency began from the 1st December 2019 and ended on the 30th November 2020. The Leaders' Summit took place on the 21st-22nd November 2020 virtually in Riyadh. In the run-up to the summit, the presidency hosted and will continue to host more than 100 meetings and conferences, including ministerial meetings, as well as meetings of officials and representatives from civil society.
- *New draft companies law*: The Saudi Arabian Minister of Commerce and the Saudi Arabian Capital Market Authority (CMA) issued a new draft companies' law for public commenting. If approved, the new draft law will be considered a major overhaul of the current version of the law. The most significant change in the law is the creation of a new corporate form called the simple joint stock company which significantly resembles a private company limited by shares. The new draft was prepared based on a benchmarking exercise which reviewed corporate practices from various jurisdictions.
- *New amendments to private fund regulations*: In June 2020, the CMA published the draft amendments to the Investment Funds Regulations and Real Estate Investment Funds Regulations for public consultation. One of the most significant developments is the proposed amendments to allow for the listing and exchange of units of closed-ended funds and real estate investment funds on the Saudi Parallel Market (Nomu).
- *Adoption of the Payment Service Providers Regulations*: After a period of public consultation, the Saudi Arabian Monetary Authority (SAMA) implemented the Payment Services Providers Regulations (PSP). The PSP govern the regulation and licensing of payment service providers, taking into consideration the rapid evolution of the sector globally and in the Kingdom. The PSP address four types of payment service providers: major and micro payment institutions and major and minor electronic money service providers. This has been instrumental in growing the fintech sector in Saudi Arabia.
- *Creation of the Saudi Arabian Ministry of Investment*: On the 25th February 2020, the Ministry of Investment (MISA) was established to replace its predecessor, the Saudi Arabian General Investment Authority (SAGIA), which had been established on the 10th April 2000. Prior to the creation of MISA, SAGIA was a unit overseen by the Ministry of Commerce and Investment. Upon its creation, MISA played a key role in ensuring business continuity for foreign investors during the COVID-19 lockdown. It is worth noting that according to the Ease of Business 2020 report issued by the World Bank, the Kingdom ranked first in the world in business environment reforms among 190 countries in the Ease of Doing Business Index.
- *Increase of VAT to 15%*: With effect from the 1st July 2020, the Kingdom announced that the value-added tax (VAT) rate will increase to 15% from the current 5%. The increase comes as part of the fiscal measures taken by the Saudi government in response to the economic impact of the COVID-19 crisis. The increase is aimed at addressing the decline in government revenue resulting from lower oil prices, reduced economic activity and increased healthcare expenditure.
- *New approval of 100% foreign ownership in the pharmaceutical distribution and manufacturing sector*: On the 15th April 2020, the Kingdom implemented the Pharmaceutical and Herbal Establishments and Substances Regulation, providing liberalization on the ability of foreign nationals or companies to directly own certain pharmaceutical businesses in Saudi Arabia. The regulations removed the restrictions on foreign investors in pharmaceutical warehousing and manufacturing. The Kingdom, however, continues to restrict the retail pharmacy sector to Saudi nationals. The Ministry of Health, however, has licensed numerous foreign entities to own and operate hospitals and medical centers.
- *Participation in COVID vaccine trials:* In August 2020, the Kingdom commenced a third phase of a clinical trial for a coronavirus vaccine in cooperation with China's vaccine developing company CanSino. About 5,000 healthy volunteers in the Kingdom over the age of 18 years participated in the trial which was launched in three main cities: Riyadh, Dammam and Mecca.

Preview of 2021

Fintech, e-commerce and digitalization appear to be a focus of the Kingdom's reform plans. E-commerce, along with digital payments and crowdfunding, has proven to be one of the most resistant sectors during the COVID-19 pandemic. As such, SAMA has been very active and is currently finalizing a new set of regulations which will govern debt crowdfunding. The Kingdom continues to also focus on increasing its stock of middle-income housing for the benefit of the Saudi public.

Conclusion

Despite the COVID-19 pandemic, the sweeping change in the Saudi economy signals that the Kingdom is still open for business. We have witnessed all Saudi governmental entities operating longer hours and meeting with foreign investors via the internet. With the promising news about a potential COVID-19 vaccine, we foresee the Kingdom's momentum continuing to grow.

The impact of Islamic finance in times of a health crisis in Senegal

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With the COVID-19 health crisis, almost all sectors of activity have felt its impact in Senegal.

The banking sector in general, with the support of the Central Bank of West African States, has been able to set up a support system for individuals and businesses that are having difficulty repaying their loans due to the health crisis.

Islamic financial institutions in Senegal have not been significantly affected by this pandemic. They have suffered a slowdown in their activity following a decline in economic activity due to the semi-containment measures taken by Senegal as part of the fight against the health crisis.

Through the various financing, investment and support operations for disadvantaged areas in the world, the IsDB has made the Republic of Senegal understand that the development of the country really requires a strong involvement in Islamic finance activities.

Review of 2020

Since early 2020, the coronavirus pandemic has significantly changed the country's economic outlook. In 2020, growth slowed sharply to an estimated 1.3%, with services (such as tourism and transport) and exports being particularly affected. Senegal responded by taking containment measures and putting in place an economic and social resilience program to protect lives and livelihoods.

The year 2020 was marked by the unwavering support of the IsDB in the development and growth of economic activity. In this sense, an IsDB financing program was carried out aimed at creating an environment favorable to the development of green sectors and green exports, with the implementation, at the national level, of measures intended to increase the production and marketing of green products, as well as to strengthen production activities in the value chain.

In addition, the US$31 million Agropole Sud project launched in the south of Senegal aims to create favorable conditions for private investment in the processing of agricultural products, agricultural inputs and services, and for building the capacities of value chain players to sustainably increase agricultural yields, as well as improving access to markets, knowledge, inputs and services.

It is also worth noting the support given to the Islamic Bank of Senegal by the International Islamic Trade Finance
Corporation, a member of the IsDB group, with funding of EUR8 million (US$9.43 million) to support the Senegalese private sector's trade finance operations during the health crisis.

All of this is only a small glimpse of the real impact of the IsDB in support of Senegal through Halal financing. It also demonstrates the special interest that the IsDB has in Senegal for the development of Islamic finance activities. Moreover, the promotion of Islamic finance through the PROMISE program has made it possible to sensitize microfinance players as to the opportunity to bring about the emergence of Islamic microfinance.

During this health crisis, which had drastic economic consequences, the inadequacies of the conventional system were somewhat demonstrated. It is for this very reason that Senegal, through some of its ministries, is banking on the development of agriculture, in particular the rice sector, with techniques to support Islamic finance.

Preview of 2021

The health crisis has hampered economic growth including that of Islamic finance activity. A small margin of progress was noted in particular with the various actions carried out by the PROMISE program and the Islamic Bank of Senegal within the framework of the promotion of the financial model. However, the path is still far for a real boom in Islamic finance to happen in Senegal.

Despite all the actions carried out in the past, we realize that Islamic finance is evolving slowly in Senegal and still faces major constraints that the authorities are slow to address. However, it is up to Islamic financial institutions to seek the support of the state and the IsDB in particular for the revision of texts and the effective and efficient supervision of Islamic finance activities in Senegal.

The health crisis has exposed the limits of our economic and social systems, so 2021 will really be an opportunity for Senegal to make corrections and to recover with the instruments of Islamic finance. This, the Islamic financial institutions seem to have understood correctly. We will certainly see the forthcoming opening of Islamic microfinance institutions, Takaful societies and the implementation of collaboration programs with the High Authority of Waqf.

In view of the events that took place in 2020 not only in Senegal but also in the world, we should consider 2021 as a renaissance year and focus on the Islamic economic system, which has always remained flawless.

Conclusion

The health crisis that has engendered economic and social instability can also be considered as a warning sign for the real consideration of the need to integrate Islamic finance into the Senegalese economic system.

The Republic of Senegal has realized the true potential of Islamic finance and intends to rely on this system for the development of certain sectors. It is therefore up to Senegalese Islamic finance professionals to use all means to work for the supervision and development of these sectors.

The IsDB has played its role perfectly, and it is now up to Senegal and the banks and Islamic microfinance institutions to implement financing and investment programs aimed at supporting agriculture, livestock, fishing, industry and commerce.

In addition, the actions of the High Authority of Waqf must be increased and redirected in concert with financial institutions in order to support the sectors of education and health. Islamic finance in Senegal, despite the slow progress, has a really promising future and the Islamic Bank of Senegal will play a key role.

Singapore: Slow but steady progress


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2020 proved to be a challenging year understandably given the COVID-19 crisis. Singapore had been hit especially hard economically given its small and open economy which has a high correlation with global growth. According to the Ministry of Trade and Industry, the country's GDP is estimated to grow at -6.5% to -6% in 2020.

Nonetheless, the country's successful management of the COVID-19 outbreak domestically, where community cases had been brought down to low or often zero community cases in the final months of 2020, and the discovery of a vaccine, has raised hope of a better 2021. GDP is expected to rebound to a growth rate of +4% to +6% in 2021 with the government undertaking a gradual and cautious reopening of the economy.

Review of 2020

The Islamic finance sector was not shielded from this slowdown. As we know Islamic finance has always existed at two levels in Singapore, one being at the corporate finance level and the other at the wealth management level.

At the corporate finance level, Islamic finance has had to face challenges from traditional power houses Malaysia and Indonesia. Thus, it is no surprise that in 2020, little was heard on this front except for the ESR-Sabana REITs saga although there has been a notable pick-up in Sukuk issuance in these neighbouring countries where both sovereigns and corporations were seen raising money to help with their respective COVID-19 situations.

Instead, in Singapore, as the case has been in recent years, it was the wealth management front that saw more activity in the Islamic finance space, relatively speaking.

On the corporate finance side, the ESR-Sabana REITs merger saga culminated in early December with Sabana's unitholders scuttling the potential merger at its extraordinary general meeting. For Muslim investors, this avoided what could have been the de-listing of the only Shariah compliant REIT by constitution listed on the Singapore Exchange (SGX) and also the situation whereby the new merged entity, the fourth largest REIT by market share and fifth largest in Singapore by asset size, would itself potentially be non-Shariah compliant.

Another noticeable development was the launch of SGX-listed ValueMax's first fully Shariah compliant pawnbroking branch in Singapore. The Shariah compliant pawnbroking outlet is ValueMax's 36th branch but its maiden venture into the area of Islamic pawnbroking. In this joint venture, Ar Rahnu Singapore, provides both advisory on marketing and Shariah compliant-related issues.

In the area of Islamic wealth management, DWS surprised the market by not renewing the prospectus of its Shariah compliant DWS Noor Precious Metals Securities Fund, the only Shariah compliant unit trust buying into the precious metals mining sector available in Singapore. While still open to institutional and accredited investors, retail investors have not been able to subscribe to the fund since early October.

On a brighter note, the Shariah compliant Montreux Healthcare Fund, which is registered under the Monetary Authority of Singapore (MAS)'s restricted scheme has continued to see strong inflows. The private-equity fund, which focuses on the UK specialist healthcare sector, has so far garnered in excess of SG$30 million (US$22.49 million) from Singaporean investors.

Maybank Islamic has also made it easier to open Shariah compliant saving accounts online, namely their Ar-Rihla Savings Account-i and iSAVvy Savings Account-i.

Preview of 2021

The present trajectory that Islamic finance is on in Singapore is not expected to deviate much in 2021. Until and unless there are more regulatory changes and incentives to boost the Islamic finance corporate sector, little is expected next year in terms of activities. Thus, yet again, it will be the wealth management segment of Islamic finance that could potentially excite in 2021.

In early December 2020, MAS announced the successful applicants for the various digital banking licensed being offered. For one, we will be eagerly awaiting to see if any of the successful digital full banking license winners will hint making Islamic retail solutions as part of their suite of offerings when they open for business in 2022. One aspect which many hope these new digital banks will potentially look into is in the area of Islamic home financing.

Conclusion

While the Islamic finance landscape in Singapore may not be moving as fast as its neighbors, there are developments on the ground level which continue to make slow but steady progress. In some respect, there have been developments that showcase Singapore's unique position as a financial center and springboard into the region. For instance, a Singapore-based financial advisory had facilitated the introduction of the Shariah compliant Montreux Healthcare Fund (MHF) into Malaysia by working with a local partner there, OUD Asset Management. The feeder fund, OUD Montreux Healthcare Fund, is regulated by the Securities Commission Malaysia and has since grown substantially with an AUM in excess of RM15 million (US$3.7 million).

Ethical investing is key in the current climate of South Africa

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2020 has been characterized by a low-hanging cloud of uncertainty as we have witnessed local and global economies reel under the unexpected, immediate crises bought about by the COVID-19 pandemic. Efforts to reopen global economies are cautiously underway and it appears that the most severe scenarios concerning global health and the resultant economic outcomes have been largely averted.

More than ever, the Shariah investment space is vindicated by the teachings that guide daily life and economic investments — rooted in the sacred law. Shariah compliant funds may not invest in highly leveraged companies, eliminating options within the traditional finance sector. Companies selected for investment need to have closely managed debt and cash balance levels to avoid the payment, or receipt, of excessive interest — and in the current climate — less-geared companies have tended to outperform highly indebted ones.

We believe that environmental, social and governance (ESG) considerations are an imperative part of the overall investment process, with quantitative analysis of material ESG factors and the inclusion of this in the valuation process. This is a dynamic process requiring a unique approach for each company.

Review of 2020

For the nine-month period to the 30th September 2020, the FTSE/JSE SWIX All Share Index lost 6.6% and the average general equity fund was down 6.9%. Local Shariah equity funds were down 3.9% on average over the same period.

Although recovering sharply from the second quarter economic activity trough, the South African economy is showing signs of permanent damage following years of mismanagement and the extended, highly restrictive lockdown — particularly regarding a significantly depressed labor market and chronically low business confidence. GDP growth for 2020 is set to go backwards in real terms and the fiscal position remains uninspiring.

Well-articulated economic revival plans rely too heavily on policy implementation from weakened state institutions that do not draw sufficiently from private sector cooperation. Prospects have deteriorated significantly due to weak pre-COVID-19 states, and South Africa's post-COVID-19 recovery will take longer than the rest of the world due to inherent structural economic weaknesses. This is fueled by the increased risk caused by unsustainably high sovereign debt, chronic unemployment and poor human capital development. However, there is evidence of anti-corruption actions from strengthened local state bodies, which is aiding growing confidence.

The medium-term outlook for emerging economies is mixed with differing exposures to low energy prices, the decimated tourism industry and various pandemic-related impacts. Governments in developed countries have responded to the healthcare crisis and the resultant pausing of large parts of their economies with aggressive fiscal stimulus packages. Together with a dramatic easing of the monetary policy, this has tempered the economic damage from the

crisis, providing a powerful buffer to financial markets up to this point. We expect increased volatility when fiscal stimulus inevitably wanes, and inflation and interest rates rise from the current low levels.

Globally, the immense increase in government debt balances owing to aggressive fiscal stimuli will hamper future, long-term growth and uncertainty remains high. Positively though, the global economy entered the crisis in a buoyant position, with healthy consumer dynamics in most developed markets and a moderating but strongly growing Chinese economy that has resumed activities quickly. Developed market consumer health appears to have been largely preserved through extensive fiscal and monetary support, and increased savings rates. Early consumer indications have fared better than presumed and in many regions, housing activity is now at healthy levels. Consumer expenditure sustainability is, however, being put to the test as fiscal support tapers off and permanent job losses begin to bite.

Preview of 2021

We believe that there will be casualties among local companies with weaker balance sheets and whose management teams do not adapt to the new environment. We continue to hold material positions in unpopular areas of the South African equity market where we find idiosyncratic investment cases offering improving prospects that are not wholly dependent on local economic performance.

We maintain a position well below maximum permitted limits in offshore markets, mainly due to the exciting expected returns we see in our South African holdings. Our global stock picks are widely diversified across (mostly) developed markets and have somewhat of a quality cyclical orientation. These stand to benefit from a less negative economic environment than is reflected in their very low share prices.

Conclusion

Could the key to weathering the storm lie in the adoption of a wholly ethical investment practice to reinforce better business models and stronger management teams? Quality managers thrive in the transparent application of Shariah investment principles, which should not constrain returns over the long term.

Although the principles are based on Islamic teachings, the underlying ethical framework is ideal for socially-conscious investors seeking robust returns.

Sri Lanka: Pearl of the Indian Ocean

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Strategically located in an important crossroad of trade and commerce, Sri Lanka has been referred to as the pearl of the Indian Ocean, which also speaks about the rich natural resources, geographical and climatic diversity the island nation is blessed with, along with the ethno religious mix.

When it comes to Islamic finance, Sri Lanka is one of the Muslim minority countries that has a significant Islamic finance footprint. While Muslims make up 9.7% of the population which is approximately 2 million out of the total population of 20 million (Census, 2012), it is noteworthy to mention that individuals affiliated to other religions have become both proponents as well as subscribers to Islamic finance in Sri Lanka. This is evidenced by the those involved in lobbying regulatory changes and amendments, key personnel in associations and organizations advocating Islamic finance, employees holding strategic roles as well as at operational level and those who provide advisory on legal, accounting, operational etc and a significant composition of clientele. Given this backdrop it would be more than appropriate to mention that one of the first savings accounts to be opened at an Islamic finance institution in the early days of the industry was of a church belonging to one of the Christian denominations. Islamic finance was introduced in Sri Lanka in 1997 within the existing legal and other frameworks. The subsequent amendment made in 2005 to the Banking Act No 30 of 1988 essentially facilitated Murabahah and Musharakah modes of transactions, which propelled Islamic banking and finance in the country. However, this legislative enactment remains to date as the only such provision, even though it does not directly allude to operations of Islamic banking and is a case study scenario where Islamic banking could be operated within a secular financial legal framework.

Review of 2020

The beginning of 2020 witnessed a rebound of economic activities in Sri Lanka from the aftermath of the Easter Sunday terror attacks and political instability in 2019. This was doubled with the optimism of political stability with a general election scheduled toward the middle of the year. Islamic banking and finance were at a critical juncture during 2019 given negative social effects of the Easter Sunday terror attacks, where some of the Islamic banking and finance institutions were compelled to either subtly rebrand themselves, reduce their marketing and social presence, scale down their operations or operate in the side lines. However, 2020 saw the Islamic banking and finance industry of Sri Lanka, which was making its way back with a slow but strategized movement, face a new challenge brought by the onset of the COVID-19 pandemic. The Islamic banking and finance industry was not directly impacted due to the large concentration of business financing portfolios consisting of SMEs, emerging corporates and corporates, as opposed to retail or consumer financing – the industry has been resilient enough to weather these adverse effects.

This could be attributed to the strong risk management and prudential regulations compliance within the industry. Data on Islamic microfinance operations are not readily available to assess or comment on same. The timely intervention of the government and the Central Bank of Sri Lanka has helped businesses and consumers during this period, which in turn contributed to the smooth operations of Islamic banking and finance institutions. 2020 saw for the first time Islamic banking and finance institutions directly participating in a government- sponsored refinancing scheme ; the previous refinance schemes made available through international agencies or the government have been deemed

Table: Analysis of the current Islamic finance ecosystem in Sri Lanka

	Fully-fledged	Window operations
Islamic banks	1	7
Finance and leasing companies		7
Takaful providers	2*	3
Capital market operators **	2	2
Islamic finance education providers	4	
Advisory firms	3	2***
Microfinance companies	Several institutions	

** A composite Takaful provider split its operations to General and Family due to regulatory requirements*
*** Includes asset management companies*
**** Operating within the existing model*

(Source: Author's own)

to be Shariah non-compliant. It should be noted that Amana Bank, the only fully-fledged Islamic bank in Sri Lanka, was able to secure 10th place based on disbursement volumes out of the 27 commercial and specialized banks which subscribed to this central bank-sponsored Saubhagya COVID-19 Refinance Scheme. 2020 also saw the groundwork being set by a Takaful operator to issue a Sukuk facility, which upon successful completion, would be the first time a non-bank or financial institution issues Sukuk in Sri Lanka. Sri Lanka was included in the top 15 at 14th place out of 81 countries in the Global Islamic Economic Indicator for 2020. It is noted that the main contributor of Sri Lanka's ranking is Islamic finance, which speaks volumes on the efforts and potential of the industry.

Preview of 2021

In November 2020, the government presented its budget for 2021 as part of its long-term strategy as opposed to the traditional year-on-year budget. This budget is designed as a development budget with an ambitious targeted economic growth of 5.5% for 2021. The government is to make legal provisions to provide tax pardons for entrepreneurs with a view of enabling infusion of much needed local and foreign funds. The budget also provides tax exemptions to the agriculture, livestock and fisheries sectors, REITs and dividends of foreign companies provided the funds are invested in Sri Lankan sovereign bonds or Sri Lankan stock market. The government also intends to maintain the budget deficit at 9% and manage the same from local and international currency-denominated debt at maturity. However, this will prove to be challenging given the global economic slowdown as well as downgrades in sovereign ratings. Despite this the government is on the stance that its foreign debt management strategy is to avoid a total rolling over of upcoming maturities. At this juncture the country is poised more than ever before to tap in to the sovereign Sukuk market which will not only provide the much-needed impetus for the national economy but also deepen the Islamic capital market while expanding the Islamic finance ecosystem.

Conclusion

Geo-strategically located, the pearl of the Indian Ocean is poised to be a regional hub of Islamic finance and rebuild its economy. Given the depth of its Islamic finance ecosystem, which has made these strides with minimal state sponsorship, Sri Lanka needs that little push of direct state involvement to realize the full potential of Islamic finance. In this regard it is high time to revisit and introduce regulations, legal enactments, taxation and accounting standards enabling Islamic finance to progress to the next level. As Shariah governance is key to conferring confidence in the overall industry, it is also prudent that a central Shariah supervisory board is formulated at this juncture.

Growing Islamic finance in Tanzania

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Islamic finance in Tanzania is still at a nascent stage, operating mainly in the banking space, with no investment products trading in the capital market and no Islamic funds. The regulations for Takaful are yet to be approved, at least for the industry to start its operations. Social finance and microfinance still only account for a fraction of the overall microfinance industry in Tanzania.

Tanzania has one fully-fledged Islamic bank, Amana Bank, and three other commercial banks operating Islamic windows — NBC Bank, KCB Tanzania and People's Bank of Zanzibar. Approximately, the total value of Islamic assets is below 5% of the total banking industry, and the numbers are almost the same or less for deposits, number of customers and branch network.

Review of 2020

The offering banks still operate without an Islamic banking regulatory framework. The low uptake is still largely due to the lack of knowledge and awareness of the market in using Islamic banking products and services.

Tanzania is yet to see any product trading on the bourse, from Sukuk to equities. The initial launch of the Shirkah Sharia Index is the only successful initiative made in the market which will start tracking five listed stocks on the Dar es Salaam Stock Exchange.

We are yet to see the first Islamic fund operating in the market, whether mutual funds, venture capital funds or just generalist investment funds.

Microfinance has been around in Tanzania for some time, mostly driven by a savings and credit cooperative society (saccos) called Tampro Saccos. Tampro is a self-help organization in which a group of people stock their savings and offer financings to their own members. This financial cooperative organization has already supported hundreds of its members through Qard Hasan loans, a recently started Murabahah financing. Through Tampro, many Tanzanian youths and women are seen purchasing motor vehicles for business and job purposes.

Yetu Microfinance Bank is a listed conventional microfinance bank in Tanzania that recently launched an Islamic window with plans to grow the window to meet the huge untapped market needs.

Preview of 2021

We have seen indications of the two largest banks in Tanzania, namely CRDB Bank and NMB Bank, showing an interest in Islamic banking; this will be a game-changer if they do.

The Shariah index is set to create an investment app that will allow investors to access stocks, and eventually the listing of the first Shariah compliant exchange-traded funds in Tanzania.

The regulations for launching Takaful have already been prepared and are only waiting for the government's approval so hopefully this will be accomplished in 2021.

Takaful Insurance of Africa has already set up shop and invested in human resources and office structure, and is eagerly looking forward

for the regulations to be approved so that it can hit the ground running.

The recent formation of Awqaf Tanzania as the industry body is an indication of a promising future that is to come. Awqaf Tanzania seeks to organize the Islamic finance industry by bringing all players together equipped with knowledge on technical advisory. The organization is aiming to launch a cash Waqf option for retail contributors countrywide.

The People's Bank of Zanzibar has already pioneered this and we hope to see further growth in the near future.

Islamic finance is not in the mainstream yet, so those with knowledge of it are still only a handful. The key players include CIFCA, Abrar Consult and Shariah scholars body Hayatul Ulamaa.

The Centre for Islamic Finance, Compliance and Advice is expected to be an active player in 2021 through advisory, education and awareness programs as well as an advocatory policy, overseeing the voluntary Shariah compliance of all industry players in Tanzania.

Conclusion

Waqf is becoming increasingly popular in Tanzania, not as a new development as it has been in the country for decades, but understanding and awareness of Waqf are increasing and the need to manage Waqf assets professionally is also increasing.

With the recent launch of Awqaf Tanzania, the Shirkah Sharia Index and the Islamic window by Yetu Microfinance Bank as well as the frequent education and awareness activities, there are hopes for the promotion, development and growth of the Islamic finance industry in Tanzania.

Tampro Saccos still needs to grow its balance sheet by partnering with existing banks that offer Islamic financing, and it also needs to recruit more members nationwide and deploy other products, especially Bai Salam, for the rural population accounting for roughly 75% of the country's population. It should also be heavily involved in agriculture.

We also see other players launching various efforts to increase awareness of Islamic savings schemes, and new ones are being formed. We anticipate seeing more groups being launched in 2021 and beyond.

Islamic finance resilience in Tunisia is still under pressure

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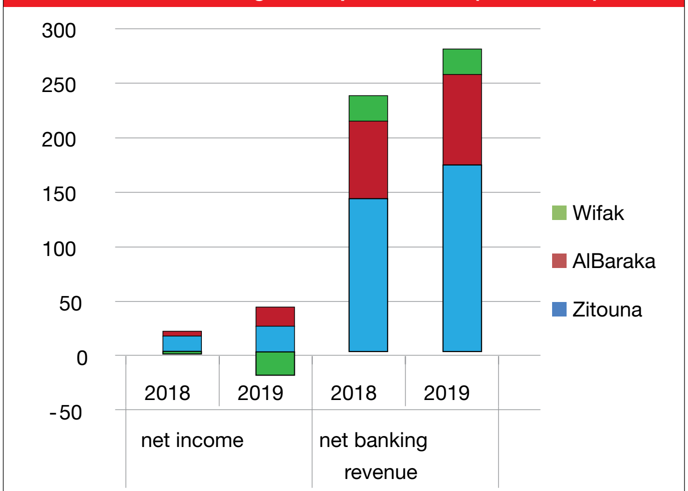
Following the parliamentary elections, 2020 was marked by the failure to form a national unity government to face the economic and pandemic crises, exacerbated by wrangling among parties forming the first government and a transformation in the coalition of political parties supporting the second one: neither the first president of the political government nor the second one of the technocratic government succeeded in unifying the diversified political landscape, despite the fact that they were appointed by the president of the Republic who was elected by a powerful majority of Tunisians and intending to unify all of them.

Also, during the first pandemic wave, the difficult period of regional instability neither facilitated the improvement of the business climate nor enabled the attenuation of external vulnerability, even though Tunisia was classified among the safest places in the world, and consequently the sovereign credit rating of Tunisia was downgraded by Fitch Ratings and placed on review for downgrade by Moody's Investors Service. Besides, the slowdown in economic activity accelerated disruption in the operating environment and diminished buffers to sustain the resilience of both conventional and Islamic banks during 2020.

In particular, the resilience of the three Islamic banks is still under pressure: the positive performance growth of Zitouna Bank and Al Baraka Bank is diminishing and Wifack International Bank (WIB) is still suffering from losses but showing recovery signs in 2020.

Chart 1: Islamic banking sector performance (TND million)



Source: Financial Market Council

Review of 2020

At the end of the 2019 financial year, Zitouna Bank realized an increase by 55.6% in net profit to TND24.3 million (US$8.84 million) against TND15.6 million (US$5.67 million) in 2018, as the bank's net banking revenue grew by 21.3% to TND169.4 million (US$61.62 million), mainly thanks to US$605 million-worth of revenues from leasing activities representing 14% of market share. In February 2020, its share capital increased from TND175.4 million (US$63.81

million) to TND265 million (US$96.4 million), following the issuance at par (without premium) of new shares fully paid-up in cash.

Moreover, Al Baraka Bank generated a net profit of TND15 million (US$5.46 million) against TND4.2 million (US$1.53 million) in 2018, thus multiplying its profit from the previous year by 2.5 times, but net banking revenue rose only by 21.3%, as much as Zitouna Bank, reaching TND84.4 million (US$30.7 million), half as much as Zitouna Bank.

However, Wifak International Bank (WIB) incurred a huge loss of TND23 million (US$8.37 million) in 2019 after the loss of TND3.8 million (US$1.38 million) in 2018, as a result of the bank's continued investment in opening branches and recruiting. But this big loss was mainly driven by its risk cost which has increased in addition to a fall by 8% of its net banking revenue which stood at TND22.3 million (US$8.11 million).

In the first half of 2020, its net banking revenue seems to be increasing much better than before, with TND13.2 million (US$4.8 million) against TND9.6 million (US$3.49 million) a year earlier and its net loss was reduced to TND3.1 million (US$1.13 million) against TND14.9 million (US$5.42 million) in the first half of 2019.

In the money market context, the only access for Islamic banks to central bank refinancing operations is six-month Wakalah securities which helped them partially in the pandemic period, at a time when there are no sovereign Sukuk likely to be admitted as underlying assets.

On another note, WIB launched, at the time of writing, another Islamic bond issuance, aiming during this second pandemic wave to raise TND10 million (US$3.64 million) which is less than the TND15.2 million (US$5.53 million) raised in 2019, which was the first successful Islamic bond issuance, through a public offering using a portfolio of Ijarah financing as the underlying asset.

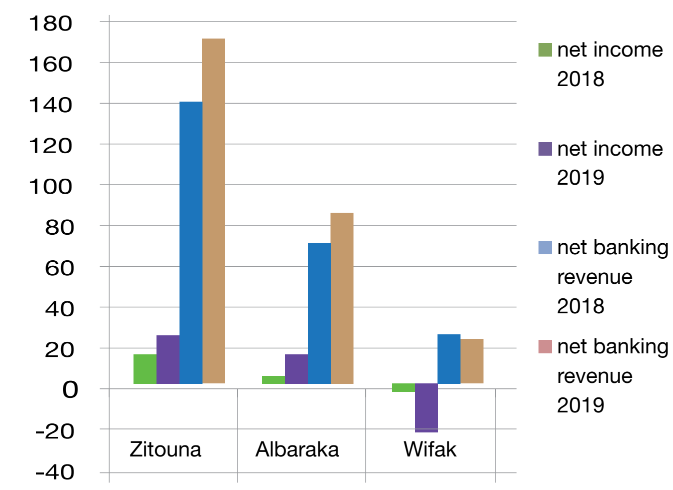
In the development context, the IsDB Group approved a funding agreement of US$279 million for Tunisia to deal with the COVID-19 health crisis.

Preview of 2021

It was not until December 2019 that the Financial Market Council (FMC) launched two public consultations on:

- The draft regulation related to Sukuk funds (standard prospectus) and management companies of Sukuk funds.
- The proposed amendment to the regulation related to the public offering and particularly the prospectus scheme in the event of a public offering of Sukuk.

Chart 2: Islamic banks' individual performance (TND million)



Source: Financial Market Council

The success of the consolidation of the existing legislative framework related to Sukuk must not only generate the enthusiasm of Islamic banks in the future, but must also, above all, pave the way for all companies to explore the Sukuk market and diversify their sources of funding. It is crucial for the sovereign borrower to overcome the failure to issue an inaugural sovereign Sukuk facility, in particular after the announcement of an expected public deficit in 2020 of nearly 14%.

The most important step is to establish an SPV and for that purpose a management company agreement from the FMC is necessary to manage the Sukuk fund.

Conclusion

The economic and financial pressure in this pandemic period will encourage both investors and borrowers not only to generate new products and mechanisms but also to explore Islamic financial alternatives more seriously and in-depth to overcome the lack of backing from supranational and governmental programs, and the multiplication of several initiatives will finally lead sovereigns and institutions to make further steps toward a successful implementation of an Islamic finance ecosystem.

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.

Regulatory landscape and Shariah governance in Turkey

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Islamic banking, terminologically known in Turkey as participation banking, is regulated by the Banking Regulation and Supervision Agency (BRSA) under a single Banking Law and associated regulations. One of the significant milestones of the participation banking sector is the establishment of the Central Advisory Board (Shariah Board) with a decision of the BRSA on the 22nd February 2018.

The Central Advisory Board is an independent board under the Participation Banks Association of Turkey (TKBB) and its decisions are binding on participation banks. The main responsibility of the board is to set standards and principles for participation banks and the other Islamic finance industry stakeholders in Turkey.

In Turkey, each participation bank has its own advisory committee. The main principles of financial products will be coming from the Central Advisory Board, where advisory committees will be responsible for managing the Shariah issues at the institutional level and apply the standards of the Central Advisory Board to the transactions. Also, they will be reporting their decisions to the Central Advisory Board periodically as well.

In addition to the Shariah board, there are interior and exterior audit mechanisms within participation banks. The internal auditing department works with the advisory committee regarding the details of its operation. These auditors are certified by TKBB through a standardized and comprehensive certification program.

The Public Oversight Accounting and Auditing Standards Authority (KGK) published regulations on auditing standards where audits will be done in a unified and systematic way. Another topic KGK is working on is on external auditor companies that are to be added to the system.

Review of 2020

Banking and finance

In Turkey, there are six fully-fledged participation banks (three of them are state-owned) out of 52 banks: Albaraka Turk, Emlak Katilim, Kuveyt Turk, Turkiye Finans, Vakif Katilim and Ziraat Katilim. As of September 2020, the total asset size of the participation banking industry is around US$55 billion with a market share of 7.1% via a recorded performance increase of 57% compared to the end of 2019.

With the dedication of banks' management to improve the asset quality of participation banks in Turkey, the participation banking industry achieved 3.6% of the non-performing receivables ratio by October 2020 which was 5% at the end of 2019. By October 2020, the six participation banks in Turkey has a total network of 1,243 domestic and foreign branches, operating with 16,859 personnel with an increase by 5% compared with the end of 2019.

Starting from 2019, development and investment banks are allowed to provide financing with interest-free financial products, limited to the resources they provide with interest-free methods according to a new amendment at BRSA published in the Official Gazette dated the 25th January 2019. As the pioneering institution, Turk Eximbank obtained official authorization from the BRSA to give funds under the participation finance methods as a development and investment bank. In August 2020, Turk Eximbank announced that within the scope of investment credits to be provided with the principles of participation finance and the Murabahah contract made with the IsDB under the guarantee of the Ministry of Treasury and Finance, US$100 million-worth of resources will be provided by the bank directly for the investment fund needs of Turkish exporters within the terms between four and 10 years.

> **"Strong support from the government and regulators with the necessary measurements is crucial for the adaptability of the sector during challenging conditions"**

Sukuk

According to the IFSB Stability Report 2020, although Turkey has a 2.6% market share from global banking assets with its outstanding and continuous Sukuk performance, it managed to get an 8.7% market share from global Sukuk issuances and is ranked among the top five jurisdictions in the global Sukuk market industry.

Due to significant performance from both sovereign and private issuers, high demand from investors and the willingness of the government to develop the Sukuk market, there is no doubt that Turkey will be one of the key markets for enhancing the Sukuk market globally. The issuance of green Sukuk is also on the agenda of participation banks which will take the banks back to the international markets.

The accumulated Sukuk issuance performance of the Turkish Treasury was remarkable, reaching TRY75 billion (US$9.78 billion) in 2020 including inflation indexed lease certificates compared with TRY1.2 billion (US$156.4 million) in 2012. The regular issuance of the lease certificates in domestic markets continued in 2020 and Turkish Treasury raised TRY36.6 billion (US$4.77 billion) through the Turkish lira-denominated issuances in the period of January to October. In 2020, the Turkish Treasury continued to issue gold-denominated lease certificates which were issued for the first time in October 2017, in order to broaden the investor base and to diversify borrowing instruments. The total amount of issuances in 2020 reached 51.1 metric tons of gold-denominated lease certificates. Participation banks also gradually developed their Sukuk portfolio and the accumulated volume of Sukuk issuance of the banks as of October 2020 with a currency breakdown is as follows: TRY117.7 billion (US$15.34 billion), US$3.5 billion and RM1.9 billion (US$464.04 million).

Participation insurance (Takaful)

Currently, there are 12 Takaful operators in Turkey and four of them are fully-fledged with the rest operating with windows. Participation insurance received a boost following the implementation of the participatory insurance regulatory framework starting from 2017. The framework was launched as a separate class of business in the Turkey following the issuance of a regulation published in the Official Gazette in September 2017 by the General Directorate of Insurance. The market share of the Takaful sector in Turkey reached TRY3 billion (US$732.7 million) and achieved a market share of 5% by September 2020 which was 2.8% in 2017.

Preview of 2021

In line with the New Economy Programme for 2021–23 and the 2021 Presidency Annual Programme, the Finance Office of the Presidency of Turkey (CBFO) has started working on a draft strategy development document and a roadmap for participation finance, which will encompass not only participation banks but also other sectors of participation finance in Turkey. The strategy document will revolve over key concepts such as Maqasid Shariah, value proposal, risk-sharing and human-centric finance. One of the goals of the strategy document is to intensify the links among participation finance, socially responsible finance, impact investing, sustainable finance and environmental, social and governance finance, in line with the Istanbul Financial Center project which posits participation finance as one of its two pillars. Among others, the CBFO also has plans to initiate academic collaborations including a new journal on participation finance.

Conclusion

Despite the disruptions in economic and commercial activities due to COVID-19, participation banks performed well during 2020. Strong support from the government and regulators with the necessary measurements is crucial for the adaptability of the sector during challenging conditions. With the strategic vision of having Istanbul as an international finance center, the participation finance industry in Turkey will initiate solid actions which will attract both the domestic and international markets. Keep your eyes on Turkey as it is time for it to shine.

UAE: Islamic finance records healthy growth despite challenges

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The UAE Islamic finance sector maintained steady growth throughout 2020 despite challenges posed by low oil prices and the COVID-19 pandemic. Growth in Islamic banking assets and Sukuk was healthy, Takaful was generally steady and growth in Islamic fund management accelerated. The focus on improvising regulation and standardization also picked up pace.

Review of 2020

Though economic activity in the UAE slowed considerably, as per the Central Bank of the UAE's data as at the third quarter of 2020 (Q3 2020), total assets of Islamic banks in the country increased by circa 7.2% over the previous year. This compares with a 6.5% year-on-year growth for conventional banks. Total Islamic bank assets as at August 2020 stood at AED607 billion (US$165.24 billion) compared with AED505 billion (US$137.47 billion) four years ago.

Though asset growth was reasonable, most banks reported lower profit, higher non-performing loans and the closing of several branches. While increasing non-performing loans is a problem for the banking sector as a whole, it is more so for Islamic banks in particular because Shariah principles prohibit imposing any kind of penalty interest on defaulted payments.

Consequently, in order to maintain healthy capital ratios and achieve synergy benefits, the wave of mergers within Islamic banks continued in 2020. Early in the year, Dubai Islamic Bank acquired Noor Bank, thereby forming the largest Islamic bank in the UAE with combined assets of over AED275 billion (US$74.86 billion).

The Sukuk market in the country had a productive year with healthy activity both in the primary as well as the secondary market. Though the COVID-19 pandemic slowed the issuance of Sukuk globally, innovation in the form of the rolling-out of green Sukuk; recovery bonds; environmental, social and governance-compliant Sukuk and such gained momentum.

In the UAE's primary market, the most high-profile issuance in 2020 came from the Dubai government. In addition to a US$1 billion 30-year bond, the Dubai government also issued a 10-year Sukuk facility of US$1 billion at a profit rate of 2.76%. The deal was over five times oversubscribed, thereby achieving the lowest-ever profit rate.

In the secondary market, Sukuk prices moved in tandem with the fall in US Treasury yields as well as the negative impact of several credit rating downgrades. That said, overall liquidity in the Sukuk market was low. Given the scarcity of Sukuk securities, investors generally prefer not to sell Sukuk unless there is a possibility of a material credit risk.

On the insurance front, Takaful companies in the UAE are catching up with conventional insurers though market share of Islamic insurance products is still below 20% of the total gross written premiums in the sector. Besides a steady growth in gross premiums, Takaful operators' profitability also improved, mainly benefiting from regulatory changes made in 2017/18 in the main business lines of medical and motor vehicle insurance in the country.

The Islamic fund management industry recorded good growth in 2020, owing to the launch of several new Shariah compliant funds. Waha Capital launched a new Shariah compliant fund in Q3 2020 to meet growing investor demand and expects it to attract more than US$500 million.

The open-ended Waha Islamic Income Fund will invest in Sukuk and equity markets around the world. SHUAA Capital also launched three Shariah compliant funds — SHUAA High Yield Sukuk Fund, Nujoom Aggressive Fund and Nujoom Balanced Fund — and has already secured US$75 million-worth of commitments.

2020 was a year of substantial progress on the regulatory front. The Dubai Islamic Economy Development Centre accelerated its work on a very worthwhile ambitious project, called the global Islamic finance code, focused on developing legally enforceable laws for all Islamic finance-related transactions and involved entities. The project has robust support from the UAE government, IsDB, AAOIFI, IFSB, International Islamic Financial Market, International Islamic Finance Academy, central banks, Islamic financial institutions, capital market regulatory authorities and practitioners. The project is likely to be completed by the middle of 2021.

Preview of 2021

Once completed, it will roll out the Islamic finance law which will be signed in a treaty by OIC member countries and be adopted as the legal standard. It will certainly be a game-changer for the industry as it will address the long-standing need for standardization of contracts based on Shariah principles as well as the interpretation of the Shariah guidelines themselves. The standardization in turn will likely reduce complexity and boost market confidence. It will also reduce discrepancies in practices across the globe, and eventually translate into positive outcomes for the Islamic economy as a whole.

The IMF expects the UAE economy to contract by over 6% in 2020, followed by growth of circa 1.5% in 2021. Given the recent regulatory developments as well as the focus of the government on pushing to make the UAE the hub of Islamic finance, we expect growth in Islamic finance to outpace the conventional sectors in the coming few years.

Conclusion

Though penetration of most Islamic finance products in the UAE is still below 25% of the total, the government's focus on making the UAE the hub of Islamic finance in the Middle East and the accelerated pace of regulatory reforms are bearing fruit.

UK: Cautious asset allocation and stock picking in 2021

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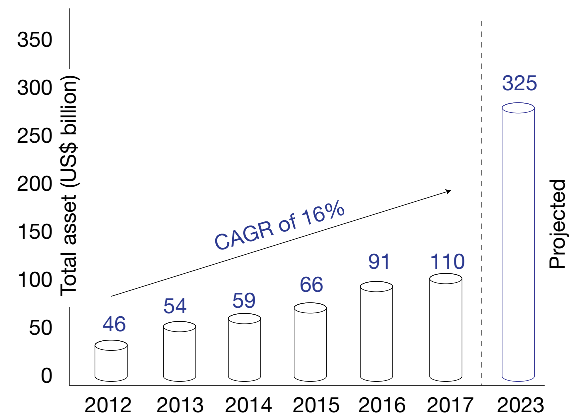
Islamic finance is set for more growth as the widespread socioeconomic development in the Middle East, North Africa and South Asia regions is expected to continue. The growth is driven by multiple factors such as:

- A growing Muslim population standing at around 1.7 billion, out of which 50 million in Europe are looking at investment products catered to their needs;
- The search for ethical investments by Muslim and non-Muslim investors;
- A growing number of Islamic and conventional financial institutions entering the space; and
- Islamic asset management can feed into an Islamic wealth management industry serving a growing Muslim demographic forecast by Pew Research to reach over 26% of the global population by 2030.

Chart: Islamic funds asset growth 2017



Top countries:
1. Iran 2. Malaysia 3. Saudi Arabia

Source: Thomson Reuters

Review of 2020

The latter part of 2020 has seen global equity markets continue to stabilize and maintain their gains off the lows of late March. The size of the recovery has taken many investors by surprise as economic activity is still subdued and a full recovery to pre-COVID-19 levels looks set to take a number of years. With interest rates at near zero levels in most developed markets we have seen, the market has been prepared to look through much of the near-term noise.

In addition, eyes are now on the US presidential election as it comes to its conclusion and the market digests what a democratic government means for policies in the future. We believe that relationships between the US and the wider Islamic global community will be enhanced under a Joe Biden presidency. Biden is on record for saying he will protect Muslim-American constitutional and civil rights, honor the diversity of Muslim-American communities and make communities safer as a consequence.

Market recovery peaked at the beginning of September after which it suffered a small pullback before stabilizing again. The pullback was particularly focused on some of this year's most stellar performers on the NASDAQ exchange. The focus now seems to be on the severity of the recent increase in cases in Europe and the UK as these economies see the effects of their prior reopening.

Despite a return to lockdown in several western economies however, there are signs the economy is recovering. Take a step back – the MSCI World Index's returns this year have been dominated by big tech stocks whose returns have powered upward seemingly unchecked for months, with more complacent market participants finding themselves caught up in a herd mentality. The result? Portfolios filled with these "COVID-safe" stocks which are either largely unaffected by – or even benefit from – lockdown measures, many of these trading at valuations in some cases reaching eye watering levels.

Many of these big tech stocks, whose moves have resulted in a world index which has a larger weighting in Apple and Microsoft than the whole of the UK combined, are not considered compliant by many Islamic screening measures and are often excluded from these portfolios, and are indeed excluded from many of the recognized Shariah compliant indices.

And whilst this year this phenomenon has caused a dispersion in returns between those indices that exclude these stocks, and those that do not, looking at the performance of the UK stock market in isolation, the returns of the Shariah compliant UK stocks versus non-compliant are very similar – both returning around -10% in US dollar year-to-date and vastly underperforming the broader world market.

For those investors with a quality mindset, a Shariah compliant portfolio can be well aligned; a key screening measure of course being the exclusion of companies with poor balance sheet strength in terms of high debt levels. With the likes of HSBC and Lloyds weighing heavily on the UK market this year, facing dramatic drawdowns, along with telecommunications stocks such as BT and Vodafone whose resilience in the face of this adversity was simply not up to task, these stocks would have been avoided in a Shariah compliant UK stock portfolio.

However, this may well have been offset by the inclusion of energy companies such as BP which also have fallen under heavy fire but are nonetheless considered compliant. With this information in mind, what does this illustrate? Perhaps more than anything, that careful stock selection, be it Shariah compliant or not, can have a significant impact on returns. An actively managed portfolio that can avoid these parts of the market that offer less resilience in times of stress, and take advantage of opportunities when they arise, can add value in the long term.

Now fast forward – the purchasing managers' index, which measures economic trends in manufacturing, has risen from 37 in April to 53 in September – the highest it has been for over two years. Factories are running, and inventory levels are being restocked. Early November heralded a significant change in tone for markets. After months of outperformance by tech stocks such as Amazon, Apple and Microsoft, the tides changed and many investors found themselves wrong-footed by the switch in sentiment.

With Pfizer's vaccine news providing a glimmer of hope for a return to normality, cyclical stocks in industries such as travel, banking and hospitality staged a significant rally. On the day of Pfizer's announcement, markets rallied strongly with the UK FTSE 100 index up nearly 5%. With the UK back in lockdown, positive vaccine news had a much more material impact on the UK market compared to many other parts of the world.

Cyclical companies in particular benefited from the news after weeks of being overlooked in favor of tech names, which fell subsequent to the news. As such, this has the potential to be the start of a regime change as investment managers recognize that omitting these names from portfolios leaves scope for material underperformance. Whilst Monday , the 9th November 2020, was a highly unusual day in markets, positive vaccine-related updates are likely to provide repeats in this pattern and could provide the tailwind to value stocks that they have so desperately needed.

Looking back at 2020, we see that within the Shariah compliant global equity investors, they are looking more and more for value-added investment vehicles that serve a specific purpose, which offer value for money too. The relentless rise of exchange-traded funds (ETFs) has led to an explosion of ETFs across the globe but with an unfocused approach and often at higher costs than at first glance. We believe the need for active management in the global equity industry is very important.

Preview of 2021

Investors are focusing more on how they can add value in two ways. Taking active risk in their global equity portfolios with the aim of adding long-term outperformance versus an index. A Shariah compliant investment must still be a good investment, and that global equity investors keen on following a strictly Shariah compliant global equity approach might well be very keen for an active vs a mere passive approach which used to be the norm.

A focus on high quality companies with a strong valuation overlay can add significant value to investors over time. The screening process for the universe of Shariah compliant names is overseen by a Shariah panel which reviews the proposed equity securities to ascertain the ongoing compliance of the ETF's operations with the principles of Shariah investment. This panel consists of Shariah scholars with expertise in Islamic investment which is critical for Shariah compliant investors.

Global equity investors in the UK are also increasingly focused on environmental, social and governance considerations when they invest with third parties. Although Shariah and sustainable approaches to investing have developed independently, both look to bias investment in more sustainable outcomes and can be aligned in many ways. Many sectors that are excluded under Shariah law also score poorly on sustainability criteria.

Conclusion

Few could have predicted the extent of disruption the coronavirus would have on the global economy when news first broke concerning the outbreak in China in late 2019. March 2020 witnessed one of the sharpest falls in asset prices in history due to the continued escalation of the coronavirus pandemic around the globe, and its now irrefutable broad-based negative impact on company earnings worldwide.

Given the continued uncertainty surrounding COVID-19, it would have been wrong to assume a sharp recovery in equity markets after such a deep shock back in March. Yet, here we are. With equity returns now higher than they were for most of 2019, the recovery has been extraordinary.

Clearly, the global economy is not out of the woods yet, and while we do not expect markets to revisit the lows of March, there is a lot for investors to come to terms with. There may well be aftershocks yet to come, but we see these as buying opportunities, and our focus going forward will be on careful asset allocation and stock picking.

Islamic finance in the US remains a niche sector

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Islamic finance in the US is mainly limited to asset management, home financing, Shariah compliant investing and a few experiments in Sukuk and Takaful. Islamic finance has not taken off in the mainstream finance sector and remains a niche and small sector in relation to the conventional finance industry. So far, mainly native and immigrant Muslims partake in the Islamic finance industry in the US with a Muslim population expected to reach 6.2 million by 2030 or 1% of the population of the US.

Review of 2020

There are 25 Islamic financial institutions operating in the US including University Bank's subsidiary, University Islamic Finance Corporation (UIFC); LARIBA/Bank of Whittier; Devon Bank; and Guidance Residential, among others.

UIFC has expanded in Shariah compliant commercial finance for professional offices, multi-family properties, retail and non-profits. In October 2020, UIFC closed a total of US$113 million in home mortgage financings following the introduction of its home partnership and commercial real estate financing product to all 24 states in the US.

Other banks that provide Shariah compliant financial services in the US include Broadway Bank of Chicago, Lincoln State Bank, Cole Taylor Bank and RomAsia Bank while two of the largest providers of Shariah compliant business financing in the US are Zayan Finance and Anchor Finance Group.

Islamic investment firms include Arcapita, Azzad Asset Management (Azzad Funds) and Allied Asset Advisors (the Iman Fund). Azzad Funds has two mutual funds: the Azzad Ethical Income Fund and the Azzad Ethical Mid-Cap Fund.

Codexa Capital focuses on connecting asset management firms with funds located in Muslim-majority countries. It also connects firms needing capital with Shariah compliant sources of financing either through arranging financial transactions or by providing capital introduction. Codexa Capital also provides asset advisory and investment research services relating to mitigating the implications on diversification and asset allocation of excluding financial services companies, and the geographical concentration of Sukuk as an asset class within the GCC and Southeast Asia.

Zeus Capital Advisors provides structuring advice on Shariah compliant real estate, investment services such as domestic investments and the banking application process.

Riyad Capital, the manager of Riyad REIT Fund; Qatar First Bank; Gulf Islamic Investments; Sidra Capital; Investcorp; and Boubyan Capital Investment Company bought assets in the US in 2020.

Preview of 2021

For 2021, there are a number of industry players in the US that have plans to uplift the Islamic finance space such as WahedInvest, ShariaPortfolio and Wealthsimple.

US-based exchange-traded fund (ETF) Falah Capital's Falah Russell–IdealRatings US Large Cap ETF is a Shariah compliant

index-linked ETF listed on the US stock exchange. The fund seeks to track the Russell–IdealRatings Islamic US Large Cap Index, which is a Shariah compliant version of the well-known Russell 1000 Index. The ETF offers investors access to 443 US large cap companies held within the index that meet strict Shariah investment guidelines.

The US can consider developing a standardized dispute resolution contract for the Islamic finance industry as well as producing an online dispute resolution system for the Islamic finance sector. In addition, the US should consider issuing a pandemic Sukuk facility to fund the federal COVID-19 relief stimulus packages to assist SMEs and the low- to medium-income-earners.

Conclusion

Although there are quite a number of Islamic finance activities in the US in terms of asset management, Shariah compliant investing and Islamic home finance, the US is clearly absent from the world of Sukuk or Islamic bonds and Takaful.

Above and beyond Goldman Sachs, General Electric and East Cameron Gas, US companies, institutions and the government have steered clear of using Sukuk as a wealth creation tool and/or fundraiser for business and government purposes.

There is also a potential role for the US in harmonizing dispute resolution contracts and preparing an online dispute resolution system for the Islamic finance industry. For instance, the US can introduce an Islamic finance contract with a built-in online contractual dispute resolution system, which would be attached to all Islamic finance contracts in the world. Hence, Islamic finance dispute resolution would not only be streamlined and harmonized, but it would also be put entirely online.

Opportunities and expectations for Islamic finance in Uzbekistan

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2020 thus far has witnessed events which are bound to leave a long-lasting impact on global economies. The most significant of these events is the COVID-19 pandemic that has induced a downturn in the world financial markets and economies thus impacting countries, industries and businesses on an unprecedented scale. Many countries, including Uzbekistan, have maintained COVID-19 containment measures in the first half of 2020 which have already resulted in a significant decline in their national GDPs and which still pose significant economic and social challenges.

In a battle to lessen the economic ramifications in the largest Central Asian country (with a 34 million population), the government has drafted a blueprint presidential decree enabling the first-ever Sukuk issuance in 2021. Further, a number of state and private commercial banks are tirelessly working on establishing Islamic windows next year.

Review of 2020

Despite the economic downturn on a global scale, the Uzbek economy reported mild growth in the first half of 2020. The backbone of the Uzbek economy is SMEs that provide 80% of employment and make up the bulk of its GDP. In a bid to restore economic activity in exceptional times and attract the huge sums of idle cash of those who have turned their noses up at conventional banking for faith-related reasons, as well as attract investments into the Uzbek market, the Capital Markets Agency of Uzbekistan drafted the aforementioned blueprint presidential decree that would enable the first-ever Sukuk issuance in 2021. A number of Uzbek state and private banks are also getting their systems, procedures and processes ready to launch Islamic windows next year.

These are certainly extraordinary developments in the 30 years since the country's independence, which were made possible with the major political transition that culminated with the election of a new president on the 14th December 2016.

The new leadership has realized the obvious reality — there is a considerable stratum of the population who refuse to invest their idle money or cannot develop and grow their businesses due to traditional banking being incompatible with their faith. This obvious truth was supported by the nationwide survey recently conducted at the request of the United Nations Development Programme across the whole country aiming to assess demand for Islamic finance. The survey covered a total of 7,200 respondents, including businesses (2,235), general population (4,938) and Uzbek commercial banks (27 out of 30 banks). The salient outcomes of this survey revealed that:

- About 60% of businesses and 68% of individuals do not resort to bank lending, the major reason being their religious beliefs.
- If Islamic financial institutions start operating in Uzbekistan, 61% of businesses and 75% of individuals are ready to become their clients, while most of these are willing to resort to Islamic banking products even if they were to be more expensive than conventional.
- All 27 surveyed banks articulated their support for the introduction of Islamic finance and banking in Uzbekistan.

All of the aforementioned show the good alignment between the government's willingness to address social and economic concerns and enhance the financial inclusiveness of the people regardless of faith and the substantial proportion of Uzbek people who have a deep interest in Islamic banking services.

To add to the foregoing, Uzbekistan enjoys political stability, good relations with its neighbors, a large and predominantly Muslim population and a strategic location in the region. All these could potentially turn Uzbekistan into the Central Asian Islamic finance hub.

The country has a unique chance to choose its own model of Islamic banking. Thus, instead of emulating other countries, it may come up with a model that fits well with its social and cultural environment as well as the prevailing market demand. For example, Islamic windows may focus more on Salam and Istisnah products which promote financial inclusion by providing much-needed finance to the country's agricultural sector as well as SMEs dealing in production and manufacturing.

Preview of 2021

Without a doubt, Uzbekistan has all the key ingredients to become an important regional hub of Islamic banking in terms of the size and positive impact. But in a constitutional state, no potential can be realized without both the political will/commitment and the establishment of an enabling legal and regulatory framework for Islamic finance. The first steps were taken in 2020. The government is firm in continuing economic reforms and liberalizing its banking sector. The Islamic banking and capital markets will certainly reinforce and boost both of these by attracting internal and external capital into the real economic sectors, funding ambitious infrastructure products and increasing competitiveness and diversity of products offered to the public.

Having witnessed bold initiatives from both the government (the blueprint presidential decree on Sukuk), conventional banking (Islamic window preparedness) and a few grassroot initiatives in establishing Islamic finance vehicles in 2020, it is rightfully expected that 2021 will bring about enabling legislation and a regulatory environment for the three major pillars of Islamic finance: Islamic banking, Sukuk and Takaful (to support Islamic banking and add to its credibility). It is also hoped that Uzbekistan will quickly move from the Islamic window model to establishing fully-fledged Islamic banks.

Finally, Islamic finance is a totally new concept for a majority of the people and bankers. Raising awareness, working with misconceptions and providing knowledge in Islamic finance, banking and Shariah compliance for both the banking community and the grassroots are important keys to deepening the penetration of the new industry in the country.

Conclusion

Uzbekistan has all the ingredients for the introduction of Islamic finance — great Islamic heritage and roots, sizeable population, deep interest in Islamic finance, potential to disseminate successful Islamic finance experience to other countries of the region, political stability, good infrastructure, 100% literacy as well as real economic challenges and financial exclusion for a considerable stratum of society driven by faith motives.

What is needed to make an 'unforgettable dish' from all these ingredients is strong commitment from the government and the regulator to enable the birth of the Islamic finance industry and its swift growth and contribution to the country's economic development. Now we have all the reasons to expect that 2021 will be the year of seizing the huge Islamic finance potential which promises to significantly boost the economy and wellbeing of the people, deepen financial inclusiveness and become a quick win for all — the leadership, the government, the financial sector and the people.