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# 2022

# ANNUAL GUIDE

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# React, restore, rebound

**Last year, I wrote that one year into the COVID-19 pandemic, we were still navigating the 'new' normal, with many pining for pre-pandemic normalcy. Not much has changed since then: the pandemic is still ongoing, with many small wins that vaccination provided now under serious threat of being completely wiped out as new variants emerge. Most are still reeling from the severe economic and emotional damage. And it does not look like we would be out of the woods anytime soon. But, two years on, I daresay that more have accepted that the pandemic is our reality and this is reflected in the measures policymakers are taking to recover from it.**

Make no mistake, it has still been a very trying year. But we have become more familiar with this reality and have become better adapted to the circumstances within revised expectations. After plunging into negative GDP growth territories in 2020, the global economy rebounded strongly last year growing 5.5% according to the World Bank. Momentum picking up is also a theme within the Islamic finance world: total Sukuk issued in 2021 were up 36.1% year-on-year to US$252.3 billion while global outstanding Sukuk reached US$711.3 billion, up 12.7%, according to Fitch Ratings.

Islamic banks are posting stronger growth, Islamic indices are performing at par, if not better, than their conventional counterparts amid an explosion of new Shariah funds while Islamic fintech players are making greater inroads. Conversations with industry leaders relayed a sense of relief and higher spirits for 2021, although this sense of optimism takes a more cautious tone for 2022.

This seemingly never-ending stream of Greek alphabets to denote the various reiterations of the COVID-19 virus reminds us that our situation is precarious. Economists are circumspect: the World Bank expects global growth to decelerate to 4.1% in 2022; and we may just see this rippling across the financial world, including Islamic finance. But we are, arguably, better equipped today than we were 12 and 24 months ago at the start of this global health crisis which, although it overshadowed a number of tectonic geopolitical shifts, did not repel any of the reverberations.

We at IFN are very proud and grateful to have experts from across the world sharing their observations of the past year and projections for the upcoming one in this seminal IFN Annual Guide, a publication in its 17th year. These pages take you on a trip around the world and across a plethora of sectors, giving you a nuanced picture of growth, and setbacks, of the Islamic finance sector.

Most sincerely,

Vineeta Tan
Managing Editor
IFN

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Sidra Capital

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Sidra Capital has pioneered innovative Sharia'h compliant private finance products since 2012 when it established the world's first Sharia'h compliant structured trade finance fund. With four funds operating under our private finance strategy currently investing across Africa, Asia, Central and Eastern Europe, Sidra Capital has proven successful in providing investors with unique global investment solutions uncorrelated to major asset classes that have generated consistent and stable unlevered returns while offering a hedge against market volatility.

# Islamic finance: A catalyst for global recovery

**The two overriding features that defined the global Islamic finance industry in 2021 are resilience and growth.**

The fallout of the COVID-19 pandemic will continue to impact the world for a few years to come as governments intensify efforts in the economic recovery to pre-pandemic levels.

The consensus is that economic recovery, especially in developing countries, will depend on access to and the timely rollout of vaccines and reducing risks of future waves of the pandemic and associated disruptions to economic activity.

The Islamic finance industry, in general, has played a commendable role in contributing toward COVID-19 mitigation and recovery through rescue packages, innovative financial solutions, payment holidays, de-risking tools, digitization and leveraging Sukuk as a fundraising and recapitalization option.

Equally encouraging is the embracing of sustainable development goals (SDG), environmental, social and governance (ESG), sustainability and climate action values by the industry, which are well entrenched in the faith-based ethos of Islamic finance.

The aforementioned scenario will continue through to 2022 and beyond. Six metrics dominate the global Islamic finance ecosystem — growth dynamics; COVID-19 response; Sukuk issuance; LIBOR [London Inter-Bank Offered Rate] cessation; digitization and fintech; and SDG/ESG/Green finance.

## Growth dynamics

The growth dynamics of the global Islamic finance industry suggest an upward trajectory over the next few years. Refinitiv, in its latest Islamic Finance Development Report 2021, reports a steady increase in total assets under management (AuM) from US$2.96 trillion in 2019 to US$3.37 trillion in 2020 to reach a projected US$4.94 trillion in 2025.

Islamic capital market (ICM) growth has also been resilient. In September 2021, the Securities Commission Malaysia (SC) launched the country's third Capital Market Masterplan 2021–2025, which will serve as a strategic framework for the growth of the capital market in the next five years.

In 2020, the size of the overall capital market despite the impact of the pandemic totaled RM3.4 trillion (US$806.55 billion), up from the RM3.2 trillion (US$759.1 billion) in 2019. The ICM accounted for RM2.3 trillion (US$545.61 billion) compared with RM2.03 trillion (US$481.56 billion) in 2019, or 65.85% of the total capital market.

Similarly, the market share of Malaysian Islamic banking assets in 2020 reached 34.2%, in line with the official aim of reaching a 50% parity with the conventional sector by 2030. Total Islamic banking AuM at the end of 2020 reached RM1.09 trillion (US$258.57 billion), up from the RM1.02 trillion (US$241.96 billion) at the end of 2019.

In Saudi Arabia, Islamic banking AuM are well on the way to breaking the US$1 trillion barrier. In September, Fahad Abdullah Almubarak, the governor of Saudi Central Bank (SAMA), speaking at an Islamic finance innovation webinar, confirmed that local Islamic AuM reached over US$565 billion in the first quarter of 2021.

In Turkey, according to the Banking Regulation and Supervision Authority, the market share of participation banks' assets crossed 7.1% in 2020. The Turkish government's stated target for the sector is 15% by 2025.

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

## COVID-19 response

The response to the pandemic by the industry is commendable, led by the IsDB Group. Governments complemented this response with COVID-19 mitigation-specific financial measures with other industry bodies and the financial services sector with initiatives such as payment holidays, debt write-offs and the adoption of digitization to preempt branch visits.

On the back of its initial US$2.4 billion pandemic package in April 2020, the IsDB approved an additional US$1.2 billion in funding commitments in September 2021 to support post-pandemic economic recovery among its member countries.

The IsDB is also investing US$3.5 billion in developing the agricultural sector in sub-Saharan Africa, one of the hardest-hit regions, to develop commodity value chains for staple food and cash crops, improve productivity and connect local value chains to global ones.

In May, the IsDB launched an US$850 million IsDB COVID-19 Vaccine Access Facility. IsDB sister entities — Islamic Corporation for the Insurance of Investment and Export Credit, International Islamic Trade Finance Corporation and Islamic Corporation for the Development of the Private Sector — also launched stand-alone operations and co-financing arrangements across a range of sectors, including vaccine procurement, lines of financing to help the SMEs and private sector and de-risking solutions for development projects.

## Sukuk market resilience

The Sukuk market has been exceptionally resilient. The consensus is that 2021 will prove to be another record year with total gross short- and long-term Sukuk issuance projected to reach near if not surpass the record US$205 billion in 2020. Moody's Investors Service expects total Sukuk issuance in 2021 to reach between US$190 billion and US$200 billion.
Sukuk are dominated by sovereign issuers, especially Malaysia, Saudi Arabia and Indonesia. Nigeria in November was preparing

to issue its fourth naira-denominated Sukuk. The UK issued a GBP500 million (US$663.11 million) Sukuk in 2021. New entrants in 2021 include Bangladesh, the Maldives, Kuwait and Morocco, with Egypt poised to issue its debut sovereign Sukuk in 2022.

The importance of Saudi Arabia as an issuer cannot be overstated. The National Debt Management Center (NDMC) of the Ministry of Finance raised SAR75.34 billion (US$20.06 billion) through 11 monthly Saudi-riyal-denominated Sukuk in 2021. NDMC also issues Sukuk in the international market as part of its diversified fundraising strategy. Similarly, Indonesia raised an equivalent US$12 billion through regular domestic Sukuk issuances.

Quasi-sovereigns such as the IsDB, Saudi Aramco, Cagamas and the International Islamic Liquidity Management Corporation (IILM) have all played vital roles in keeping the Sukuk momentum going in 2021. The IILM issued monthly short-term liquidity Sukuk totaling US$10.56 billion to date.

The IsDB raised US$4.6 billion thus far (at the time of writing) in 2021 through three issuances. Cagamas, the Malaysian National Mortgage Corporation, amassed RM12.25 billion (US$2.91 billion) through Sukuk and bond issuances, buying mortgages from the market for securitization purposes.

In June 2021, Saudi Aramco issued a US$6 billion Sukuk facility, the single largest issuance to date. The transaction was 20 times oversubscribed, attracting an orderbook of over US$60 billion.

Corporates and banks also played a vital role in Sukuk issuance in 2021 as part of their fundraising diversification strategy to fund expansion, boost Tier I and Tier II capital, refinance existing more expensive debt and for general balance sheet purposes.

## LIBOR cessation

LIBOR will cease to be the reference benchmark for most currencies' wide range of financial products and services after the 31st December 2021.

There is an estimated US$370 trillion of LIBOR-related activity globally, covering loans, bonds, derivatives, working capital and trade finance products. The transition will significantly affect how contracts are priced and how risk is managed by market participants, lenders, borrowers and guarantors who use LIBOR as their operating model.

Islamic financial institutions used LIBOR as a guidance benchmark to price their products and services, partly because of the absence of a Shariah compliant alternative.

In Malaysia, the current reference rate for the local Islamic finance industry is the Kuala Lumpur Islamic Reference Rate (KLIRR). Bank Negara Malaysia (BNM) is collaborating with industry bodies to develop a new Islamic benchmark rate to replace KLIRR during FH2022 "that adheres to global standards for financial benchmarks".

In October 2021, the IIFM launched its Risk-Free Rates Standard for Murabahah and Ijarah transactions.

Another innovation is the debut Secured Overnight Financing Rate (SOFR)-linked three-year US$400 million Sukuk issued in April by the IsDB. The SOFR for US dollar credit facilities is one of the new global benchmark rates replacing LIBOR and is a broad measure of the cost of borrowing cash overnight collateralized by US Treasury securities.

## Digitization and fintech

The pandemic accelerated the digital finance revolution in the Islamic finance industry, albeit fragmented. The emphasis in 2021 seems to be testing central bank digital currencies (CBDCs), e-platforms for consumer finance and capital market products promoting ESG values.

The SAMA, for instance, is working to enhance the digital infrastructure of the financial sector and concurs that "the Islamic fintech space, in particular, offers exciting new growth opportunities for the industry".

The Central Bank of Nigeria launched the eNaira CBDC in November 2021, preceded by Turkey with its Central Bank Digital Turkish Lira Research and Development Project. BNM, together with three central banks, teamed up with the Bank for International Settlements "to test the use of central bank digital currencies (CBDCs) for international settlements".

In Malaysia, the SC and the UN Capital Development Fund launched the FIKRA Islamic Fintech Accelerator Program in May "to identify and scale relevant and innovative Islamic fintech solutions that can help address new ICM offerings, accessibility and social finance integration".

Digital banks are fast gaining momentum. In July, the Saudi cabinet approved two digital banking licenses while BNM announced that it had received 29 applications for a digital bank license.

The SAMA has licensed 32 fintech companies under its regulatory sandbox and launched Sarie, an instant payment system that tracks and further develops the national infrastructure for digital payments. Other developments in 2021 include virtual 'Buy Now Pay Later' prepaid cards, digital wealth portals, digital Islamic debit cards and biometric authentication for e-commerce transactions.

## SDG/ESG/green finance

The pandemic also focused attention on SDG, ESG, sustainable and responsible investment (SRI), sustainability and ethical finance, and the agenda promoted by Islamic finance markets. In a recent survey of GCC fund managers, Moody's forecasts strong growth over the next year supported by growing demand for Islamic products and ESG investment.

Green Sukuk issuance will accelerate as governments promote sustainable policy agendas and as demand for sustainable investments encourages new issuers to consider green Sukuk as an alternative financing tool. According to Fitch Ratings, the green and sustainable Sukuk outstanding volume increased by 31.7% in the first quarter of 2021 to reach US$11 billion, representing 9% of the total Sukuk portfolio.

In Malaysia, the SC expanded its Green SRI Sukuk and Bond Grant Scheme in 2021 to encourage more companies to finance green, social and sustainability projects through SRI Sukuk and bond issuance.

The industry saw several sustainability Sukuk issuances in 2021, including the US$1.3 billion offering of sovereign Malaysia, the US$2.5 billion offering of the IsDB and the RM500 million (US$118.61 million) sustainability Sukuk of Malaysia's SME Bank.

There has also been a measured proliferation of ESG funds, Waqf-featured funds and leveraging Islamic philanthropic instruments such as Zakat, Sadaqah and Waqf to develop the Islamic social finance sector.

# The IFSB promotes resilience and stability of the global Islamic financial services industry

***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 markets 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.**

## Preparation and development of the IFSB standards

The IFSB formulates global prudential standards and guiding principles for adoption by IFSB member jurisdictions. The preparation of these standards follows a lengthy due process as outlined in the IFSB Guidelines and Procedures for the Preparation of Standards/Guidelines which involves, among others, the issuance of exposure drafts and, where necessary, the holding of public hearings. Since its inception, the IFSB has issued 38 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 are going through this due process; the standards are: Technical Note on Recovery and Resolution of IIFS [Institutions Offering Islamic Financial Services], Revised Shari'ah Governance Framework Standard, Core Principles for Islamic Finance Regulation (Takaful), Conduct of Business and its Prudential Supervision in Takaful, Revised Solvency Standard for Takaful/Retakaful Undertakings, Revised Guiding Principles on Corporate Governance for IIFS (Banking Segment), Technical Note on Shariah compliant Liquidity Management Tools, and Guidance Note on Deepening the Islamic Money Market.

## The IFSB milestones in 2021

Despite entering into its second year against COVID-19 challenges, the IFSB continues to mark vital milestones to benefit its members and the Islamic financial services industry:

- Disseminated PSIFIs [Prudential and Structural Islamic Financial Indicators] data for the first (Q1) and fourth (Q4) quarters of 2021 for Islamic banking systems in member countries
- Disseminated PSIFIs data for Q1–Q4 2020 for the Takaful sector in member countries
- The IFSB's PSIFIs database records the first dissemination of data on the Islamic capital market sector in member countries
- Disseminated PSIFIs data for Q4 2020 with detailed financial statements for Islamic banking systems in member countries
- Adopted two new standards for the Islamic financial services industry:


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- *IFSB-23: Revised Capital Adequacy Standard for Institutions offering Islamic Financial Services (IIFS) [Banking Segment], and*
- *IFSB-26: Core Principles for Islamic Finance Regulation (Financial Market Infrastructures).*

- Jointly issued with the International Association of Deposit Insurers, new guidance in the form of Core Principles for Effective Islamic Deposit Insurance Systems
- The Central Bank of the UAE hosted the 39th IFSB Council Meeting and Capacity Building for Market Players in Abu Dhabi, and co-organized the 13th IFSB Public Lecture
- Organised the 15th IFSB Summit 2021 — 'Balancing Innovation and Resilience'
- Admitted three new member organizations into its membership
- Signed an MoU with Bank Nizwa for collaboration on training and awareness-raising activities
- Published its fourth set of frequently asked questions (FAQs) on IFSB-12, IFSB-13, IFSB-24 and IFSB-25
- Organized an online executive program to divulge on managing digital transformation risks for Islamic financial institutions
- Issued four research papers in the Working Paper Series
- Launched the Ninth Edition of its Annual Flagship Publication: The Islamic Financial Services Industry Stability Report 2021
- Published the Russian version of three its standards
- Published the French version of five of its standards
- Issued the first edition of the Implementation Guidelines Report for 2020
- Successfully organized a series of joint seminars on the Islamic capital market with member organizations
- Jointly organized with Bank Indonesia the IFSB Conference 2021: Financial Stability in the Digital Era and its Implications for Islamic Economics and Finance
- Organized the 3rd Innovation Forum — Digital Transformation of the Islamic Finance Industry: Industry Case Studies, and
- Organized a members' sharing session titled 'Strengthening the Institutional and Market Infrastructure of Islamic finance — Implementation of Regulatory Standards and the Work Ahead'.

## COVID-19

The IFSB remained resilient in 2020 in response to COVID-19 challenges and continued these efforts in 2021:

- Issued two new working papers on assessing the stability of Islamic banking amid COVID-19, and digital transformations in Islamic banking
- Issued a public statement addressing the measures to mitigate the impact of COVID-19 on the Takaful sector
- Disseminated regulatory and supervisory measures to mitigate the impact of COVID-19 and recommendations relating to the Takaful/re-Takaful industry
- Published the 12th Public Lecture to Focus on Post Pandemic Impact to Financial System Stability
- Organized the 2nd IFSB CEO's Forum titled 'Islamic Finance and Recovery Initiatives Post COVID-19', and
- Regularly assesses the stability of the Islamic finance industry (post-pandemic and way ahead) with intensive discussions and sharing of country experiences in its council meeting.

## The IFSB outlook: Strategic Performance Plan 2022–2024

The Council of the IFSB approved the new Strategic Performance Plan (SPP) 2022–2024 that aims to expand and strengthen the IFSB's work plan in response to increasing aspirations and expectations of IFSB members, and to meet the demands in supporting the growth, resilience and stability of the Islamic financial services industry amid the evolving global financial industry challenges. The SPP 2022–2024 continues to focus on the following four strategic key result areas (SKRAs):

- SKRA 1 — Formulation and Issuance of Prudential Standards, Research and Statistics
- SKRA 2 — Facilitating the Implementation of Prudential Standards and Capacity Development
- SKRA 3 — Increasing Value in the IFSB Membership, Global Visibility and Attractiveness, and
- SKRA 4 — Efficient Management of Resources with Good Corporate Governance Practices.


# Update on IIFM initiatives in 2021–22

***Ijlal Ahmed Alvi** is the chief executive of the International Islamic Financial Market (IIFM). He can be contacted at ijlal.alvi@iifm.net.*

**In 2021, International Islamic Financial Market (IIFM) started implementing its 3-Year Strategic Plan (2021–2023) approved by its board of directors in January 2021. The targets set are as follows:**

1. Consultation on global benchmark rate reforms and development of risk-free rates implementation solutions and IBOR [interbank lending rate] fallback documentation
2. Standard Sukuk documentation
3. Practical training on IIFM published standards
4. Industry consultation meetings and virtual awareness seminars
5. Revised Malaysian legal opinion on Tahawwut Master Agreement
6. Publication of white paper on IBOR transition, and
7. Sukuk Report 10th Edition.

## Review of 2021

The following is a brief overview of IIFM activities during 2021.

*Standardization*
In March 2021, IIFM published the standard set of 'Template Sukuk Al Mudarabah Documents' for perpetual Tier 1 issuances, which comprises the following:

- Template prospectus
- Master Mudarabah Agreement,
- Declaration of trust.

The purpose of Sukuk Mudarabah standards is to provide the industry with a standardized set of document templates addressing clauses that are repetitive and require transparency/clarity during the drafting of the Sukuk prospectus and related issuance documentation, while also standardizing definitions and updating Shariah requirements.

Issuers, arrangers, legal advisors and other related parties will benefit in the drafting of voluminous Sukuk documentation for issuers which will offer greater transparency and comfort to investors and lead to efficiency and cost reduction.

*Global benchmark rate reforms — solutions for implementing alternative benchmark rates*
In November 2020, an industry-wide virtual consultation meeting was organized by IIFM to assess the impact of the transition to risk-free rates (RFRs) on different segments of the Islamic finance industry, identify remedies and solutions as well as highlight related issues such as accounting, governance and contractual obligations, etc.

More than 180 participants from 11 jurisdictions representing central banks and regulatory bodies, Islamic and international financial institutions, standard-setting bodies and associations, law and accounting firms, other business service providers as well as eminent Shariah scholars took part in the meeting.


## Vision

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

## Mission

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

The International Islamic Trade Finance Corporation (ITFC) is a member of the Islamic Development Bank (IsDB) Group. Commenced operations in January 2008, ITFC has provided more than US$55 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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In March 2021, IIFM published the recommendations from the meeting in the form of a white paper which served as the basis for development work undertaken by IIFM on an urgent basis on this major transformation to RFRs which will have an effect on new and legacy contracts, Islamic financing arrangements (syndicated and bilateral) and hedging and capital market securities such as Sukuk.

Based on the recommendations contained in the paper, three separate work streams for financing, hedging and Sukuk were formed by IIFM consisting of leading institutions to deal with this important development and achieve mutually acceptable solutions relating to IIFM mandated areas of focus.

IIFM commenced work on the following two priority areas:

- RFR implementation solutions for Islamic financing transactions, and
- Islamic hedging-related IBOR fallback documentation.

In October 2021, IIFM's Shariah board approved the IIFM Standard 'Shari'ah-Compliant Structuring Solutions for RFR Implementation for Murabahah and Ijarah Transactions' for the benefit of the industry.

Work on the ISDA [International Swaps and Derivatives Association]–IIFM Standard 'IBOR Fallback Definitions Booklet and Bilateral Amendment Agreement' for Islamic hedging transactions is also in advanced stages of finalization and expected to be published before the global regulatory deadline of end of December 2021.

*Legal opinions*
IIFM, in coordination with its joint partner ISDA, issues joint legal opinions on the enforceability of financial contracts in jurisdictions with close-out netting legislation. So far, legal opinions are available on English law, Singaporean law and UAE federal law. The legal opinion on Malaysian law is currently being revised.

*Capacity-building and professional development*
Providing training on IIFM standards helps in creating better understanding on the practical aspects and workings of IIFM published standards and also serves as capacity-building and professional development of financial institutions' human resources.

The first-ever training course on IIFM standards was launched with the two-day virtual workshop titled 'Liquidity Management Master Class' which took place in October 2021. In order to keep the course focused and interactive within a smaller group, the maximum number of attendees was limited to 20 participants. Due to an overwhelming response, a second edition of the workshop was organized in November 2021.

## Preview of 2022

IIFM plans to offer more such training workshops covering IIFM standards on hedging, Sukuk and trade finance during 2022.

*Annual Sukuk report*
The annual IIFM flagship Sukuk Report is one of the main sources of reference on the Sukuk market and the 10th anniversary edition of the report was published in August. Work on the 11th edition has already commenced and is expected to be published by mid-2022.

*Industry consultation and awareness events*
IIFM organized two Sukuk-related webinars during 2021, a joint IIFM–IILM [International Islamic Liquidity Management Corporation] virtual seminar in conjunction with the 8th Annual Indonesia Shari'ah Economic Festival (or ISEF 2021) and also participated as a co-organizer in the 5th IILM Shari'ah Roundtable (Virtual).

A virtual industry consultation meeting is being planned on Islamic syndication documentation standardization in early 2022. Besides the aforementioned events, IIFM also virtually held its board of directors meetings and Shariah board meetings.

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

Islamic syndication documentation standardization has been identified as an area where IIFM standards will enhance the segment and enable further growth of the market. An assessment exercise on this initiative is already underway and the discussion paper for the consultation meeting is being finalized.

A virtual meeting will be organized in 2022 where syndication documentation standardization requirements will be deliberated upon by key stakeholders representing Shariah scholars, regulators, banks, law firms and other market participants including Islamic infrastructure institutions so that the key issues to be tackled are identified and the exact syndicated finance-related documents are prioritized for standardization purposes.

## Conclusion

IIFM will continue with its standardization and industry development initiatives and during 2022, in addition to syndication documentation standardization, IIFM will also be looking to develop standard documentation for allocated gold (jointly with LBMA [London Bullion Market Association] and the World Gold Council), combination or hybrid Sukuk structures and documentation as well as additional liquidity management standards in consultation with industry stakeholders. IIFM will also be assessing the growing requirement for environmental, social and governance-related initiatives as well as fintech-related digitized and smart documentation standards.

# Interview: Tony Kinnear, CEO of Azentio Software

**You were appointed to lead Azentio Software fairly recently, since May 2021. What is your vision for the firm? Can you tell us what your top priorities are and the strategy you are implementing?**

Azentio's vision is to be the leading provider of banking and insurance software across Asia, Middle East and Africa. We are a portfolio company focused on banks, financial institutions, wealth managers, asset managers and insurance firms. And we also have an ERP [enterprise resource planning] solution that serves mid-market organizations across the region. We are building a world-class software company out of the region to serve banks and insurance firms locally and worldwide.

We have acquired four companies, integrating them together and looking to build a comprehensive set of products for our clients, and achieve the scale that allows us to invest in our business to grow and expand more effectively. Each of the four companies we acquired has great people and great products. By combining them, we are stronger together and have remarkable breadth and depth. Now we have close to a thousand clients across our markets. We can do much more together than we did before separately.

**Will we see more acquisitions by Azentio? Are you planning to go public via an IPO process?**

The priority right now is to effectively integrate each of the businesses, build our team and capabilities and focus on serving our clients. Our planning for the next year is centered around our existing business.

"Every client wants to talk about digital, and the pandemic is just one driver of this"

But that said, we will look at doing more acquisitions where it makes sense. There are several criteria we will consider when assessing potential acquisitions. Firstly, will an acquisition bring more talent into the organization to help us take advantage of the significant opportunity we have in the region? There are several thousand banks, financial institutions and insurance firms across Southeast Asia, India, Middle East and Africa, which are our focus markets, and you need exceptional talent to be able to serve that market and grow effectively. This applies across product engineering, service delivery and sales and marketing. So, continuing to bring proven talent into the business through acquisition is high priority.

Secondly, the assets that we have assembled provide us with a lot of the back- and front-end solutions that are needed for core banking and insurance platforms, as well as digital. But we still have gaps in our portfolio, and it might make sense to acquire new companies that can fill those gaps and provide an even more comprehensive offering to our clients.

With regards to going public, one of the great things about being a private company is that we can take our time and invest appropriately in the sort of things I have already mentioned. On the

product side, we are really focused on modernizing our technology platform, integrating the different components that we have, taking our solutions to the cloud. These require a lot of investment, a lot of patience. I think our approach is to get that work done over the next few years and then look at different options for future growth.

**It has been quite a tumultuous two years for most of us around the world. How has the global COVID-19 pandemic impacted the business of fintech and banking software?**

The pandemic itself is hugely impactful on people and businesses. But for fintech and the banking business generally, and the same applies for insurance, it has been a real accelerator, and I would say there are more positives than negatives. The most important issue around the pandemic is the way it has impacted the ability of customers to interact with banks and the ability of banks to service their customers. It seems an obvious thing to say, but going into the bank branch during the pandemic was not possible, so it has forced literally every financial institution to accelerate new ways of onboarding and servicing customers.

**How are financial institutions adapting to this unprecedented disruption? Are you seeing a difference in coping mechanisms across different markets?**

I think every conversation that we have with banks involves leveraging digital and other new technology capabilities to help them service, compete and grow in some shape or form. I don't think that would always have been the case before the pandemic. This is the case in both mature markets like Singapore, Hong Kong or India and the emerging markets in MENA or Africa.

Every client wants to talk about digital, and the pandemic is just one driver of this. The shift to open banking in different countries, which is allowing existing institutions to expand their product offerings and allowing new entrants, has made the market larger and more competitive. Customer expectations are a lot higher. So, leadership at financial institutions must think carefully about how to serve

customers better, compete more effectively, win new business and invest in technology as an enabler.

So how are they coping? I think by and large, reasonably well. The important thing is that executives and leaders are making plans and then starting to make progress on them. The challenge in our industry for some of the players that have been around for a long time is that they have legacy systems with customer data and workflow deeply embedded in those systems. The key is to be able to deploy new technologies and launch new products into the market on top of those core platforms and do it in a fairly agile, quick and cost-effective way. That is why I think providers like Azentio have a real advantage in being able to help clients with both core and digital offerings, with a reasonable degree of reliability, agility and cost effectiveness.

**The acquisition of Path Solutions by Azentio is an interesting one. Would you walk us through how the deal came to be?**

Path Solutions is very well known. They are a pioneer in the market and highly respected and a leading provider of Islamic banking software globally. Our geographical focus is Southeast Asia, Middle East and Africa where Islamic banking is such an important part of those economies.

The thinking for us was that, as I mentioned, to be a global leader in the technology space, you have to be a provider of Islamic as well as conventional software. So, it made sense to engage in a discussion with Mohammed Kateeb (ex-chairman of Path Solutions).

We found that we were very aligned with Mohammed Kateeb and the Path Solutions's team on our vision, and it just seemed like a very natural fit for us. Path Solutions's suite is very complementary to the products we already have with very little product overlap. I think what we can do for Path Solutions is add a lot of ability to take their Islamic and core banking solutions to a broader market. For example, because we are based in Singapore, we can provide Path Solutions with stronger access to markets like Malaysia, Indonesia, Thailand and the Philippines.

> **In the Islamic banking space, there is a lot of innovation**

I think in the Islamic banking space, there is a lot of innovation. Path Solutions will develop new products and provide new solutions to their constituencies, and Azentio can provide the scale and funding to help the team deploy those new solutions more quickly.

**As far as the Islamic finance market is concerned, are there any particular growth areas that you have identified?**

In my opinion, there are probably two ways to think about that. Firstly, our vision is to be able to provide Shariah compliant software to Islamic institutions anywhere in the world, including conventional banks with Islamic desks. I think we can absolutely do that, and that will be a key growth driver.

But when it comes to specific solutions, it is really again all about digital. The need for digital solutions to serve customers more effectively is just as strong, if not stronger, in the Islamic space as it is in conventional banking.

Islamic banks are very focused on the SME and retail segments. It is this customer base that is probably most greatly impacted by the pandemic, and a key way to help SMEs and retail customers is through providing much greater access to digital banking services, and innovative and ethical products. That is where I think we can really help the Islamic banking community.

Beyond digital, it is also important to make banking services much more widely available to the Islamic world, which in many cases, is still in development mode. Azentio's larger purpose, beyond being a great software company, is to help our clients extend their reach into new markets and help emerging economies get better access to banking and insurance products and services and contribute to maximum financial inclusion throughout the world.

For example, the level of life insurance penetration in the markets we operate in is still very small. Our mission is to help communities get access to life coverage and get protected. Our product development focuses on equipping banks and insurance firms with the right products to do that. Providing technically modern but affordable platforms to support microfinance is very important to us and an area that we will be investing in. And this is particularly acute again in the Islamic world. There are a lot of Islamic product ideas that Mohammed Kateeb and his team have for us to move forward with. I think one very interesting solution that is coming out now is the profit calculation tool that sits inside our iMAL core banking software, which is the only solution in the world to be certified by AAOIFI, the standard-setting body. The Path Solutions's team is extracting that engine from the core banking solution and making it available to clients that need to be Shariah compliant. I think that creating microservices such as this to support a broader set of customers in a more agile and cost-effective way is quite innovative. We also have a lot happening around AI [artificial intelligence], blockchain and facial and voice recognition to strengthen our fraud management solutions.

**What are some of the most pressing pain points for financial institutions as far as digital innovation is concerned? And what are the biggest barriers to achieving digital transformation?**

That is a great question. If I were to summarize it: It is the weight, cost and complexity of the legacy systems that sit within organizations. Workflow, analytics and customer data often sit within multiple legacy systems that have been built up over many years. Quite often, the components are pretty much siloed within organizations, so trying to deploy solutions that work for clients quickly and reliably can be very challenging. And clients these days, because of the emergence of fintechs and alternative providers, know the level of expectation around speed and personalization, which is higher than ever. So, for the incumbents, the challenges are all around extracting data, processing outside legacy systems and being able to drive that change in a very nimble, cost-effective and differentiated way.

**What were the biggest digital trends in the financial space in the last year? Will these persist and what other key trends are you anticipating to emerge over the next 12–18 months?**

It probably sounds like a broken record, but it is all about digital. More specifically, I think it is around much more personalized customer service. Customers now expect financial services providers to understand what their needs are. The customer is in control. I think banks just need to understand what their individual customers want and deliver it quickly and reliably.

It is all about how to use data more effectively to identify the needs of customers and provide personalized solutions faster, using AI and digital. And that could be through cross-selling within applications to generate more opportunities, enhance customer experience and build deeper, stronger, trusted customer relationships.

# SECTOR REPORTS

# Islamic finance litigation: Opportunities and risks

***Sohail Ali** is a partner in the Litigation & Arbitration Team at DLA Piper. He can be contacted at sohail.ali@dlapiper.com.*

**2021 has been a relatively quiet year in terms of UK disputes for the Islamic finance sector. Largely, this has been due to the impact of the COVID-19 pandemic on both lenders and borrowers and the desire to mitigate risks and preserve liquidity in times of uncertainty. However, with an increase in third-party funding, a growing focus on environmental, social and governance (ESG) issues, the relaxation of national insolvency moratorium regimes and the likelihood of increased defaults and non-performing loans, the expectation is that, in line with the rest of the finance industry, 2022 is primed to be a busy year for disputes in the Islamic finance sector.**

## Review of 2021

Unlike in recent years with notable judgments such as the Dana Gas case, there has been a dearth of UK litigation in the Islamic finance sector in 2021. The most high-profile judgment this year has been the judgment handed down by Justice Zacaroli in Golden Belt [2021] EWHC 2629.

While this case is notable for the fact that it relates to a claim by Golden Belt in relation to the default and non-payment by Saad of the US$650 million Sukuk and the case has, in the past, raised interesting questions in relation to the role of Shariah board scholars, the latest judgment is relatively benign insofar as it relates to Shariah principles and/or has any wider general significance or relevance for the Islamic finance sector.

The judgment handed down on the 30th September 2021 related more to questions of contractual interpretation and execution of a trust under English law (ie whether the issuer (Golden Belt) was permitted to enter into settlement negotiations and/or restructuring proposals with the debtor (Saad) in Saudi Arabia without the authorization of certificate holders (which the court held it absolutely and unconditionally could)) rather than the applicability of any general Shariah principles.

Otherwise, it has been a relatively sedate year from a disputes perspective. Despite increasing financial pressures in certain industries caused, principally, by supply chain disruption and/or a contraction in global GDP, there has been little appetite either from Islamic finance borrowers or lenders to engage in litigation.

There appears to have been a greater preference to try and resolve matters amicably without commencing legal proceedings in order to preserve liquidity and cash flow. This has also coincided with the gradual resumption of in-person court hearings following a year of lockdown, a backlog of cases and virtual hearings.

## Preview of 2022

2022 is expected to be a far busier year from a disputes perspective. In my opinion, the following factors are likely to drive/result in greater litigation:

*Litigation funding*
There has been a huge growth in litigation funding globally. The UK litigation funding market alone is estimated to be worth in excess of US$2.5 billion. This provides an opportunity for claimants to pursue high-value, high-stakes litigation (often on an entirely

funded, non-recourse basis) that they may not otherwise be able to pursue. To date, litigation funding has been relatively underutilized by the Islamic finance sector. However, with increased information and awareness, coupled with the fact that funding is regarded generally by the Islamic finance market as being inherently Shariah compliant, it is expected to become increasingly popular in the Islamic finance sector.

*Non-performing assets*
The pandemic has placed huge pressures on businesses as a result of enforced business closures, supply chain issues and contracting macroeconomic conditions. While businesses in 2021 have been relatively protected by government furlough schemes and insolvency moratorium regimes, 2022 is likely to see far less government support and protection. This is expected to result in businesses defaulting on their contractual obligations and/or entering into insolvency resulting in increased litigation.

*Legal landscape*
There is a growing trend (through recent UK judgments and the new EU Collective Redress Directive) for a more pro-consumer, collective redress-type regime. Taken together with an increase in litigation funding and a distressed financial market, this is likely to result in greater litigation across all sectors, including Islamic finance.

*ESG*
There is a greater legal and regulatory focus on ESG issues and disclosures particularly following the 2021 United Nations Climate Change Conference, also known as COP26. Coupled with increased shareholder/investor demands, there is expected to be a significant increase in 'greenwashing' litigation from 2022 onwards.

Given the recent heavy focus of the industry on green Sukuk and sustainable, social and impact financing, combined with the absence of any regulatory body monitoring ESG labeled products, there is a heightened risk for ESG-related litigation for the sector. Claims are expected to come not just from traditional sources but from shareholders, activists and non-governmental organizations.

This new 'behavior/impact'-led class of claimants poses the greatest risk to an industry which has traditionally sought to resolve financial disputes with counterparties amicably.

## Conclusion

2022 is likely to be a seminal moment for Islamic finance from a disputes perspective. The changing legal, regulatory and economic landscape provides both litigation/arbitration opportunities and risks for the sector. The sector will need to more proactively consider and engage with risk mitigation and dispute resolution in a manner that it has not previously done before.

# Islamic financing for aviation: Preparing for take-off

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

**Participants in the aviation industry put their seat belts on ready for a bumpy ride in 2021. While 2021 remained a mixed year in the aviation industry, with major restructurings of various leasing and financing arrangements, it has been remarkable how resilient the industry has been in the circumstances in the face of closed markets and dramatically reduced passenger numbers.**

The typical airlines and aircraft lessors that utilize the Islamic banks and financial markets responded quickly to the COVID-19 crisis to ensure liquidity facilities were put in place to fund ongoing activities in particular with commodity Murabahah facilities, and sale/leaseback Ijarah facilities.

It has been interesting to see that, unlike in other financial crises, there has remained strong liquidity in the aviation finance sector, and even with some players retreating, there has been a real growth in private equity and non-bank alternative funding vehicles investing in the aviation funding and leasing space.

## Review of 2021

The number of new deliveries of aircraft was much reduced in 2021 with the large original equipment manufacturers, such as Airbus and Boeing, cutting production numbers, although we have started to see deliveries of the Boeing 737-Max aircraft starting to be delivered into the Middle East following the lifting of restrictions.

This production cut, coupled with deferrals, has resulted in a lower number of new deliveries in 2021 in general, but Shariah compliant banks have continued to play their part with the new delivery market with a number of new portfolio facilities.

It must be recognized that there have been a number of large airlines, and even a small number of aircraft lessors, that have sought bankruptcy protection over the last 12 months, although perhaps fewer than expected at the start of the year.

While every airline restructuring and bankruptcy is different, the trend has been for airlines not to simply utilize their domestic bankruptcy processes but to combine this with a UK or US formal restructuring process such as the US Chapter 11 procedure (eg Philippine Airlines, and LATAM) or a UK Restructuring Plan or Scheme of Arrangement (eg Malaysian Airlines).

The concerns of Islamic banks and investors have been similar to those with conventional banks, although there clearly are some additional structuring points for them in implementing typical restructuring transactions.

In some cases, the distress has led to airline defaults, most notably, in the Islamic context, with defaults of Garuda, the Indonesian flag carrier, on its unsecured Sukuk.

There have certainly been some positive movements in the context of the London Inter-Bank Offered Rate (LIBOR) reform in 2021. For something where the big picture direction of travel has been so certain, the indecision of how and when to get there has certainly been bugging those trying to plan for the future.

It has been clear for several years that key financial regulators around the world have wanted to get rid of LIBOR as a benchmark rate. The key questions have been how and when this would happen.

While regulators have been increasing the pressure on their financial institutions and setting dates, and we have seen some transactions (outside of the aviation sector) adopt the backward-looking daily compounded Secured Overnight Financing Rate (SOFR), this has not led to a mass exodus from US LIBOR to SOFR.

In part, this has been because the backward-looking rates are more difficult to administer and are far more complicated — the mechanics may be fine in a set of bond documents but do not fit well into Islamic finance deals.

The announcement by the New York Federal Reserve Bank and the Alternative Reference Rates Committee supporting the adoption of Term SOFR (as a forward-looking rate) has certainly been welcomed, albeit that there has not yet been a stampede toward its wholesale adoption.

## Preview of 2022

As the aviation industry largely operates in a US dollar world, some of the immediate pressure for change has been lifted as we see how Term SOFR is adopted in Islamic transactions, but we would expect the momentum to pick up in 2022.

The last major development in aviation has been the pivot to start addressing the topic of environmental, social and governance (ESG) policies. Even though aviation makes up roughly 2.5% of total $CO_2$ emissions (with roughly 4% of global GDP), it has still ended up with a high profile compared with some other much larger emitters. What we are seeing is an increase in the use of sustainability-linked transactions (ie with specific sustainability performance targets that can adjust the profit rates) such as for British Airways and Etihad Airways.

In the context of looking at potential 'green' or transition transactions, it will be interesting to see what developments occur with the EU's Taxonomy which is currently looking at permitting the following five options to be marketed as green financing transactions for aviation:

(1) Zero-emission aircraft — green hydrogen or electric
(2) (Until 2030) best-in-class new aircraft where coupled with decommissioning another non-compliant aircraft within six months
(3) (From 2030) as with (2) above but also needing to use 10% sustainable aviation fuel (SAF) (increasing by 2% annually thereafter)
(4) Aircraft that uses a minimum of 5% SAF in 2022 (increasing by 2% annually thereafter), or
(5) (Until 2024–26), a corporate financing where a proportion of the fleet meets the aforementioned aircraft requirements by reference to aircraft delivered/decommissioned over the last 10 years.

## Conclusion

As we look toward 2022 and beyond, we would expect to see increased opportunities for Shariah compliant banks and funds as the aviation industry looks to grow out of its current position back toward pre-pandemic levels, though this will likely be without the use of LIBOR structures and a much greater move toward ESG-led transactions.

# Shariah security crowdfunding: A new milestone of a Shariah compliant capital market investment

***Akhmad Affandi Mahfudz*** *is an Islamic finance specialist at the University of Darussalam Gontor in Indonesia. He can be contacted at affandi@unida.gontor.ac.id.*

**Crowdfunding is the collection of funds from individuals to finance certain entrepreneurship activity. Today, crowdfunding activity amid economic unrest has resulted in sluggish growth particularly during the COVID-19 outbreak. Inter-linkage between SMEs, entrepreneurs and external funding is an inseparable part of crowdfunding activity using digital platforms to meet their financial needs in the light of liquidity issues among them.**

## Review of 2021

The global crowdfunding market size is projected to reach US$25.8 billion by 2027, from US$12.27 billion in 2020, at a compound annual growth rate of 11.2% during 2021–27. Currently, China is controlling around 37% of the global crowdfunding market followed by the US with 32%, Europe 17% and the rest scattered in some Asian countries as well as the African region.

Meanwhile, based on the type of crowdfunding product, global equity crowdfunding showed a positive trend with a 36.2% market share in 2019 and it is expected to decrease slightly to around 35.7% in 2027 whereas reward crowdfunding recorded 27.4% in 2019 and 27.1% in 2027, and donation crowdfunding recorded 18.7% and is expected to increase to around 19.1% in 2027.

Islamic crowdfunding has become a solution to deliver accessible financial services to unbanked entrepreneurship activity. The practice of crowdfunding activity in some countries may vary either in the form of reward crowdfunding, equity crowdfunding or donation crowdfunding.

Today, transactions in crowdfunding activity use digital platforms via mobile applications. Meanwhile, Islamic crowdfunding differs in terms of emphasizing the Shariah compliance of social as well as commercial activity using designated contracts that meet the Shariah tenets.

The practice of Islamic crowdfunding is conducted using various business models, for example, peer-to-peer lending which is similar to that of conventional lending, yielding a profit margin as the return to investors. Equity investment allows contributors to trade capital for equity shares and enables them to become owners of the company.

Reward crowdfunding is merely a social activity without any intention to get a benefit from the contribution of funds. However, the platform provider may reward the contributors with a product or service as a form of appreciation. The final business model is hybrid crowdfunding where it is a combination of the previous business models.

In addition, Islamic equity crowdfunding is practiced widely in some countries like Indonesia and Malaysia and has contributed significantly to bridging the funding gap for entrepreneurs.

Today, Islamic crowdfunding has achieved a new milestone: Shariah security crowdfunding was introduced in Indonesia in 2020, replacing Shariah equity crowdfunding, the first of its kind in the world. Many

platform providers are now struggling to obtain a license to start the business as soon as possible. Shariah security crowdfunding allows the investment in equity or Sukuk where the issuers and investors can be retail investors, entrepreneurs, cooperatives as well as individuals.

Shariah security crowdfunding also uses digital platforms to ease transaction and business activity between investors and issuers mediated by the platform provider. In this regard, there are no significant differences with that of conventional practices.

## Preview of 2022

Shariah security crowdfunding is an essential avenue for SMEs, retail investors, cooperatives and individuals to uplift their scope of business with more secured business transactions and transparent, efficient and reliable business activity in line with Shariah rulings.

Although it is considered as an infant industry in the capital market, there is no doubt about the untapped opportunity as a majority of the people are mobile phone users with smart applications, while many entrepreneurs, retail investors and individuals are unbanked with business potential.

In view of the aforementioned, some key drivers of success in Shariah security crowdfunding may occur in the future such as the value proposition as the players continuously work toward enhancing the product value proposition and gauging product success chances. In addition, the use of social media as a source of free promotion is one of the major drivers of the global Shariah security crowdfunding market.

There will be a massive campaign as an avenue for crowdsourcing to provide considerable growth opportunities to crowdfunding manufacturers and of course there will also be more available trained information technology professionals and a skill workforce which will be factors for the growth of this sector. Emerging artificial intelligence technology and the increased adoption of cloud-based solutions are the market opportunities for the crowdfunding market which will happen in the future.

## Conclusion

In short, Shariah security crowdfunding using digital platforms has entered into a new dimension of the Shariah compliant capital market. It is also a new landscape of the Islamic financial industry that will greatly contribute to the remarkable growth of Islamic finance. Collaboration and synergy among stakeholders, retail investors and SME players across the globe will result in a new milestone for Shariah security crowdfunding using digital platforms.

# Cybersecurity and its effects on Islamic banking

***Gamal Darwish*** *is the product manager of Islamic banking at Temenos. He can be contacted at gdarwish@temenos.com.*

**With the rise of COVID-19, we saw a rapid shift from traditional toward digital banking with banks closing down branches and adding more channels to keep the customer experience positive. This is also true of Islamic banks which have been making solid strides toward digitalization. With all these increased channels, banks face a challenge to secure these access points and inefficient cybersecurity could leave them vulnerable to cyberattacks and financial crime, resulting in decreased client confidence.**

Islamic banks are increasingly becoming a target for cyberattacks owing to the rise of digital communication causing accelerated demand for advancements in cybersecurity. Islamic banks are responding to this demand by ensuring secure banking services and improved user experience across the various touchpoints, particularly mobile banking.

As cybercrime continues to rise, regulators are implementing laws and regulations to combat the spread and are similarly encouraging banks to invest in their cybersecurity compliance. Islamic banks have begun prioritizing their investments in financial crime mitigation as they are aware of the advantages of protecting their clients and their reputation, preemptively avoiding fines and penalties and capitalizing on technological advancements.

## Review of 2021

Gulf News reports that in the UAE — which owns a large share of the Islamic banking market — alone there was a loss of US$746 million a year to cybercrime, while users across the world lose US$318 billion annually, according to research by UK data provider Comparitech. The Central Bank of the UAE has been persistent in the fight against cybercrimes, establishing the Networking and Cyber Security Operations Centre to help defend the financial system's information technology infrastructure.

Additionally, in 2020 the Arab Monetary Fund published the report 'Digital Identity and e-KYC Guidelines for the Arab Countries' to extend its discussion on adopting digital onboarding tools.

Countries like the UAE and Bahrain have been among the early adopters of this with Bahrain launching its eKYC [electronic know-your-customer] project to facilitate KYC data-sharing among financial institutions authorized by the Central Bank of Bahrain while the UAE introduced its own eKYC platform.

In 2021, open banking in the Middle East became one of the major players in the digital transformation for Islamic banks due to the flexibility it provides the banking industry, giving open access to consumer banking, transaction and other financial data from bank and non-bank financial institutions.

This provides consumers with a great range of financial services but, as a result, opens up more paths for financial crimes and money laundering for banks.

## Preview of 2022

In 2022, regulators like the Saudi Central Bank in Saudi Arabia plan to introduce a framework for open banking that allows third-party developers to securely access customer data as a way of balancing developments in financial technology against the rise in financial crime.

Just as the pandemic has accelerated digital transformation, it has provided cybercriminals with many opportunities to come up with new schemes and take advantage of a rapidly changing environment.

Islamic banks will need to create an improved governance framework for cybersecurity, but because of their reliance on a Shariah board for the evaluation and approval of cybersecurity practices and activities, they need to make sure that they are not only compliant with the traditional regulators but also with the Islamic financial laws.

## Conclusion

Looking forward, cybersecurity will remain a hot topic and priority, especially for Islamic banks that will continue to increase their investment in new technology trends to protect their customers and their reputation and to meet regulators' demands. Many Islamic financial institutions in the Middle East and the GCC face difficulties in overcoming and responding to these challenges; they need to not only reexamine their fraud controls but also conduct risk assessments to detect the latest threats and educate their customers on new risks.

# Sukuk — where to next for the industry?

***Gregory Man*** *is the global head of Islamic finance at Bird & Bird. He can be contacted at greg.man@ twobirds.com.*

**The global Sukuk market remains an increasingly important segment of the global Islamic finance industry with Sukuk having established itself as a viable source of funding for general corporate purposes, sovereign budgetary and fiscal requirements, project finance, capital adequacy purposes, asset finance, short-term liquidity management and more.**

The fact that issuers of Sukuk are able to increase liquidity and diversify their funding base by accessing pools of Islamic capital, while also remaining attractive to conventional investors who understand the product and are therefore able to invest in it, means that it remains an attractive financing option for many borrowers.

The industry has continued to develop and mature and we have seen increasing levels of innovation with the industry benefiting from the continued support of the more traditional market participants in developed Islamic markets, particularly in Southeast Asia and the Middle East, as well as from new market entrants.

## Review of 2021

Despite 2020 being a difficult year across the globe, particularly following the effects of the global COVID-19 pandemic, it marked a record year for global Sukuk issuances with the value of global issuances reportedly hitting approximately US$175 billion.

Overall issuance levels in 2021 are not expected to reach the same record-breaking levels as in 2020 as fiscal deficits and other funding requirements reduce coming out of the pandemic and global oil prices remain high.

*AAOIFI compliance in the UAE*

One noticeable trend in the Middle East in particular this year has been a reduced number of Sukuk issuances as the market comes to terms with the effects of the direction by the UAE Higher Sharia Authority that any UAE licensed financial institution that participates in a Sukuk transaction in any capacity (whether as issuer, arranger, underwriter or investor) must ensure that such transaction is compliant with AAOIFI standards, including but not limited to the recent AAOIFI Standard 59 on the 'Sale of Debt' (Bai al-Dain).

The asset-based Sukuk product has rightly or wrongly always been viewed by market participants as akin to an 'Islamic bond' bearing the same fixed income characteristics as a conventional bond.

However, in order to make such transactions more compliant with some of the AAOIFI standards while maintaining the same fixed income characteristics desired by market participants, additional features have been structured into the transactions making an already complex product even more so.

In some instances, the gap between the resultant transactions and the fixed income features that are desired cannot be completely closed, leading to a departure of such Sukuk structures from the commercial profile of a traditional fixed income instrument.

This has had a significant impact on issuance levels where there would have been any involvement from UAE financial institutions.

*ESG trends*

One of the other trends worth mentioning over the past year has been the increasing relevance of environmental, social and governance (ESG) and sustainability principles to the Sukuk market. This is consistent with the overall momentum that ESG and sustainable financing has been gaining more generally among the global financial community.

Given the consistency between ESG and sustainability principles and Islamic finance as an ethical form of financing, as well as the increasing importance that the investment community has been placing on the deployment of capital in a more socially and environmentally conscious manner, it is perhaps not surprising to see this global trend continue to play out in the Sukuk market as well.

## Preview of 2022

2022 will represent another interesting year for the Sukuk market in general. The funding requirements of many issuers will be partly dictated by the way in which economies begin to recover from the effects of the global COVID-19 pandemic.

With a number of notable maturities expected in 2022, many of which will need to be refinanced, we expect 2022 to be another solid year for the Sukuk market, both in terms of domestic/ local currency issuances as well as international cross-border issuances.

In the Middle East, it will be interesting to see how the market continues to adapt to the requirement to make transactions more consistent with the AAOIFI standards. At the time of writing, the market is far from settled.

There is a large disparity between investor demand for highly rated asset-based Sukuk transactions that continue to deliver fixed income-based returns and the level of issuance at present.

Whether investors continue to view many of these transactions as equivalent to a commercial bond in terms of its commercial profile or whether the additional transaction features being introduced to many of these deals to ensure AAOIFI compliance mean that either investor confidence in the product begins to wane completely and/ or the pricing of such transactions make them undesirable from a commercial perspective remains to be seen.

We otherwise expect the trend toward Sukuk structures embracing more socially-aware investment to continue through 2022 and beyond as well. This is a theme that will become increasingly important to the global financial community going forward rather than something that can be expected to lose its appeal.

## Conclusion

The increasing importance of the domestic and international capital markets to the global financial industry and the increasing appeal of Islamic finance are two factors that combine and will ensure the continued development of Sukuk markets across the globe.

While there may be occasional headwinds and factors in certain markets that may affect parts of the market on a temporary basis, we believe that the Sukuk markets as a whole will overcome all of these factors over time and the upward trajectory of the market in the long term looks set to continue.

# Islamic finance education: What has been achieved and what has yet to be addressed

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

**Since the inaugural International Conference on Islamic Economics in 1976, there has been an increase in the number of institutions providing courses and programs in Islamic economics and associated fields including Islamic finance, management and accounting worldwide.**

While the growing demand for qualified human resources is driving interest in the programs, it is important to remember that the philosophy of Islamic economics education as a 'Ummatic project' is 'civilizational' in nature, with the goal of making Islam and its worldview the central point of reference in all aspects of economic decision-making.

More staff is required to expand Islamic finance as education, research and training become more important. The shape and degree of instruction for distinct academic fields are primarily determined by the type of information and skills the market demands.

Education must keep up with the time. To satisfy the growing demand, education programs in Islamic finance were hastily devised. Because of the hurry, inappropriate curriculum frameworks and course designs emerged, and most of the research tends to be confirmatory. The scarcity of qualified instructors exacerbated the problem, forcing concessions on the quality of education. The gap between theory and practice was widening.

In many circumstances, teaching faculties lack the necessary expertise, scholarship and devotion. One explanation for this is because either the institutions offering Islamic finance programs are relatively new, or the courses have just been created in response to market demand.

## Review of 2021

Southeast Asia continues to lead in Islamic finance research and teaching. As of 2019, 972 Islamic finance education providers and 379 Islamic finance degree providers are available. Indonesia, Malaysia, the UK, the UAE and Pakistan are the top countries with the most Islamic finance education providers in 2019.

Indonesia has the most Islamic finance education providers in the world. The Indonesian government's Komite Nasional Economi dan Keuangan Syariah (KNEKS) has partnered with the School of Business and Management ITB to launch the Centre for Islamic Economy and Finance in May 2020 as part of a strategy to develop the human capital required by the country's Islamic finance industry.

The center is divided into two sections: Islamic finance studies for human capital development and Islamic business studies for the growth of the Halal products and services industry.

In all, 214 universities and other educational institutions in Indonesia published Islamic finance research articles. The articles were supplied by the State Islamic University Syarif Hidayatullah Jakarta and Airlangga University, which accounted for 13% of the total. The Indonesian government's goal to further promote the country's already robust Islamic finance industry as part of its five-year economic masterplan is one of the main reasons for the vast number of educational institutions generating research papers.

Around 100 educational institutions in Malaysia published Islamic finance research papers, such as the International Islamic University Malaysia, Universiti Utara Malaysia and the International Centre for Education in Islamic Finance providing around 45% of them. Malaysia's status as a leader in Islamic finance product development has made it a popular research topic for students.

The educational sector adapted to the 'new normal' faster than any other sectors. It was possible due to the advantages brought by technology and the existing infrastructure. In Islamic finance education, we experienced two new teaching modes of education in 2020. The first is the online mode which left a mark on 2020, and the second is a hybrid model.

Islamic finance online education brought several challenges as well as opportunities for students and lecturers. The plus side was that even though it was challenging, they got familiar with new technologies and learned to teach and learn from a distance.

However, all students and lecturers find traditional education to be more interactive, motivational and efficient. Therefore, the hybrid model of teaching was introduced later for the first time in the history of Islamic finance education.

Hybrid learning is an educational model where some students attend class in-person, while others join the class virtually from home. Meanwhile, blended learning combines in-person teaching with asynchronous learning methods, where students work on online exercises and watch instructional videos during their own time.

Lecturers find the hybrid mode more challenging compared with fully-fledged traditional or fully-fledged online education. The reason is that this mode requires a balanced approach toward both online and in-class students. In general, 2021 appeared to be the year of novelties in teaching methods. As Islamic finance educators and students, we were successful in adapting to both online and hybrid modes.

## Preview of 2022

More and better skilled people will be required if the Islamic finance sector is to continue to expand and thrive. However, a key issue for the business has been a scarcity of job prospects for Islamic finance graduates.

Although Islamic financial organizations still prefer to recruit applicants with traditional banking expertise, their lack of familiarity with the special regulations that regulate Islamic finance typically needs further training.

As a result, several Islamic finance education providers have formed strategic agreements with Islamic financial institutions to provide job possibilities for graduates and training for current staff.

In Pakistan, the IBA Centre for Excellence in Islamic Finance teamed up with Meezan Bank, the country's largest Islamic lender, to provide Shariah compliant finance courses in 2019.

Instructors too may not always have suitable and sufficient understanding of what they teach when it comes to instructions. The PhD work — the quality of the dissertations and the contributions of the professors — leaves a lot to be desired.

## Conclusion

In the coming years, the following challenges must be solved.

1. Lack of identification and unique explanation of program structures
2. Variation in program terminology
3. Program specialization options in both undergraduate and graduate programs
4. In crucial areas of Islamic economics, program domains are not specified
5. There are several differences in the Islamic economics core courses and mandatory electives, and
6. In order to promote worldwide recognized mobility, there is a lack of comparability for program recognition and certification among educational institution providers.


# Outlook for equity markets still presents compelling value

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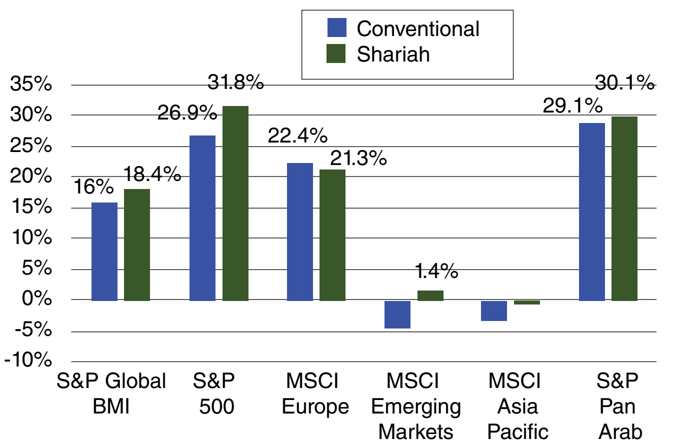
**The 2021 financial year saw a transition from a vaccine-fueled and policy-led recovery to a more fundamentally-driven expansion. Equity markets' performance remained fairly strong, even amid supply chain disruptions, inflationary pressures and ongoing virus concerns. In the 2022 financial year, the economic growth is expected to moderate, monetary policy is expected to prioritize taming inflation and corporate earnings growth is expected to continue driving equity market returns.**

The waves of high valuations and low volatility, which offered higher returns and lower risk for entrepreneurs, resulted in exceptional primary activity. While IPO waters are expected to continue to flow, 2022 will be a year of change as price-sensitive; environmental, social and governance (ESG) and long-term value investors could shift the tides for IPO candidates.

## Review of 2021

2021 was another exceptional year for equity markets. Most of the stock markets returned a solid performance on the back of highly accommodative fiscal and monetary policies coupled with a strong economic and earnings rebound during the course of the year. Time and again, investors brushed off news that could have derailed the stock market rally, contradicting naysayers who forecasted a correction that never appeared. Neither the still-raging global coronavirus pandemic with its Delta and Omicron variants nor high inflation and supply chain disruptions stopped stocks from notching all-time highs, many times during the course of the year.

Chart 1: Equity markets' performance (2021 financial year)




*Source: Bloomberg, as of the 31st December 2021*

The global stock market represented by the S&P Global Broad Market Index generated 16% in 2021, Americas (S&P 500

Composite Index) gained 27%, Europe (MSCI Europe Index) gained 22% while Pan Arab markets (S&P Pan Arab Index) gained 29% despite high valuations. However, the emerging markets (MSCI EM Index) bucked the trend by declining by 5%.

The Islamic equity markets outperformed their conventional counterparts across all major regions (See Chart 1) owing to the weak performance of the financial sector which tends to have significant weight in the proxies of conventional equity markets. The outperformance can also be attributed to technology, healthcare and consumer discretionary sectors delivering better yearly performance, eking out relatively small gains on the back of their overweight position in Islamic market proxies.

2021 was the most active year for the global IPO market over the past 20 years. It began with coronavirus vaccine rollouts, a rebound of global economies and rolling liquidity in the market hastened by government stimulus programs resulting in optimism. The strong post-listing performance of newly listed companies further boosted market sentiments.

The global primary market in 2021 saw approximately a total of 2,400 deals raising around US$500 billion in proceeds. Most of the primary market issuances are Shariah compliant, as a majority of them belong to technology, health and industrial sectors and are lower components of debt in their capital structure.

All global markets experienced overall increases by both IPO volume and proceeds, but Europe, the Middle East, India and Africa produced the highest growth, seeing a 158% increase by number of IPOs (724) and a 214% increase by proceeds (US$109.4 billion).

The Americas remained hot as well, ending the year with 528 IPOs raising US$174.6 billion by proceeds, an 87% and 78% increase respectively. The Asia Pacific region experienced relatively modest growth, resulting in 1,136 IPOs (28% increase) and raising US$169.3 billion by proceeds (22% increase).

Globally, the technology sector saw the highest number of IPOs (600-plus) and highest proceeds (US$150 billion approximately), followed by healthcare that raised the next highest number of IPOs by volume and proceeds, seeing 375-plus IPOs raise over US$65 billion by proceeds.

The industrials sector was close behind healthcare, with 300-plus IPOs raising over US$63 billion by proceeds. Major issuances of 2021 include cryptocurrency exchange Coinbase, online brokerage Robin Hood and Tesla rival Rivian — these were among firms captivating investors and fueling a record-smashing wave of IPOs and direct listings.

The global IPO activity slowed its frenetic pace toward the end of 2021 with the surfacing of the Omicron variant, continuing geopolitical tensions, new government policies and regulations and increased market volatility, signaling challenges that lie ahead.

## Preview of 2022

2022 will be a critical year in which the imbalances, wrought by the pandemic in the form of significant divergence between economic well-being and stock market performance, will likely begin to resolve and normalize. There will be a transition not just to a post-pandemic reality, but also to more normal monetary policy, and to more moderate returns on financial markets.

Looking ahead, both headwinds and tailwinds are in sight and are likely to impact the direction of equity markets. A combination of monetary and fiscal policy shift leading to interest rate hikes on the back of persistent inflation risks coupled with the pace of quantitative easing to such liquidity, new variants of the ongoing coronavirus pandemic and consequent business restrictions could hamper full economic recovery.

On the other hand, the global economic growth looks set to be above trend again in 2022, as social distancing rules are relaxed further and the consumption of services such as restaurants or travel should pick up, supporting the services part of the economy. Strong goods demand should result in a pickup in production once supply chain problems start to ease.

As a result, industrial production looks set to increase as well. Inflation should normalize from the elevated numbers of 2021, though it will likely remain above pre-pandemic levels with the easing of supply chain problems and labor mobility. Economic optimism will lead to higher corporate earnings and drive stock markets to deliver positive returns.

The primary market can expect higher market volatility and it will be imperative for listing aspirant companies to adopt a resilient and flexible strategy amid shifting market conditions, evolving regulations and geopolitical tensions.

There are still plenty of reasons to believe that the primary market will be strong in the 2022 financial year. There is an abundance of IPO-ready companies thanks to a decade-long buildup of venture-backed start-ups with trillions of dollars spent on them. The pipeline in the new year includes mega-IPOs such as the following: payments processor Stripe which is expected to hit the market with a US$100 billion valuation; grocery delivery service Instacart, which was originally hoping to dive into public markets last year, likely to raise in 2022 a rumored valuation of US$50 billion; San Francisco digital bank Chime which is eyeing a US$45 billion evaluation; social media platform Reddit (a US$15 billion valuation) and yogurt maker Chobani.

IPO plans are also reportedly in the works for Porsche, Indian e-commerce giant Flipkart, precision medicine company Tempus Labs and Indonesia's GoTo Group, etc. Gen-Z favorite TikTok will likely be going public at some point in 2022, although there are no concrete details yet.

The increasing number of investment opportunities in the primary market is likely to make investors more selective and price-sensitive. The unicorns need to satisfy investor demands for resilient growth strategies, stable profit generation, cash-flow visibility and well-articulated ESG plans. The companies also need to be prepared to offer at reasonable valuations to retain investor attraction unlike last year.

## Conclusion

Against all odds, the outlook for the equity market still presents compelling value relative to other asset classes, given the lower interest rate environment in the near term. Corporate earnings growth will likely be the most important driver of equity returns in 2022. However, investors have to be cautious and selective, as monetary stimulus programs are scaled back, and if global growth slows sharply, markets could be heading for a correction and high-priced/overvalued companies will feel the pain much faster than others.

*The views and opinion 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.*

# Diversification the major driver in exchange-traded funds

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**On the back of recovery from the COVID-19 pandemic, the exchange-traded fund (ETF) market reached inflows of US$1 trillion for the first time. The rising interest in ETFs in 2021 was driven by demand for better transparency and higher returns over actively managed mutual funds. Especially with the acceptance of online trading platforms like Robin Hood, investors are taking investment decisions into their own hands rather than the traditional way of investing in a mutual fund.**

## Review of 2021

The ETF market reached an important milestone as the worldwide inflows hit the US$1 trillion benchmark for the first time in history at the end of November 2021, surpassing the previous year's total of US$736 billion.

In 2015, PwC published its 2nd Annual Global Exchange Traded Funds survey and predicted global ETF assets to exceed US$7 trillion by 2021; current ETF global assets as at November 2021 are close to US$9.5 trillion.

Moreover, there is a record of 406 new issuances of ETFs as of the end of November 2021. This number of ETF issuances was 27% higher than the previous year's issuances of 319 ETFs. This brings the current ETFs on offer to 2,688.

One of the key points of the significant positive inflows of ETFs in 2021 is that the historically low interest rates have also forced many investors to rethink the traditional stock–bond allocation strategy and allocate more to equities.

However, the volatile equity markets in 2021 have led to more investors making their way to index products which benefited ETFs. Furthermore, there are a lot of new entrants into investing since the pandemic started in 2020 and people are more cost-conscious. As retail investor try to save on commissions, an ETF is a lot cheaper than a mutual fund.

During the same period, global Islamic ETF funds performed well. The one-year performance of iShares MSCI USA Islamic UCITS ETF, iShares MSCI World Islamic UCITS ETF 2021 and SP Funds S&P 500 Sharia Industry Exclusions ETF in 2021 stood at 30%, 23% and 33% respectively.

## Preview of 2022

Globally, governments and central banks are rolling back their pandemic stimuli and are expected to raise interest rates in 2022 to manage the high inflation in 2020 and 2021. The Bank of England is the first major central bank to raise interest rates since COVID-19 hit in 2020 amid fears the Omicron variant could slow the economy.

Despite the possibility of an increase in interest rates, there is still a lot of time needed to control the decade-high inflation on top of the fear of new COVID-19 variants. If the low-interest rate environment persists in 2022, there could still be high inflows into equity ETFs, especially those that have a higher possibility of beating inflation.

One main area that is garnering interest for ETFs is thematic investing, especially based on the UN Sustainable Development Goals (SDGs). ETFs have developed a positive reputation in the context of targeting niche sectors. Now there are ETFs servicing almost every SDG, including products with a focus on clean water, gender, equality and infrastructure.

Moving forward, there will be more innovation in ETF issuance to serve this market as ETF issuers hope to capture a segment of the growing popularity of environmental, social and governance investing, where investors seek to align their personal values with their investment.

Furthermore, another highlight will be more countries issuing their first Islamic ETF. 2021 saw Russia and Canada issue their first Shariah compliant ETFs as these countries see a bigger role for Islamic finance to serve the public.

However, the focus may still be on equities-based ETFs rather than Sukuk due to the low-yield environment and high inflation.

## Conclusion

Investor demand for ETFs has seen a tremendous increase over the past years. Diversification remains the major driver behind choosing to invest in ETFs by reducing individual stock exposure risk and lower cost.

However, investors should remain cautious when investing in ETFs. One of the oldest ETFs is the SPDR S&P 500 ETF (SPY) launched in 1993 and since then 3,751 ETFs have been brought to the market. But there are only 2,688 ETFs currently in the market as 28% of the ETFs have since been closed. Although there are plenty of choices for investors to invest in ETFs, time-tested strategies, low fees and high liquidity may be the best especially for beginners.


# Shariah–ESG: Moving from laggard to catch-up and alignment, toward pragmatic and significant impact

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**Islamic finance and environmental, social and governance (ESG) are complementary, both impacting social good and are ethical. Shariah's objective is to benefit mankind and prevent harm as well as ensure the sustainability of life on earth. The correlation between Islamic finance and the UN Sustainable Development Goals (SDGs) is most notably in climate protection; biodiversity; alleviation and eradication of poverty; as well as environmental sustainability. Due to its nature of being ethical, sharing risk equitably and being asset-backed, Islamic finance has obvious an inherent crossover with the SDGs.**

## Review of 2021

Accelerating financial resources in Shariah–ESG development targets and private sector investment toward profit with a purpose in demonstrating impact is vital and pressing in the coming decade. The timing is appropriate and imminent as recent research has shown that completing Shariah with ESG screening improves overall risk-adjusted returns, whereby Shariah compliant businesses with ESG scores have higher earnings that others excluded by the Shariah screening process.

However, Shariah–ESG investments have yet to demonstrate a global impact parallel to the momentum of conventional ESG investments. Initiatives by the UN's Principles for Responsible Investment (PRI), Principles for Responsible Banking (PRB) and Principles for Sustainable Insurance indicated that only 1% of PRI and 10% of PRB commitment pledges come from the OIC.

It has been some years since the Paris Agreement in 2015, hence surely Islamic financial institutions ought to have passed the awareness and communication stage. Strong pledges and step-up commitment are not yet visible for Shariah–ESG investment globally.

A commitment toward demonstrating Shariah relevance to ESG challenges is of utmost importance, according to market players. Shariah practitioners in the financial markets have made remarks saying that establishing green assets is challenging and time-consuming, for example, sustainability-linked bonds have yet to catch on globally in the Shariah space.

Shariah experts are short of having in place policies on environmental sustainability and only a handful had developed evaluation tools to measure their impact.

What about Shariah–ESG finance focusing on the urgent climate finance? While speed is of the essence, global Shariah–ESG climate finance needs a special focus on validating its authentication of being Shariah-ESG compliant.

A set of norm-based standards with requirements and a reporting framework needs to be globally applicable to address the gap from the global Shariah–ESG investors.

Understandably, this is a major hurdle due to regulatory challenges since the structure of Shariah–ESG funds vary according to jurisdictions.

Many global Shariah–ESG equity funds have shown to have outperformed, thanks to their focus on defensive and resilient sectors during recent low economic periods. It is no wonder that there is a huge demand for Shariah–ESG focus currently.

However, to marry the two convergences of Shariah and ESG, there is still a long way to go before it goes mainstream.

Nevertheless, since this is a pressing moment for all mankind, market players cannot continuously allow the converging challenges to be an excuse to delay. Climate issues have now made Shariah–ESG finance an obligation and no longer just a requirement.

Since 2019, the IsDB and the Islamic Corporation for the Development of the Private Sector (ICD) have made a commitment to integrate SDGs into their funding and reposting processes across their investment in member countries.

Other SDGs in Islamic finance are notably in the Securities Commission Malaysia's Sustainable and Responsible Investment Sukuk Framework, Bank Negara's Value-based Intermediation (VBI) Financing and Investment Impact Assessment Framework and the UAE's Guiding Principles on Sustainable Finance.

The COVID-19 pandemic since 2020 had slowed down a lot of major commitments in this space internationally. It is observed that ESG Sukuk issuance reached a record value of US$4.6 billion in 2020.

In 2021, the most significant issuance was Malaysia's maiden sustainability Sukuk — the world's first US dollar sustainability Sukuk issued by a sovereign — with investors' confidence clearly reflected in the offering being oversubscribed by 6.4 times.

Refinitiv and the ICD reported that global Islamic finance assets are expected to hit US$3.69 trillion in 2024. With the convergence of Islamic finance and ESG, this is undoubtedly a space where innovative structures and products will be spurred to align with Shariah components with sustainability and ESG efforts.

Shariah–ESG drivers should be at the core of this global economic agenda as ESG commitment and socially responsible investment benefit mankind and nature, but why is Shariah–ESG lagging and far from the conversations in COP26 [2021 United Nations Climate Change Conference]?

How can Shariah–ESG communication alignment be stepped up? A trajectory can be possible with more success stories and market players can be propelled into making an impact.

Certainly, any alignment in the nearest future for Shariah–ESG will be toward the commitments from the outcome of COP26 in Glasgow.

## Preview of 2022

The outlook for 2022 is promising although regrettably the mobilization of US$100 billion per annum from developed countries was not met in 2020–21. The COP26 Glasgow Climate Pact stresses urgency in the coming decade, notably in that finance needs to play a major role in addressing the gaps between current efforts and the pathway to achieving climate change and its impacts. A great concern still lies, namely the current provision of climate finance remains insufficient, particularly in developing countries. Developed countries are still urged to deliver on the US$100 billion goal urgently through to 2025.

Developed countries are also strongly urged to scale up their provision of climate finance, technology transfer and capacity-building for developing countries in need. Operating entities such as the financial mechanism, multilateral development banks and other financial institutions are pressed to continue to scale up the effectiveness of climate finance from all sources globally, including grants and other highly concessional forms of finance.

We may expect a first report outlining the needs of developing countries from the Standing Committee of Finance emphasizing on mobilizing climate finance based on COP26, the Paris Agreement and the 4th Biennial Assessment and Overview of Climate Finance Flows.

## Conclusion

It is emphasized that finance and its mobilization need to be done with simple accessibility, transparency, proper eligibility and scaling-up of financial resources. While financial risk mitigation is still expected to be addressed by the financial institutions, it is important that vulnerability to adverse effects to climate change be considered an important aspect during mobilization. All these too must be embedded across Shariah–ESG investments.

# Islamic family offices embracing decentralized finance

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**Islamic family offices continued to be challenged in 2021 as a result of the global COVID-19 pandemic. While a pronounced recovery from the ravages of the global pandemic did not fully materialize in 2021, the future is cautiously optimistic for a more prosperous 2022 for Islamic family offices. Over the immediate horizon for Islamic family offices lies the prospect of a crypto revolution in decentralized finance while remaining true to Shariah principles that the family has established for itself.**

## Review of 2021

While the past year saw most Islamic family offices understandably focused on investment-related themes in the wake of the global pandemic and the resulting financial tumult, the areas of greatest emphasis in 2021 included a focused need to improve their technology and reporting systems. Many Islamic family offices continued to prioritize a top-down review of how technology should serve the family more confidentially and effectively.

## Preview of 2022

In the wake of two years muddling through the realities of the global pandemic, Islamic family offices can identify meaningful and thoughtful benchmarks by which to thrive in the new year.

While the baseline in 2022 for Islamic family offices should unquestionably remain to build on priorities carefully identified and largely met in 2021, a new paradigm centered around decentralized finance may become the center stage for Islamic family offices, not least of which will be a significant focus on blockchain technology and embracing a financial revolution.

The widespread adoption of blockchain technology and decentralized finance holds enormous promise for Islamic family offices.

*Smart contracts*
Smart contracts aim to revolutionize the execution of legal contracts. Smart contracts are essentially self-executing digital contracts, the terms of which are electronically coded and will execute only if certain preliminary conditions are met. Smart contracts automate the entire contractual process for Islamic family offices, thus eliminating administrative and legal complexities and redundancies.

In addition, smart contracts are relatively simple to verify, immutable and secure. They mitigate operational risks arising from settlement and counterparty risks. As an alternative to traditional legal contracts, smart contracts may significantly streamline the operations of Islamic family offices and automate the entire contractual process. The long-term implications for Islamic family offices could not be more profound.

*Distributed cloud storage*
Virtually all cloud storage services link to a centralized server. However, a centralized database runs the risk of compromising the data from a single point of entry. On the other hand, a decentralized system eliminates the risk of conflict of interests and moral hazards between participants. Within a decentralized

network, one needs only to trust the static protocol of the blockchain governed by cryptographic mathematical algorithms.

The blockchain's distributed cloud storage can seamlessly manage the huge amount of data and information from Islamic family offices. Currently, data storage in Islamic family offices is centralized and manually managed. Decentralized data storage offers security and cost efficiency to Islamic family offices and provides an efficient and more secure method by which to counter the risk of single-entry cyberattacks or data loss. Distributed storage also eliminates the need for documentation and manual reconciliation of transactions.

*Digital currencies*
The emergence of blockchain technology is in tandem with the advent of cryptocurrencies. Significant effort is required to produce Bitcoin, Ethereum and other principal cryptocurrencies. This is called 'mining', where individuals or entities use sophisticated computer equipment and software to solve complex mathematical problems through the use of cryptography.

Since the blockchain is a decentralized network, miners have an important role in securing transactions. Their interests will be aligned since miners will be rewarded with cryptocurrencies for every successful block they secure. The exertion of computing power, electricity and time by the miners represents the value that validates the creation of cryptocurrencies.

From the perspective of Islamic family offices, money should possess an intrinsic value and should be asset-backed. Cryptocurrencies can be seen to be more intrinsically compatible with Islamic finance and an ideal alternative for Islamic family offices.

## Conclusion

The blockchain is a revolutionary technology that Islamic family offices could leverage to enhance business processes and streamline operations. The blockchain creates the possibility of coordinating transactional activities within a strong mechanism of trust and transparency. Moreover, it is apparent that the characteristics and conditions of the blockchain align with the principles of Islamic finance and therefore offer an ideal alternative to Islamic family offices to incorporate Islamic values of justice, equality, trust and fairness into the daily operations of Islamic family offices.

Not surprisingly, entrepreneurial Islamic families are in the best position to effectuate a meaningful focus on decentralized finance and the vanguard of the blockchain in the 21st century.

# A view of the future on financial institutions and corporate Sukuk

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**Every cloud has a silver lining, says a famous proverb, which applies exactly to the Sukuk market; most expectations indicated a severe impact from the COVID-19 pandemic, but what happened was the opposite, whether in 2020 or 2021, where the market achieved great momentum. It is expected that the total issuances in 2021 will approach US$185 billion compared with the US$175 billion achieved in 2020 and compared with the US$145 billion in 2019 before the pandemic. However, this momentum has not been reflected significantly in the instruments issued by financial institutions and companies. In this article, we try to find out why. And then we look forward to the future with this type of Sukuk.**

## Review of 2021

With the expansion of the distribution of vaccines against the coronavirus and the gradual return to normal life, and with the global collaboration to address the economic consequences of the pandemic, it can be said that the recovery from the effects of the pandemic was faster than most expectations at the beginning of the pandemic.

In the global instruments market, financial needs — especially government financing needs — were central to the momentum and growth experienced in the issuance of instruments in 2020 and continued until mid-2021; the market achieved a 21% growth in issuance volume in 2020 to US$175 billion compared with US$145 billion in 2019, and the market then achieved about US$100 billion in the first half of 2021, with expectations of exceeding US$200 billion.

However, the improvement in oil prices and their continuation above the levels of US$70 per barrel were reflected in the sovereign issuance plans in the oil-producing countries, led by the Kingdom of Saudi Arabia, where the volumes of issuances began to decrease in sync with the decrease in requirements, which will be reflected in the total issuance in the second half to close the year around US$185 billion.

On the other hand, given that the momentum that occurred in the market during 2020 and 2021 was driven by meeting national financing needs, the growth in financial institutions and corporate issuances did not have the same momentum, especially in corporate Sukuk issuances, due to the following:

1) **Continuing disruption of supply chains**

   Despite the apparent improvement at the end of 2021 at the level of international trade movement, this improvement was not sufficient at the beginning of the year; as a result, there was no need for procurement finance in many exporting countries.

2) **Availability of relative liquidity because of austerity measures**

   In response to the consequences of the pandemic, many companies took several austerity measures, and reconsidered their spending plans. These included either expansion of existing activities or entry into new ones, due to the blurring of the landscape, which has led to a reduction in the financing needs of companies, and consequently to the postponement of their plans to go to various sources of financing, including Sukuk, of course.


3) **Increasing government support**

   To support businesses so as not to lay off many workers and coupled with the associated social and economic impacts, several central banks launched quantitative easing programs to provide liquidity to help companies adapt and maintain the productive capacity of their economies. This new liquidity reduced the need to issue Sukuk for many companies.

4) **Sovereign Sukuk crowding out corporate Sukuk**

   In many countries, especially the Gulf countries which depend on oil revenues as a source of government revenues, with the increasing budget deficits, these governments had to turn to more issuances of sovereign instruments as one way to bridge the financing gap, budget financing and meet the increasing needs caused by the pandemic. This has resulted in the so-called crowding-out effect of government-issued instruments for budget financing on corporate-issued instruments due to the creditworthiness of sovereign instruments versus corporate instruments, thus making it difficult for some companies to issue instruments at this time.

## Preview of 2022

If oil prices continue to rise, or at least stabilize at levels above US$70 a barrel, this simply means that the approach taken for debt management of many of the oil-exporting countries will continue to reduce the volume of issuances, due to the lack of financing needs.

The Kingdom of Saudi Arabia, for example, has begun to reduce the value of its periodic monthly issuances from the beginning of the second half of 2021, and other influential countries such as Indonesia and Malaysia will often follow.

With the return of global economic recovery, as projected by the IMF in 2022, to levels above 6%; the increased Sukuk issuance of many financial institutions and companies in East Asia, the Arab Gulf States and elsewhere; and the reactivation of deferred investment spending plans by financial institutions and companies, all of these will collectively increase the demand for sources of financing and hence, increase the volume of Sukuk issuance by these players. We may therefore expect an increase in the growth rates of financial institutions and corporate Sukuk issuance in return for a relative decline in sovereign instrument issuance.

## Conclusion

In short, the expected momentum in corporate Sukuk issuance will be associated with the relative decline in sovereign issuance, leaving room for the former in the market — this, in addition to the resurgence of economic activity, will mean that companies and institutions can finance expansions through the issuance of new Sukuk.

# Fintech's role in the post-COVID-19 recovery

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**The key watchwords as we seek to navigate out of the year of COVID-19 are 'recovery' and 'vaccines'. Following the rollout of various COVID-19 vaccines and the acceleration of the vaccination programs globally, people have slowly shaken off the cobwebs of living and working in our remote bubbles and begun to navigate the new normal. While the post-COVID-19 recovery has not been consistent, there is a strong desire to move on from the pandemic and get back to 'business as usual' as quickly as possible.**

As more businesses enter the recovery phase by embracing hybrid working arrangements, fintechs have been well placed to provide digital access to financial services. 2021 is a year that has seen a rapid growth of the Islamic fintech sphere with more new entrants.

## Review of 2021

The impositions of lockdown measures and the prevalence of hybrid working arrangements have accelerated the digitization of financial services. The immediate aftermath of the COVID-19 pandemic has acted as a catalyst for an explosion of Islamic fintech activity and the development of fintech ecosystems.

According to the IFN, there are 269 Islamic fintechs worldwide, up from 142 a year ago. This is as a result of countries building on from the formation of national fintech associations and the central bank-led regulatory sandboxes to connect start-ups with the existing financial system.

National governments have taken a top-down approach by implementing new regulations to streamline the adoption of digital financial solutions and putting together strategic frameworks for the promotion of fintech start-ups. The following are some of the developments:

- Khalifa Fintech Review, published by the UK government, identifies the priority areas for supporting the growth and adoption of fintech in the UK.
- Securities Commission Malaysia, in partnership with the United Nations Capital Development Fund, has launched the Islamic Fintech Accelerator Programme (or FIRKA), a regulator-led fintech accelerator to develop an innovative fintech ecosystem.
- The Grand Duchy of Luxembourg has passed regulations to streamline the adoption of blockchain with an aim to create a positive regulatory environment that could serve as a base for providing software solutions to financial institutions in Islamic countries.
- The Financial Services Regulatory Authority of Abu Dhabi Global Market has introduced a new regulatory framework for authorized fintechs that provide third-party intermediary services between customers and financial institutions.

The launch of Nomo, a fully-licensed digital bank under the brand of the UK-based Bank of London and the Middle East, by the Boubyan Bank Group has the potential to propel the future of Islamic digital banking, by providing a mobile app-based solution to its customers in Kuwait and the UK.

## Preview of 2022

At this moment, it is still unclear how the world will ultimately adapt to living with the effects of COVID-19. While most of Europe and North America are adopting a bullish attitude about restoring normality, other parts of the world are still working under various degrees of lockdown measures. For most countries however, the aim is that everything will return to normal by the latter half of the year.

With the growth and evolution of digital banking, the cybersecurity risks that banks must address will inevitably increase. Given that most Islamic banks in the GCC are behind in the digital banking curve, banks will be taking proactive measures to mitigate potential threats and embrace all that digital banking has to offer to customers.

Given the effects of climate change are being felt by more people around the globe and with the new commitments to secure net-zero emissions following the 2021 United Nations Climate Change Conference, also known as COP26, investors will increasingly focus on investing in environmental, social and governance (ESG) causes.

Islamic fintech is well positioned to support many ESG causes such as: renewables, reducing poverty and narrowing the gender pay gap. Lending is already a key area for Islamic fintech firms, and wealth management solutions that promote ESG causes are well aligned with Shariah principles.

There will be more fintech start-ups launching artificial intelligence-led investment platforms for consumers. Those investors who began investing during the pandemic but are now 'time-poor' as they return to normal life will seek tech-based solutions to continue growing their portfolios.

The global Muslim population is made up of some of the world's youngest and most tech-savvy individuals and its members are becoming steadily more affluent. They will seek to grow their wealth over the long term.

With fintech becoming an established part of mainstream financial services, national regulators have been exploring how to regulate these businesses within existing legislative frameworks. The clashes by the US Securities and Exchange Commission and Coinbase, the world's largest cryptocurrency exchange, is only the tip of the regulatory iceberg.

As national regulators across the globe grapple with the issues of how to regulate this nascent sector to protect consumers and ensure a sufficient level of capitalization in businesses, there will be more public exchange clashes and possible disputes between the fintechs and the regulators.

## Conclusion

The global economy is yet to fully shake off the effects of the COVID-19 pandemic, but as the post-pandemic recovery gathers steam, fintech has a big role to play in the new normal. I anticipate that 2022 will build upon the rapid digitization of financial services that has occurred in the past 24 months to expand the architecture of the Islamic financial system.

# Gold in Islamic finance

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**The launch of the AAOIFI Shariah Standard on Gold developed in collaboration with the World Gold Council has been a catalyst for the development of new Shariah compliant gold products. It has brought the benefits of contemporary gold products such as gold investment accounts and physically backed exchange-traded funds (ETFs) to the Islamic finance industry, ensuring that gold can play a role in protecting the wealth of consumers and institutions in Islamic markets.**

Earlier in 2021, Deloitte and the International Shari'ah Research Academy for Islamic Finance launched a report titled 'The Global Gold Investment Markets: Traits for Shariah-based investment solutions'. The report analyzes recent developments in the gold market and sets out the reasons for investing in gold.

It also highlights the impact of the AAOIFI standard — in the survey conducted by Deloitte, approximately 85% of respondents agreed that the introduction of the AAOIFI standard on gold will give investors more confidence to allocate to gold and approximately 87% agreed that the standard will provide more opportunities to develop Shariah compliant gold products.

It is clear that gold is playing a larger role in Islamic finance and one of the main market drivers is the need for a Shariah compliant safe haven. This was evident globally during the height of the COVID-19 pandemic in 2020 where institutional interest in particular significantly picked up.

## Review of 2021

Compared with 2020, the dynamics of gold demand in 2021 have been different. 2020 was a record year for gold. Driven by pandemic-induced significant economic uncertainty, we saw record inflows into gold-backed ETFs. This pushed the price to its highest on record in August of 2020.

Institutional interest in gold offset weaknesses in consumer demand. Lockdowns, generally low economic sentiment and higher prices dented consumer demand. 2021 though was different.

As many countries started to emerge from the worst of COVID-19 and the economic outlook started to pick up, consumer demand globally started to recover. Institutional demand though has fallen, leading to a softening of the gold price.

If you look at bar and coin demand in particular, globally it increased in the third quarter (Q3) by 18% year-on-year (y-o-y). Strong Q3 growth was underpinned by a range of factors, including ongoing emergence from COVID-19 restrictions in many countries, continued fears over rising inflation and the price dip in August which encouraged many investors to buy (particularly in Asia).

Turning to the larger Islamic markets, the picture was more mixed. Bar and coin demand in Turkey was sharply lower y-o-y. Demand for small gold bars and coins was 10 tons — 80% below the record high of Q3 2020, although it staged a strong quarterly recovery from Q2's very depressed level. The gold price remains at historically very elevated levels, at a time when Turkey is plagued by persistent high inflation.

In a repeat of Q2, Iran — the largest market in the Middle East — was the only country to register y-o-y losses. Bar and coin investment in Iran fell 30% y-o-y to eight tons as high inflation and housing costs continued to weigh on demand.

Lower gold prices and summer wedding demand offered some support and helped to explain the very strong quarterly uplift from the weak Q2. Markets across the rest of the Middle East saw solid y-o-y improvement, likely supported by the price correction mid-quarter.

Malaysia saw a y-o-y decrease in bar and coin demand of 52% in Q3. This is likely due to a combination of COVID-19 restrictions and economic uncertainty denting consumer confidence. Although economic forecasts have been revised upwards, this will take time to change consumer sentiment.

## Preview of 2022

The strategic role of gold — as a potential protector of wealth, as a portfolio diversifier and a highly liquid asset — will persist in 2022. As economies continue to emerge from the worst of COVID-19 and economic activity picks up, consumer demand could continue to recover. Gold though is a dual asset.

Institutional interest in gold, which is a major component of gold demand, has different drivers. These include economic uncertainty, the interest rate outlook and inflation. It is looking increasingly likely that inflation will be dominating the minds of policymakers and asset allocators in the medium to short term.

In an inflationary environment, we would expect to see renewed institutional interest in gold. This could be even more pronounced in Islamic markets, where the range of Shariah compliant assets is smaller than in conventional finance. Many conventional diversifiers for example are not Shariah compliant.

## Conclusion

Gold will likely continue to play a significant role in Islamic finance. But it is not just the financial climate that is having an impact. Technology is also likely to have a major impact on the gold market going forward.

We are at the cusp of the latest industrial revolution driven by the deployment of digital technology. The gold industry is not immune — digitization will increase access to gold, can improve market infrastructure efficiencies and can enhance the integrity of the supply chain.

Sustainability is a key consideration for both Islamic and conventional finance. The smart deployment of digital technologies can enhance market transparency, giving investors, market participants and regulators more granular information on the provenance, production and trading histories of gold bars and coins. This will be essential to ensure that gold and the gold industry remain trusted, ethical and sustainable.

# The shaping of the global Halal industry in 2022

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**The COVID-19 pandemic has had a colossal impact on the global economy including the Halal industry. Even though we are still facing many uncertainties in the battle to fight against the pandemic, 2021 marked the positive development of vaccine approval by various countries all over the world and contributed to the fall in COVID-19 cases. Responding to pandemics with social distancing measures, e-commerce platforms have flourished across multiple sectors. Innovative ideas were used by businesses in most sectors to adapt and survive, including virtual clothes fittings, virtual tours and travel, as well as artificial intelligence/virtual reality media and recreation. Some of the world's top exporting countries have been severely affected by COVID-19 as well. The manufacturing and logistics industries have been disrupted causing major supply chain disruptions in various Islamic economic sectors that led to local manufacturing development in essential sectors such as food and pharmaceuticals.**

## Review of 2021

The Halal industry development drivers are demand and supply. In terms of demand, the drivers are (i) fast-growing, huge and young Muslim population, (ii) Islamic values driving lifestyle practices and ethical consumption and (ii) digital connectivity. According to a report by Pew Research Center (2017), the total population of Muslims will be nearly twice as big between 2015 and 2060, with an increase by 70% from 1.8 billion in 2015 to nearly three billion in 2060. The report also estimates that the Muslim population will remain predominantly young in 2050, with 60% aged between 15 and 59 and 24% below 15.

Religion is rated as 'very important' by Muslims while only 54% of the general population shares the same opinion, according to the report. Nowadays, Muslim consumers are increasingly asking for Halal products and services in line with the increase in their awareness.

Digital connectivity is another driver for demand which plays an important role in creating borderless shopping. The demand for digital Islamic economic solutions is gaining momentum, covering various sectors from Islamic finance services, Halal food, cosmetics and pharmaceutical products. All these drivers for demand will be a good opportunity for Halal industry players across multiple sectors to develop and enhance their services and products.

The drivers for the supply side could enable the Islamic economy to flourish, particularly Halal industrial development such as (i) government regulations, (ii) participation of global top brands and (iii) national strategies for the Islamic economy.

There is increasing government involvement in regulating and certifying Halal products in Muslim-majority countries. Designated national bodies such as the UAE's ESMA, Saudi Arabia's SFDA, Indonesia's BPJPH and Malaysia's JAKIM monitor and provide accreditation to Halal certification bodies. Government involvement has raised awareness of specific Halal product requirements and led to increased compliance, leading to the growth of Halal certification products. Apart from the government, the participation of providers of services and products in the Islamic economy is also coming from the private sector.

Deutsche Bank, HSBC and MasterCard offer Islamic financial services while Nestle, Unilever and Carrefour provide Halal retail products. The involvement of top global brands underlines and focuses attention on the growing importance of the Halal industry.

Furthermore, to search for new economic growth areas, many countries — both Muslim-majority and others — are now seriously focusing on the Islamic economy to diversify their economic portfolio in strengthening national economic resilience.

For many of the oil-producing Muslim-majority countries, March 2020 marked the steepest drop in oil prices, while the pandemic caused a further collapse in demand. Consequently, countries such as Saudi Arabia, the UAE, Nigeria, Kazakhstan, Indonesia and Malaysia have increased their focus on the Islamic economy (GIEI 20/21).

## Preview of 2022

In terms of the investment outlook in the Halal industry, there are some highlights in multiple sectors according to the State of the Global Islamic Economy Indicator 2020/21. In the Halal food sector, ready-to-eat meals and food delivery segments witnessed explosive growth. In terms of total deal value, Halal food grew by 219% to US$6.3 billion. Investments in the Halal food sector are expected to increase, especially in delivery, health-based and functional food segments.

In the Muslim-friendly travel sector, the number of deals fell from the previous year, with a total deal value of US$560.8 million to US$340 million due to the global pandemic. Given the push toward digital transformation across all sectors, especially the travel sector, it is no surprise that online travel agencies dominated the list. Muslim arrivals dropped to 42 million in 2020 from an all-time high of an estimated 160 million in 2019. As all countries start this recovery journey, the Muslim travel market is projected to return to the 2019 levels by 2023 (GMTI 2021).

Other critical sectors that will have positive investment growth in the near future are Halal pharmaceuticals and cosmetics. Health has assumed greater importance at both the individual and government levels during and post the pandemic era. Immunity-boosting supplements, telehealth apps and at-home medical devices will see significant growth in the short term. In addition, online cosmetic marketplaces, apps and delivery will become more popular with customers. In the short term, self-care products will play a more critical role than makeup and cosmetics as consumers stay at home.

## Conclusion

COVID-19 will become a part of everyday life in the short to medium term, as the new COVID-19 variants threaten the already fragile efforts to recover multiple sectors in the Halal industry. Global vaccination effort remains pivotal to accelerating the recovery. Societies and all industries will have to adjust and adapt to a world in which the ways people interact, shop, work and live are fundamentally different. The pandemic has accelerated the digital transformation of the Halal industry especially in the essential sectors such as Halal food, pharmaceuticals, cosmetics and Muslim-friendly travel. Those sectors have an opportunity to have positive investment growth in the post-pandemic world. Developing a digital-first and contactless customer experience will be a key driver in the Halal industry's recovery. As the world begins to open again, understanding how best to meet the needs and drivers of supply and demand in the Halal industry will be crucial to ensuring that the Halal industry's recovery is both sustainable and inclusive.

# 2022: Islamic finance industry's talent market

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**The Islamic finance talent market has fundamentally shifted primarily due to the profound changes in the operating environment. Apart from the well-known 'Great Resignation Phenomenon', three key themes emerged from a talent perspective, which will shape 2022 for Islamic financial institutions, as we continue to weather COVID-19 impacts globally.**

## Review of 2021

*Rapid shift to 'on-demand, digital first' business models*
COVID-19 accelerated digital transformation. Whether a digital-only bank (in which case, going digital is the only choice) or a traditional bank, there is a dearth of talents that can drive transformation and elevate existing business models of Islamic financial institutions to either a digital-friendly or digitally-driven one.

Skills to enable data-driven decision-making are also scarce but needed. The lines of defenses and talents to maintain solid and strong information technology (IT) support, especially those familiar with cloud architecture, are also scarce. Aside from business-savvy IT skills, experienced talents capable of developing, maintaining and continuously enhancing cyber resilience and security; information security; skills to preserve data integrity; fraud analytics, detection, mitigation and prevention; and business continuity management are and will continue to be challenging to hire, nurture and retain.

An organization that embraces 'state-of-the-art' first-in-class technology stacks, while adopting an agile approach in its developments, will be preferred over those grappling with 'end-of-life' legacy systems and waterfall approach developments. Organizations that reskill the existing workforce to embrace digital transformations have the competitive edge.

*Climate finance, net-zero targets and Islamic financial institutions*
At the UN's COP26 [2021 United Nations Climate Change Conference] in Glasgow in November 2021, it was clear that addressing climate change through country-wide emission reduction commitments has progressed. About 70% of the world's economy is now covered by net-zero targets — the sense of urgency was felt, and the global warming 'burning platform' clearly acknowledged.

Countries, businesses and people in general need finance to fund their transition, hence climate finance. In 2018, OECD estimates US$78.9 billion-worth of climate finance was mobilized — Islamic financial institutions taking a value-based intermediation (VBI) slant should stake their respective share of this fast-growing market. Or at least, prepare to commit to align investments and financing activities with net zero.

Glasgow Financial Alliance for Net Zero (GFANZ) was launched at COP26, uniting over 160 firms managing assets of over US$70 trillion to lead initiatives across the financial system to net-zero emissions by 2050. They must be accredited by 'Race to Zero', using science-based guidelines and 2030 interim targets. GFANZ has 43 banks representing US$28.5 trillion through the Net Zero Banking Alliance, 87 asset managers representing US$37 trillion through the Net Zero Asset Managers Initiative and 37 asset owners representing US$5.7 trillion through the Net Zero Asset Owner Alliance.

Seventeen central banks have committed to stress test their financial system against climate risks, including Bank Negara Malaysia. Nature had tested our own insurance and Takaful sector with the unusually devastating floods in December 2021 and January 2022. Ready or otherwise, climate risks are affecting financial intermediation more frequently and in more profound ways than ever.

A closer examination will uncover that all these initiatives are in complete alignment with Shariah principles concerning the environment and climate preservation, reinforcing our role as vicegerents in ensuring the Earth is preserved for future generations.

This narrative is carried by 220 asset managers representing US$57 trillion of assets under management in the Net Zero Asset Managers Initiative, banks representing over 40% banking assets worldwide in the Net-Zero Banking Alliance and over 1,090 universities and colleges globally in the Global Universities and Colleges for the Climate. These are just some of them.

The message is clear: change or be subjected to change. Be the narrative or be driven by one. Islamic financial institutions can have their own unique VBI-driven net-zero commitments in this regard, leveraging the right committed talents to help meet these targets.

*Clear articulation of Islamic financial institutions' relevance*
Good talents generally look for prestigious organizations with a solid reputation. Such entities are usually rooted on strong values and beliefs. As an industry, Islamic financial institutions branding from digital, climate and environment perspectives has yet to be clearly established. Islamic financial institutions must collectively articulate where they want to be and the type of talents they need to get there. Solid competitive propositions crafted from answers to the following may be beneficial:

- Islamic financial institutions' digital capabilities, especially in reducing known frictions, scalability and reach. A handful of Islamic financial institutions in Malaysia have successfully done this and if replicated industry-wide, a digitally-enabled industry will result
- The uniqueness and extent of intermediating finance through Islamic financial institutions in furthering net-zero targets, and
- Islamic financial institutions' effectiveness in assisting business and individual customers achieve their net-zero ambitions in ways unparalleled by other types of intermediaries.

The magnitude of the impact from these answers amplifies if Islamic financial institutions 'walk the talk' — consistently proving to be an industry capable of addressing critical needs and gaps ethically and responsibly. Such propositions tend to attract talents with the right headspace. Let's start the journey — make the first of thousands of steps.

*The opinion expressed in this article is that of the author's and does not represent the opinion of the organization that the author is employed at or affiliated to.*

# The resilience and relevance of global Sukuk

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**The global Sukuk market has proven itself to offer investors effective exposure to some of the fastest-growing economies in the world while also providing a steady cash flow. Unlike traditional fixed income investments, Sukuk offer a stake in the underlying investments and pay investors a percentage of the profit at predefined regular intervals. Sukuk are attractive to both Muslim and non-Muslim investors and offer an alternative to conventional bonds for those looking to diversify portfolios.**

As evidenced during the global COVID-19 pandemic in early 2020, the Sukuk market witnessed a more muted downturn relative to traditional bond markets and experienced a quick recovery afterwards. This resilience during volatile times is often tied to the high-quality nature of issuers and strong credit fundamentals of the underlying Sukuk structure.

Despite a small decrease in market size for 2020, the US dollar-denominated Sukuk market has experienced a compound annualized growth rate of nearly 20% since 2013 as measured by the Dow Jones Sukuk Total Return Index and the S&P Global High Yield Sukuk Index. As capital needs evolve and investor awareness broadens, the global Sukuk market is well positioned to build on its current momentum.

## Review of 2021

Global Sukuk's relative performance remained strong in 2021 driven by the continued economic recovery, increased liquidity in debt markets and strong investor demand. Through September 2021, the Dow Jones Sukuk Total Return Index had outperformed the S&P Global Aggregate Developed Bond Index by over 500bps (See Chart 1).

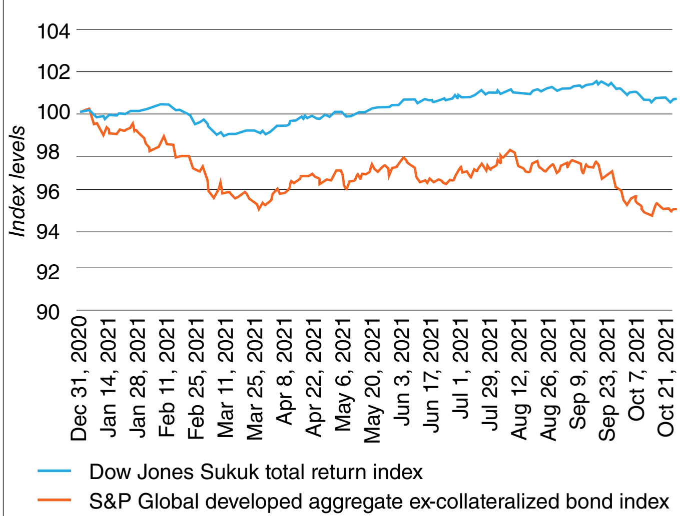
Total Sukuk issuance was down year-over-year largely due to narrowing fiscal deficits for many sovereign issuers. As expected, funding needs in GCC countries slowed as oil prices increased throughout the year. Single-name corporate issuance set new records with Saudi Aramco's US$6 billion Sukuk. Additionally, corporate Sukuk issuances in Malaysia and Indonesia led the way in both total volume and number of new entrants.

Global Sukuk issuers continued to build on the confluence of environmental, social and governance (ESG) aspects within a Sukuk framework. In March, the IsDB issued a US$2.5 billion sustainability Sukuk facility to fund climate-change and green projects across its 57 member countries. The following month, Malaysia issued the world's first US dollar sovereign sustainability Sukuk. The proceeds under the framework will finance green, social or sustainability projects falling under six categories: green buildings, energy efficiency and renewable energy, affordable housing, pollution prevention and control, sustainable water and wastewater management, and socioeconomic advancement and empowerment. Investor demand was so strong that it resulted in the lowest yield and spread ever for a Malaysian Sukuk issuance.

## Preview of 2022

In the year ahead, global Sukuk momentum is expected to be supported by refunding needs and relatively low borrowing costs. Within the GCC states, oil prices will most likely drive Sukuk issuance trends in 2022; however, most oil-rich countries have committed to diversify their economies away from fossil fuels in response to growing demand for action on climate change.

Chart 1: Global Sukuk's performance comparison




*Source: As of the 21st October 2021, S&P Dow Jones Indices*

New Sukuk entrants will likely emerge in 2022 with West African countries offering the most potential for sovereign issuances. Africa has nearly a quarter of the world's Muslims but its Shariah compliant banking assets make up less than 2% of global Islamic banking assets. Egypt, Morocco, Sudan and Nigeria stand out as best positioned for growth in Islamic finance. They have large Muslim populations, are making the necessary regulatory changes required for Shariah compliant finance and most have a history of Sukuk issuance. Egypt's Ministry of Finance has indicated that it will likely issue its debut Sukuk sometime in early 2022 (Ministry of Finance Arab Republic of Egypt — www.mof.gov.eg).

Additionally, the convergence of ESG principles and Shariah compliant investment standards offer significant potential for increased investor awareness, opening a wider pool of international investors and diversifying sources of capital for issuers. The trend could have major implications for Gulf states seeking to invest heavily in the renewables sector. Saudi Arabia aims to power half the country with renewable sources by 2030 under a green initiative.

Similarly, Abu Dhabi is planning ways to reduce the emirate's oil dependency and achieve a 65% contribution to GDP from non-oil sectors. Further, Dubai's 2050 integrated clean energy strategy plans to increase clean energy to become 75% of its total generation mix by 2050.

## Conclusion

For the past 20 years, the global Sukuk market has been dominated by issuers and investors from the GCC region, Malaysia, Indonesia and Turkey. Looking ahead, the investment landscape is poised for significant evolution driven by product innovation, sustainability targets and new market entrants.

It is expected that Sukuk will continue to attract the attention of some of the world's largest and most significant institutional investors in the US, Europe and Asia, as many may view Sukuk as an effective way to invest in some of the fastest-growing regions of the world.

As the global Sukuk market evolves, Sukuk indices will play an integral role in the investment decision-making process, providing investors with tools to better measure, benchmark and replicate various sectors of the market.


# Impact, innovation and digitalization: The next frontier for Islamic asset management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**We have been traversing unknown ground for the past two years. The COVID-19 pandemic is still making news around the world with the identification of new variants. Notwithstanding the tremendous discoveries of vaccines and antiviral medications, the world is still gripped by fear and holding its breath for the next wave. As a result, we continue to experience brief and sometimes protracted lockdowns, even in countries with high immunization rates.**

Interestingly, despite the fact that the global real economy contracted in 2020 and only moderately recovered in the first three quarters of 2021, the global assets under management (AuM) are showing rapid recovery and will nearly double in size by 2025.

According to PwC's research, AuM will expand at a compound annual growth rate of 6.2% from US$84.9 trillion in 2016 to US$145.4 trillion in 2025. A continued optimism in market value simply indicates a shift in global economic and financial strategy from a valuation standpoint.

This is because COVID-19 exemplifies the structural flaws in our economy and poses a threat to the long-term viability of human life on this planet. As a result, market attitudes have been sparked by new inventions, technological discoveries and redirecting investments to priority sectors in order to support inclusiveness, promote impact and improve access to medical and basic services.

Furthermore, the investment management business has benefited from a greater focus on health insurance and retirement security. In addition, a growing number of countries are diversifying their economies and establishing sovereign wealth funds to cushion the impact of future economic crises on their fiscal capability.

Thus, the global altering trend is on the verge of ushering us to a new age, and as a result, there is renewed hope and excitement for the industry's performance. With double-digit growth in North America, Europe, Asia Pacific and the Middle East and Africa in 2020, the sector has emerged from the global pandemic in a strong position.

## Review of 2021

A report by Boston Consulting Group estimates the total value of global AuM at US$103 trillion by the end of 2020, an 11% increase from US$93 trillion in 2019. Similarly, Islamic fund management is also benefiting from the revived enthusiasm. The asset value of Islamic funds has risen from US$146 billion in 2019 to US$178 billion in 2020, a 22% growth, with Islamic funds representing about 5% of the total global Islamic finance assets.

Despite the fact that its market share is still in the single digits, the growth is being fueled by a variety of factors. The rise of high-net-worth individuals, the establishment of strong economies like Indonesia and GCC countries, the rising commodity prices and the launch of new Islamic funds in Saudi Arabia, Pakistan, Malaysia and Indonesia are just a few examples.

Institutional investors' roles are undeniably important in navigating these turbulent times, particularly when dealing with financial market pendulum swings. Moreover, market risk is growing more complicated as the globe transitions to a new economy, and the threat is changing from economic to climatic and social hazards.

Nonetheless, a crisis presents opportunities and as a result, institutional investors' roles, particularly in the Islamic fund management business, are becoming increasingly important. This is mostly owing to the fact that the market is still in its infancy, and big firms' leadership is essential to pave the way for smaller and retail investors.

As a result, the performance of Islamic institutional asset management has always been scrutinized, and it has become a barometer of the industry's success. Stakeholders clearly expect Islamic funds to grow and obtain a larger market share than their conventional counterparts, either through conversion or by increasing the value of their existing assets. Therefore, their performance throughout the pandemic is critical in determining the industry's success and gauging investor confidence.

We have examined the performance of many important indices and selected funds to indicate the success of Islamic funds. The goal is to get a sense of overall performance over the previous two years. Investors' bullish attitude is reflected in the overall trend. In line with global financial market performance, the majority of the major indices are trending upward.

Clearly, investors are benefiting from increased expectations generated by some of the reform initiatives implemented during the pandemic, including liquidity injections to cushion the impact of the economic downturn and low interest rates, which cut the cost of capital. Technology advancements and fast digitization further boost the value of technology enterprises that, in most circumstances, meet Shariah standards.

## Preview of 2022

We predict that, in the coming years, the total performance of Islamic funds will be similar to that of their conventional equivalents, as Islamic funds are still a small fraction of the investment universe. A report by Refinitiv estimates Islamic funds' AuM to grow at US$329 billion in 2025, an increase of 85% compared with 2020.

The recent surge in optimism should not be mistaken for irrational exuberance, but rather a fresh hope for a brighter future. Institutional investors need to keep setting the tone and disseminating information for smaller investors to follow.

The key dilemma is how to take advantage of this upbeat sentiment and turn it into actual economic growth in the Muslim world. Some of the most important factors for long-term economic success are wealth generation and preservation.

Investors must continue to monitor the performance of the enterprises in which they have invested, demand a greater degree of governance, embrace responsible investing and participate in the value creation process.

The following are some of our ideas for the industry to consider. Our suggestions were grouped into three categories: a new perspective, product innovation and leveraging on technological advancements.

First and foremost, a fresh perspective necessitates a reimagined narrative. Islamic investing must go above and beyond religious requirements. We cannot help but be envious of the environmental, social, and governance (ESG) investing's success. The combination of fear and hope managed to pique the interest of investors. The fear of climate change and an aspiration for a better world resonate with humanity's needs.

Oddly enough, these are in fact similar to Islamic financial narratives or the elements of Maqasid, which is intriguing. Regrettably, the size of an Islamic fund pales in comparison to ESG investing.

In fact, many of the Muslim world's sovereign wealth funds are heavily invested in ESG factors. So the real question is whether we are seeing convergence or there is a need to reintroduce Islamic investing with a more compelling narrative.

Second, product development should be more focused on impact and solution. Although the requirement to include impact as part of an investment decision has thrown a wrench in the investment frontier's efficiency, to meet the demands and expectations of investors, the traditional risk–return trade-off is no longer sufficient.

Non-monetary expectations are becoming increasingly important in investor decisions. Institutional fund companies are creating impact reporting to inform their stakeholders about sustainable investing. Although this may result in inefficient investment based on the standard frontier, the benefit may be evident in increased trust and the reduction of asymmetric information. This is not a novel recommendation for Islamic investing. In reality, any business transaction's goal should include the concept of impact.

The concepts of Halal and Tayyib should be extensively promoted in order to pique investors' interest in investing in Islamic funds. Indeed, there are countless Islamic finance success stories that may be used as a cover story.

Furthermore, when combined with a wide range of social finance tools such as Waqf and Zakat, Islamic investing can do a lot more to address the climatic and social dangers that are inevitably growing more significant. In fact, and according to a recent report by Refinitv, Islamic funds with sustainability mandates grew to US$542.3 million by the end of 2020 and a similar trend can be observed in Waqf investment funds. We expect this trend to continue given the increasing awareness about sustainability challenges, the post-pandemic recovery mobilization and the growing appetite for green and sustainable Sukuk.

Last but not the least, we believe that Islamic investing should leverage from digital transformation and technological advancements. Artificial Intelligence and blockchain are no longer just buzzwords; they are reshaping the investment landscape. Moreover, digital transformation can enhance investor experience and accelerate the integration of ESG factors in investment portfolios.

One of the most important factors in survival will be the cost of doing business. Management fees are steadily dropping, and many fund management firms' future is dependent on their ability to quickly adapt to new technology.

COVID-19 has not only disrupted established business practices, but it has also sparked creative destruction, allowing the industry to transition to a new era. It is now up to the industry to figure out how to capitalize on this disruption and make the world a better place for humanity.

## Conclusion

To conclude, Islamic fund management is an important aspect of the ecosystem, and the growth of Islamic finance will have a favorable impact on AuM growth. Islamic finance is predicted to reach estimated total global assets of US$4.9 trillion by 2025, according to the latest Refinitiv study. The fact that Islamic finance now has such a small market share shows its potential and upside. Regardless of the potential, we do not want the expansion to be centered only on Islamic banking and Sukuk and as a result, curtailing risk dissipation and the ability of managing systemic risk. Therefore, rather than just riding the wave, Islamic institutional asset management firms should take a more active role in shaping the new economy, managing risk and adding value to investors.

# From resilience to record growth

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**Double-digit record growth awaits the Islamic finance industry, thanks to digitalization and the appeal of sustainable solutions. This time last year, the Islamic finance industry was reeling from the overwhelming economic impact of the COVID-19 pandemic. The fog has cleared as we head into 2022, with forecasts estimating double-digit growth across the sector. As mentioned in The Future of Trade, our flagship report assessing the impact of geopolitics, technology and economic trends on global trade, the outlook for the entire Islamic finance industry is much more positive.**

## Review of 2021

Islamic finance markets have largely shown resilience over the past year. The recovery continued into 2021, thanks to vaccination campaigns and fiscal measures by central banks across the Islamic markets.

- Islamic banking has expanded year-on-year. Asset growth in the GCC, Malaysia and Turkey has fared well and the sector has performed robustly in Egypt, **Bangladesh** and Pakistan.
- Sukuk issuance gained momentum over the first half of 2021, reaching US$100 billion as compared with US$88.7 billion over the same period last year. The year saw increased issuance from the GCC — notably the landmark US$6 billion Sukuk from global oil major Saudi Aramco, which was oversubscribed 10 times. With Malaysia, Turkey and Oman returning to the market, 2021 issuance could total **US$200 billion** — just short of the US$205 billion in 2020.
- Takaful and funds are on course to expand 5–10%, partly prompted by shifts toward environmental, social and governance (ESG) and sustainable investments, and values-based approaches to Takaful. Shariah compliant equity funds offered **better protection** against downward risk during the pandemic, thanks to technology and healthcare allocations, and their exclusion of highly leveraged companies.
- The picture in precious metals and other commodity markets, on the other hand, has been more volatile — a situation reflected on the Islamic bourse. High prices have augured well for key export markets. The World Bank projects that energy and metals could end the year a third higher than in 2020, with agriculture seeing a 14% growth.

## Preview of 2022

The IMF estimates post-pandemic recovery to drive worldwide economic expansion of 6% in 2021 and 4.4% in 2022. With increases of 8% and 4.7% respectively, trade will be a major contributing factor as indicated by Dubai Multi Commodities Centre (DMCC)'s Future of Trade report. Islamic finance assets, like their conventional counterparts, will benefit from continuing stimulus packages and government liquidity support, while traditional consumer demands for safe and sustainable assets in uncertain times could buttress the sector.

However, core Islamic economies remain dependent on commodities and services, although the current outlook for commodity prices is optimistic.

- Overall, the Islamic finance industry could clock double-digit growth of between 10% and 12% in 2021–22, thanks to banking asset growth in the GCC, Malaysia and Turkey, and as Sukuk issuances exceed maturities.
- Competitive pressures within Islamic banking could spell a year of consolidation. Return on assets could stay low, but strong demand and ample liquidity could offset that stress.
- Financing growth within key GCC markets will likely remain very strong. Events and projects will underpin mortgages and corporate lending across the region, thanks to national plans such as the Saudi Vision 2030 and the UAE Projects of the 50, as well as Expo 2020 Dubai.
- Sukuk will continue to spur industry-wide expansion as governments seek to raise more funds. Beyond issuances in new markets, innovative products such as **ESG** and green Sukuk are likely to find favor.
- Precious metals are expected to remain near historical highs throughout 2022. Gold in particular looks set to perform well, with market uncertainty, low interest rates and inflation concerns in major markets — particularly the US and Europe — on the table.
- DMCC **research** shows that pandemic-linked digital acceleration could prompt a wider acceptance of financial technology (fintech) solutions. Fintechs and existing players will find new ways to reach consumers and businesses, offering innovative investment and trading solutions and bringing in the unbanked. Blockchain, for example, is fast becoming a back-end technology in commodities. Fintechs are consequently expanding worldwide to target millennials and Gen Z individuals who are interested in Shariah compliant products, a market forecast to be worth **US$128 billion** in 2025, or a 161% growth from 2020.

## Conclusion

With a strong rebound underway, the coming year could prove to be a turning point for the Islamic finance industry. That said, the road ahead is not without hurdles.

Perhaps the biggest challenge facing the Islamic finance industry is the lack of unified global regulatory standards. Yet, that too may be about to change.

The Dubai Islamic Economy Development Centre and its partners are **working to resolve** the lack of standardization and harmonization that the Islamic finance industry has faced for decades.

Such a framework could incorporate Maqasid values into the architecture of operational Islamic financial services, providing a robust foundation for future growth and offering the opportunity for dedicated social Islamic finance instruments and green Sukuk. The industry will thus be able to further expand its already successful reputation for delivering widespread sustainable finance.

# Islamic leasing to be a core offering to service increasing demand of financing

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**Islamic leasing (Ijarah in Arabic) is perhaps the dark horse of the Islamic finance industry. It is often overlooked and overshadowed by other structures such as Sukuk- or Murabahah-linked products. To an extent, Islamic leasing is seen as the less glitzy structure for infrastructure and real assets (such as aircraft and vessels) financing or sidelined toward the retail sector to service products like mortgages and auto loans. However, structurally, leasing is a beautiful method of financing which in my opinion is not fully utilized to its absolute potential. In addition to this, Islamic leasing could potentially be considered as one of the purest forms of Islamic financing. This is largely due to the nature of the utilization of a lease which in essence serves a financing purpose and is based on a form of asset(s) which is an essential pillar of Islamic finance.**

## Review of 2021

The world is still reeling from the devastating effects of COVID-19 which has caused disruption across almost every walk of life. The effects were particularly evident in 2020 and the start of 2021 with many sectors such as aviation, infrastructure and construction industries at bare-bone operations.

As a result, governments halted infrastructure projects, airlines delayed aircraft acquisitions and potential homebuyers were forced to put their acquisition of their dream homes on hold. With successful vaccine drives across much of the world, we started to feel a somewhat normalcy with people starting to travel and homebuyers returning to the market.

However, infrastructure projects still lagged behind with governments trying to get economies back on track.

While 2021 has shown the resilience of the Islamic finance sector, not all areas of the industry are rampant. Naturally this is a result of COVID-19.

If we look at the context of Islamic leasing products and structures in 2021, it has largely been driven by the retail sector and in particular to service the pent-up demand for properties and car purchases.

Despite the sharp increase in property prices in 2021, Islamic leasing contracts (Ijarah structures in particular) have helped homebuyers purchase homes while financiers have been reliant on this structure to service the demand.

While homebuyers would argue property prices are soaring, financiers would repel with the argument of low interest rates. At the end of the day, both are winners. Homebuyers are able to utilize an Islamic leasing structure to purchase their property and financiers are able to book an asset, all thanks to the Islamic leasing Ijarah contract.

## Preview of 2022

In 2021, we saw Islamic leasing largely being utilized by the retail sector but what about in 2022, what does the year ahead hold? Simply put, Islamic leasing outside of the retail sector has been a casualty of COVID-19!

But just as we witnessed a pent-up demand for homes and international travelers itching to get back onto a plane, we see an opportunity for large-scale projects and acquisitions to return in the marketplace.

This includes infrastructure projects returning to the fray to supplement the housing shortage and the return of airline companies starting to plan for aircraft acquisitions. The same can be said for the shipping industry with shipping companies struggling to keep up with the backlog of supplies which has gripped the world through the supply chain crisis.

As infrastructure returns and with aircraft and vessel acquisitions in the pipeline, Islamic leasing structures will be at the center of attention for financiers.

We are also seeing innovative Islamic leasing structures being used to provide financing through leasing funds. While this is not something new, the market is actively looking for ways to provide financing solutions to fuel this demand for financing products.

Islamic leasing funds are gaining momentum as they provide a medium to finance a project and also a gateway for investors seeking an asset-backed yielding investment. Islamic leasing assets produce predictable and largely stable cash flows which are ideal for many investors.

I would expect to see Islamic leasing funds play a large role in both financing projects and providing stable investment for investors.

The same can be said for the Sukuk industry which has been somewhat inconsistent particularly in 2020 with issuances coming infrequently but picking up pace in 2021 due to the low-rate environment.

Islamic leasing structures have played an important role in the development of the Sukuk universe and this will continue, particularly as Ijarah-based Sukuk provide a widely acceptable structure that appeal to all forms of investors.

## Conclusion

Islamic leasing has been a mainstay of the Islamic market but is often overshadowed by other structures and contracts. However, with the world emerging in a post-COVID-19 era, we will see both the public and private sectors try to play catch-up to the pre-COVID-19 era. This will surely create asset growth which will be fueled by both debt and equity.

As a result, contracts such as Ijarah structures will be in demand from not only the retail sector but also the institutional and governmental sectors. I would expect infrastructure projects to resume and travel to return to 2019 levels which will result in large-scale projects and asset acquisitions.

All these factors will come together to create a robust demand for innovative and also traditional financing structures. I would fully expect Islamic leasing to be a core offering to service the increasing demand of financing.

# Post-pandemic recovery balancing between liquidity and inflation

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**Resilience is the word for 2021 because it implies hope, faith and possibilities. The global economic recovery continued in 2021 amid a resurging COVID-19 pandemic that poses unique policy challenges and requires strong multilateral effort. The situation became more concerning with the latest detection of a highly contagious new variant of the virus, causing lockdowns in certain part in the world and thus higher uncertainties affecting economic activities globally.**

Central banks have injected massive amounts of liquidity into the system to support economies and to avoid a liquidity crisis. Extraordinary policy measures have eased financial conditions and supported the economy, helping to contain financial stability risks. With global inflation at the highest levels, supply chain disruptions and shortage in the labor market, regulators are expected to start tightening accommodative monetary policies next year.

## Review of 2021

The COVID-19 pandemic has posed liquidity challenges for the Islamic financial industry. To deal with the crisis, central banks have introduced several measures for liquidity support to the banking sector including massive injections of cash, lowering reserve requirements, securities buying programs and accessibility of central bank credit lines (reverse repo). The first two measures helped both Islamic and conventional banks — however, the last two measures were hard to find for Islamic financial institutions.In that regard, the International Islamic Liquidity Management Corporation (IILM) hosted in June 2021 the 5th IILM Shariah Roundtable titled 'Towards an Effective Shari'ah – Compliant Repo Market: Challenges and Alternatives', focusing on the Shariah compliant repo market. The panelists clearly identified the need for an effective Islamic repo cross-border framework that will support the global financial need for Islamic short-term funding.

Meanwhile, the optimism that boosted markets earlier in 2021 has faded on growing concerns about the supply chain disruptions intensifying inflation concerns globally. The US's inflation hit 6.8% in December 2021, the highest level since the last 40 years. To contain the surplus of liquidity in the US dollar, the Federal Reserve in November 2021 began tapering the pace of its monthly asset purchases by US$15 billion but held to its belief that high inflation would not require an urgent need to raise interest rates. The US regulator has changed its stance on calling the inflation transitory in its latest Federal Open Market Committee meeting in December 2021 and announced speeding up its tapering as well as potentially three rate hikes as early as 2022.

The Fed's new hawkish decisions pushed investors to further park liquidity in high-quality short-term instruments which had a positive impact on the demand for IILM papers since the third quarter of 2021. This high demand has pushed the IILM profit rates on the regular tenors to their lowest since inception. The IILM has successfully stabilized its outstanding issuances in 2021 to US$3.51 billion, the highest volume of Sukuk ever, addressing the higher and various demand for high-quality assets from the institutions offering Islamic financial services.

In 2021, the IILM has thrived to fulfill its mandate of providing liquidity management instruments to the market by supplying an excess of US$14.12 billion across 36 Sukuk, the highest volume since inception. It became a frequent and stable issuer, constantly offering three different tenors monthly, namely one-month, three-month and six-month Sukuk. This accounted for 27% of the total global US dollar Sukuk issuances in 2021 and positioned the IILM as one of the top US dollar Sukuk issuers. The secondary market volume has risen to US$1.4 billion representing circa 10% of the total issuances in 2021.

## Preview of 2022

After a year of record-breaking cash injections, the world's big central banks are starting to ease off the stimulus pedal, forcing economies and financial markets to practice walking on their own again.

The Fed has been keeping its benchmark short-term interest rate anchored near zero since the start of the pandemic. Growing economic recovery and rising inflation pressure will be the main factors affecting the Fed's decision to hike rates in 2022.

With investors anticipating interest rate hikes, more Sukuk issuers will likely turn to international markets to tap high investor demand and a sizeable liquidity pool. Total global Sukuk issuance for the end of 2021 is expected to hit a new record of around US$180 billion.

In addition, it has been stated that the one-week and two-month London Inter-Bank Offered Rate (LIBOR) will cease to be published from the 31st December 2021; whereas the one-month, three-month and six-month US LIBOR may continue until June 2023. It is imperative that in 2022, banks and financial institutions familiarize themselves with the Secured Overnight Financing Rate (or SOFR) and how it works with Islamic finance transactions. Islamic institutions continue to work together with Shariah scholars to consider other alternatives. The alternatives to LIBOR may not necessarily be problematic for conventional finance, but it remains more challenging for Islamic institutions.

It was in this perspective that the IILM in October 2021 co-hosted a virtual seminar titled 'Global Benchmark Rate Reforms – Challenges & Solutions for Islamic Finance Industry' with the International Islamic Financial Market and Bank Indonesia with regards to building the Islamic benchmark rates. The seminar's purpose was to create awareness and highlight the challenges that LIBOR reform poses to Islamic financial product structures, transactions and related legal matters. The purpose was also to discuss the possibility of introducing an alternative to LIBOR.

## Conclusion

Future developments will depend on the path of the health crisis, including whether the COVID-19 strains prove susceptible to vaccines or they will prolong the pandemic; the effectiveness of policy actions to limit persistent economic damage; the evolution of financial conditions and commodity prices; as well as the adjustment capacity of the economy. As higher uncertainties are surrounding the global economic outlook, the institutions offering Islamic financial services need more than ever a developed Islamic money market framework, which includes Islamic repo activity and enhanced availability of Islamic liquidity management solutions.

Looking ahead into the new year, the IILM will focus on developing its issuance program with new features as well as addressing the demand for more high-quality liquidity assets and longer tenors depending on market conditions. The IILM looks forward to attracting new investors to diversify its investor base and thus enhancing the liquidity for its Sukuk in the secondary market.

# Islamic finance M&A activity expected to increase in 2022

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**The COVID-19 pandemic has ignited the start of a consolidation wave for the Islamic banking sector. COVID-19's significant adverse effects on the sector and the excessive number of small banks in certain countries, especially within the GCC region, have prompted further mergers and acquisitions (M&A) moves. Similar to 2020, slow economic growth, low oil prices and low profit margins had been the main indicators that pushed Islamic banks to consider M&A transactions in 2021.**

The consolidation of Islamic lenders establishes more competitive financial institutions and consequently eases the introduction of Islamic finance tools to their customers. During the last two years, coping with the consequences of COVID-19 has been included in the list as an additional motivation for M&A moves. Therefore, in addition to the usual reasons for consolidation, the course of the COVID-19 pandemic should be closely watched to have an accurate assessment for 2022 and beyond.

## Review of 2021

Almost more than two years following the initial outbreak of the pandemic, the Islamic banking sector has witnessed an increase in M&A activity, as financial institutions continue to struggle with the negative economic situation. While the COVID-19 pandemic was being brought under control around the world, there were doubts as to whether the current M&A activity will continue or not.

However, in addition to the harsh economic environment created by the pandemic, pressure on profitability, an overcrowded banking system and common government ownership had driven consolidation moves.

M&A activity was already on the rise in the GCC banking sector, even before the pandemic started to push the global economy into its deepest recession since the 1930s. The economic slowdown and the deterioration in asset quality, with a rise in non-performing loans, have especially forced smaller banks to consider M&A deals with larger banks.

In Qatar for instance, Al Khalij Commercial Bank (AKCB) and Islamic bank Masraf Al Rayan (MAR) agreed to merge which is expected to create Qatar's largest Islamic bank by total assets and diversify MAR's business model, which is predominantly wholesale-focused.

The agreed deal was the second merger in Qatar between an Islamic bank and a conventional bank after Islamic Dukhan Bank and International Bank of Qatar merged in April 2019. The AKCB and MAR merger, which was one of the significant deals of 2021, is a sign that Islamic finance M&A activity may increase within the following years.

Another noteworthy example was the announcement of the merger between the National Commercial Bank and Samba Financial Group. The said deal resulted in a combined entity with total assets of US$213.12 billion and created the largest bank in Saudi Arabia and third-largest bank in the GCC by asset value.


## Preview of 2022

There are indications that the adverse effects of the economic situation resulting from the COVID-19 pandemic are likely to continue in the long term, especially in the UAE, Oman and Bahrain, and less so in Saudi Arabia and Qatar. A wave of M&A could sweep further across the region as the full impact of the subdued economic environment becomes more visible.
Additionally, a further factor is the proliferation of banks in the region. For instance, the UAE has long been seen as overbanked; there are currently 21 local banks and 27 foreign banks serving a population of fewer than 10 million people.

The expectation is that the M&A activity for the Islamic banking sector will continue to increase in 2022. The upside effect of the economic situation created by the COVID-19 pandemic on M&A deals and other similar factors such as overcrowded Islamic banking markets can be listed as among the reasons for increasing M&A deals in the Islamic banking sector.

Moreover, Islamic financial institutions still lack the market share that they desire to have a strong competitive power against their conventional counterparts in an overbanked post-pandemic era.

Therefore, together with government backing and shareholders' trust in the M&A transactions, we will probably witness more M&A which will result in competitive Islamic banks and financial institutions.

In addition to the already completed or agreed deals in 2021, statements from Islamic lenders' high-level officers indicate that 2022 may become a busy year in terms of M&A transactions in the Islamic finance area.

Abu Dhabi Islamic Bank, the biggest Shariah compliant lender in the emirate, is looking for M&A opportunities in the UAE, the GCC and markets beyond the region, as it seeks to broaden its asset base, its group CFO said.

Mergers driven by shareholders who held stakes in more than one bank, typically regional governments and their related entities, have already created larger, stronger financial institutions in the region that are better equipped to face any crisis.

## Conclusion

Along with the worldwide introduction of COVID-19 vaccines, we feel that the effects of the pandemic have begun to diminish, although it is not completely over and is not expected to end anytime soon. While 2022 will most likely become a similar year to pre-pandemic years when compared with 2020 and 2021, it is almost certain that we will continue to see the effects of the pandemic in the global economy including in the M&A market in Islamic finance.

# Between fintech and COVID-19: Millions of unbanked still to reach their full potential

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**2021 has seen most economies rebound after the COVID-19 slump but global poverty has grown. Yet many of the world's poor remain trapped between the absence of affordable and accessible credit and the new fintech miracle. Traditional microfinance providers have been hard-hit but are recovering slowly.**

Some 400 million people in the Muslim world remain unbanked, ie they lack access to formal financial services and cannot get a bank loan, make savings deposits or obtain insurance. For nearly three decades, microfinance has been the answer to their prayers but especially with conventional providers making up 99% of the global volume, it has caused significant over-indebtedness. Islamic microfinance, while growing, remains a limited option but a big push for economic recovery and empowerment through, for example, the IsDB could make a massive difference.

## Review of 2021

Prior to the COVID-19 crisis, the Shariah compliant microfinance sector was less than 1% of the total microfinance industry of an estimated 140 million clients globally with a credit portfolio of over US$100 billion.

There are some 3,500 Islamic microfinance providers but the sector is still dominated by a few big players such as Akhuwat in Pakistan, Amanah Ikhtiar Malaysia in Malaysia, Islami Bank in Bangladesh or BMT Tamzis in Indonesia.

The microfinance industry was severely affected by the economic crisis that COVID-19 caused as their clients — mainly microentrepreneurs — have been unable to repay their debts while regulators imposed repayment moratoria.

The resultant liquidity meant that microfinance — often the lubricant of MSME-driven growth — was subdued.

Much of the IsDB's US$2.3 billion rescue package was injected into healthcare in the financial services, but Islamic commercial banks and not microfinance institutions were absorbing the lion's share.

However, it is not just the pandemic; sometimes political turmoil also can have a significant impact as the overthrowing of the Afghan government by the Taliban demonstrated. Once the dust has settled, we may see the banking and microfinance sector of the war-torn country transformed to be Shariah compliant, albeit at gunpoint. However, given the very low financial inclusion rates in the country, having Islamic products widely available should be welcomed.

## Preview of 2022

Policymakers at the IsDB are likely to provide further support for OIC member states which should put economic recovery and economic empowerment — read microfinance — center stage.

Therefore, an Islamic microfinance-specific rescue package would a very welcome development, especially as microfinance is a very transaction-and-client-interaction-heavy business. The very nature of doing business in economies that have experienced structural change through COVID-19 is likely to go digital.

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 adaptation and growth of the industry.

## Conclusion

After a tough global pandemic, economic recovery at the bottom of the pyramid needs Islamic microfinance. In Muslim countries, the IsDB is well placed to lead not only through financing but also technical assistance and policy advice to push grassroots financial inclusion. Parallels from the conventional sector show that it can be a successful poverty reduction tool but more market development has to take place before it will be sustainable.

# Opportunities for change in Islamic private banking and wealth management

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**As the banking sector continues to mature in the Asia Pacific (APAC) and MENA regions, and the Islamic finance sector continues to grow both in terms of total assets and number of customers, there is an opportunity for Islamic banks and wealth management providers to review their product development and distribution strategies, particularly focused on the affluent and mass affluent segments.**

## Review of 2021

2021 has been a year of change for banks globally, but particularly for those based in the GCC rentier states with budgets that rely on stable oil prices.

The year saw heightened merger and acquisition activity across banks in the GCC, with several transactions receiving regulatory approval across Saudi Arabia, the UAE and Qatar, in part expedited by the global COVID-19 pandemic and volatile energy prices.

Alongside this consolidation, the Islamic finance market has also witnessed new market entrants, particularly in the fintech space — the 2021 Global Islamic Fintech Report notes that there are now 241 Islamic fintechs operating worldwide, of which 32 are focused on wealth management.

However, while the APAC and MENA regions account for the majority of the world's Muslim population (60% in APAC and 20% in MENA), only 16% and 22% respectively of Islamic wealth management fintech providers are based in these regions.

## Preview of 2022

In 2022, there is an opportunity for wealth management firms to take advantage of growth accelerators: namely, advances in financial literacy and increasing numbers of women entering the workforce who possess more responsibility for family wealth.

In addition, much-needed clarity on government policy across APAC and MENA regarding the post-pandemic return of expatriates to these growth regions could provide a valuable boost to local financial services firms.

According to figures from the IMF World Economic Outlook, emerging and developing Asian economies are expected to grow by 6.3% in 2022. In contrast, economies of the Middle East are forecast to grow by 4.1% in the same year.

Projected to be the fastest-growing region in the world next year, banks and other financial services providers in APAC have the opportunity to harness this growth, particularly Shariah compliant firms that are in a position to attract Muslim customers with focused product offerings.

There is an opportunity for Islamic institutions to tap into the recent trend of developing wealth management propositions for affluent and mass affluent clients. Long overlooked in favor of wealthier clients, wealth management's middle segment represents a key potential revenue driver for Islamic banks, particularly if the client experience is tailored and differentiated.

The aforementioned M&A activity across the MENA region, particularly in the GCC, creates opportunities as well as challenges for the acquiring banks. It can sometimes be difficult for those customers who have been absorbed into the new entity to align with their new provider's digital capabilities, particularly if those capabilities are deemed lacking.

This damages the customer experience and often leads to a reduced 'share of wallet' and account closures if the acquiring bank cannot meet expectations. Mass affluent and affluent wealth management product propositions are heavily reliant on digitization, particularly in developing markets where digital penetration is growing exponentially.

Accordingly, providers need to ensure that they have a thorough digital strategy to protect and grow their businesses.

## Conclusion

Moving into 2022, Islamic banks and wealth managers face a split path: either digitize and develop more sophisticated product offerings for an increasingly savvy customer base, or face loss of market share. A digital roadmap should be a key part of an Islamic financial institution's strategy, as not only does it focus the organization's proposition on customer requirements, it will also place a greater emphasis on streamlining their operating model while reducing cost.

# Awaiting the breakthrough

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**2021 was anything but a typical year for venture capital (VC) and private equity (PE). While the conventional funds were setting new fundraising records, the world of Islamic equity finance was just beginning to show signs of life.**

Nowadays, the industry is oscillating between two diametrical and conflicting investment ideas. On the one hand, the valuations of private and tech companies are no longer rational, and investors are forced to overpay to enter into projects. On the other hand, the true winners perform spectacularly and thus bring their backers colossal multiples.

## Review of 2021

The year 2021 witnessed two major funding declarations:

- In March 2021, Malaysia's Employees Provident Fund announced the start of a new US$600 million Shariah compliant PE fund co-managed with Swiss-based Partners Group.
- In June, UK-based Ethos Invest launched the world's largest ethical Shariah compliant fund with Al Imna Investment Company and BMO Global Asset Management. The new Financial Services & Technology Fund plans to raise GBP1 billion (US$1.34 billion).

These two fundraising exercises would bring twice as much cash as was raised by Islamic VC funds (US$400 million) and Islamic PE funds (US$350 million) in 2020.

The Islamic VC industry witnessed no major fundraisings in 2021, but it is not really discouraging, as most Islamic tech ventures are still funded by conventional funds.

Among the usual suspects are Gobi Partners with its 'Taqwatech' Islamic-friendly investments, Ficus Venture Capital Fund, SVC, Nuwa Capital and Saudi Watheeq Financial Services which launched a SAR100 million (US$26.63 million) fund for the MENA region.

SHUAA Capital taught us a lesson by showing that Sukuk can become a viable funding tool for some recent start-ups: in 2021, it helped structure a US$50 million Sukuk facility for Pure Harvest, a UAE-based agrotech firm.

Many investments in 2021 were made outside of the proper Islamic PE and VC channels. Evermos, an Indonesian Halal social commerce start-up, raised US$30 million in a Series B funding round from an investment consortium led by UOB Venture Management's Asia Impact Investment Fund II.

Having raised US$40 million and US$37.5 million, Waheed and ALAMI went on a shopping spree and bought Niyak and BPRS Cempaka Al-Amin rural bank respectively. Alif Bank of Tajikistan raised a whopping GBP42 million (US$56.45 million) in debt and equity from Jefferson Capital, its shareholder.

## Preview of 2022

In 2020, I made several projections for 2021 which failed to materialize. I still stand by them, although to come about in the following year, as I naively expected that by mid-2021, the COVID-19 story would be behind us.


So, the year 2022 is going to be different due to these following factors and trends:

- Substantial liquidity: There is some serious 'dry powder' in the aforementioned Shariah compliant funds. Also, the spillover from conventional funds will also take place in worthy projects such as ALAMI.
- Small-ticket players: Islamic crowdfunding platforms are finally coming of age. They fulfill two very important functions in the Islamic finance universe — they increase the availability of Shariah compliant financing opportunities, and provide funding to those pre-VC and pre-PE companies. I would specifically note IFG.VC by Islamic Finance Guru with an average investment ticket of GBP250,000 (US$336,013), as well as Qardus, KapitalBoost and Ethis.
- Emergence of new funding sources — the environmental, social and governance (ESG) investors: Most Islamic finance professionals like to pinpoint that ESG principles have been advocated by Shariah since the ancient times. Professor Kevin Haines of Bedford Row Capital is now one of the most active proponents of bringing together ESG and Shariah principles. The company is quickly becoming a leader in ESG fundraising.
- Emergence of more local regional funds such as Gobi Partners's Fatima Venture fund in Lahore, Pakistan.
- Introduction of Islamic asset acquisition companies (IAACs). This Sukuk-funded Shariah compliant response to conventional special purpose acquisition companies was developed by the scholars at Alpha Strategies. These IAACs are pressed for time due to the nature of their Sukuk funding and thus are be forced to make their investment decisions expeditiously.

## Conclusion

The 2021 Global Islamic Fintech Report by DinarStandard, Elipses and Salaam Gateway has cited that 56% of surveyed Islamic fintechs expect to raise equity funding of at least US$5 million in 2022.

And as the capital tends to always flow 'from liquidity to opportunity', I suggest that the targets should start paying attention to other factors that impede their development, namely the lack of consumer education and the challenges in talent acquisition.

Islamic banks will finally (!) enter the VC market in 2021. The active Islamic fintechs are reinventing global Islamic finance services through technology-enabled disruptions. Still, up until this moment, most Islamic banks still view fintechs as competitors seeking to seize their market share.

I just hope that the banks will fork out cash to become more technologically advanced, and not merely to buy and shut down the more agile challengers.

# Islamic project finance: Widening the horizon


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**Project and infrastructure finance is highly capital-intensive and entails longer maturity with higher risk and prolonged real rate of returns. Given the issues surrounding the supply of risk-free capital and supply of funds, the way these limited resources can be obtained is a very significant question. No entity has sufficient capital to meet large requirements of infrastructure finance in a country by venturing into risk for a large number of investors with this constraint. In order to meet the requirements, the development of markets/mechanisms for long-term finance becomes imperative and urgent. Islamic project finance has grown in significance and is now widely used to finance large, longer-term infrastructure and power generation projects. This is especially seen in the Middle Eastern region with a focus on the GCC countries.**

The development of such projects that require large amounts of investment only began in the earlier part of this century which pushed the demand for Islamic project finance.

## Review of 2021

It is worth noting that the growth of Islamic project finance in developing countries such as Africa and Pakistan were driven mainly by the increasing need for electricity and water desalination stations. Meanwhile, in the Asian region, Islamic project finance served the financing needs of infrastructure development projects. For instance, public infrastructure such as transportation, communication, sewage, water and electricity requires large amounts of investment and long-term projects in nature.

Project financing in the UAE, as in some other Gulf countries, is largely driven by infrastructure and industrial development that require huge financing. It is described that the developers of the projects draw up their financing structure with foreign and local banks and the projects get underway.

Foreign banks have up to now played a lead role in project financing although that has been slowly changing in the last two or three years. It is also reported that bankers and analysts agree that project financing in the UAE will continue to be an attractive proposition for banks and financial institutions judging by the number of projects in the pipeline and the huge liquidity pool available as oil prices continue to remain high.

According to Ghoddusi, H., Khoshroo, S. in their book on Islamic finance and the energy sector, a number of factors have contributed to the growth of Islamic project finance globally including: (i) capital-intensive nature of mega projects undertaken in the Middle East and Asia; (ii) growth in dedicated Islamic finance institutions offering a full range of Shariah compliant products capable of utilizing a project's underlying tangible and intangible assets; (iii) increase in the liquidity of Islamic finance institutions allowing them to participate in projects with longer tenors; (iv) political and cultural desire in certain projects to promote Islamic finance; and (v) broader consumer demand for Shariah compliant financial services and products.

## Preview of 2022

Further, it is estimated according to a report by the Brookings Institution that the global economy will need to invest around US$90 trillion in infrastructure assets through 2030. This estimate factors in the need for additional investment in infrastructure to fight climate change. The need for infrastructure development remains one of the greatest global challenges and biggest issues for public policy worldwide. It is reported that 88% of OIC member countries are in the middle- and low-income categories.

According to a report published by the World Bank, the investment requirements as a share of GDP are 14.1% in low-income countries, 3.4% in lower-middle-income countries and 2.6% in upper-middle-income countries. Hence, large infrastructure needs and their financing become even more serious challenges for middle- and low-income OIC member countries.

The UK has an established financial sector and is recognized as one of the top international financial centers in the world. The status of the infrastructure in the UK is comparatively high compared with Europe and the North American region and OIC countries as reported in the Global Competitiveness Index Historical Dataset. It is also reported that a total of 319 infrastructure projects valued at GBP425.6 billion (US$564.41 billion) are planned during the period between 2016 and 2021 with the bulk of the projects worth GBP134.5 billion (US$178.37 billion) going to the transport sector.

Based on a report by the World Bank Group, Public–Private Infrastructure Advisory Facility and the IsDB, the basic principles and asset-backed approach of Islamic finance make it a viable option for infrastructure financing.

The basic principles require risk-sharing and the asset-backed approach promotes using tangible or intangible assets in transactions. Risk-sharing allows the capital providers to participate in the underlying economic activities, thus contributing to social and economic development.

To carry out an effective infrastructure investment with the private sector, an enabling environment is needed. The main factor to apply Islamic finance in a jurisdiction is the existence of a strong legal and regulatory framework. These include the treatment of Islamic finance and conventional finance in the same manner with respect to such matters as taxation. Other than that, projects should be feasible and bankable to promote the participation of the private sector. This is to ensure an acceptable risk allocation among the capital providers with appropriate risk mitigation arrangements that increase the investor's willingness to invest in the project.

## Conclusion

Perhaps the industry should explore other types of equity type Mudarabah or Musharakah or hybrid Istisnah–Ijarah products for investors with a higher risk appetite. There is this false impression among the industry players that using a debt-form mechanism is safer without considering that a proper due diligence on the project is crucial in any project finance initiative. Of course, there are risks to project owners, but an effective mitigating mechanism can be implemented.

The Muslim countries via the OIC should explore joining hands to promote these types of financings in their respective countries to facilitate more investors. They can also utilize a global center like the newly established OIC Arbitration Centre based in Istanbul, Turkey for the settlement of disputes.

# Credit ratings in Islamic finance: A year in review

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**The COVID-19 pandemic caused the global economy to plunge into one of the worst recessions of all times. The global banking sector also came under pressure caused by economic disruptions and business suspensions due to extensive lockdowns. Islamic banking was no exception. Performance shortfall and downturns were evident during these testing times, which had a negative impact on Islamic finance credit ratings.**

Global Islamic finance assets reached approximately US$2.88 trillion in the 2019 calendar year (CY19), recording a year-on-year growth of about 14%. Historically, the growth trajectory of the industry has remained steady recording at compound annual growth rate of 7.8% between CY14 and CY19. The industry is broadly classified into the following segments: Islamic banking, Islamic capital markets (including Sukuk and other capital market products), Takaful and other Islamic finance institutions offering other products such as microfinance.

Based on industry segments, Islamic banking constitutes about 70% of total Islamic finance assets and is considered a highly competitive market with a large number of international players.

In capital markets, Sukuk are the flagship Islamic capital market product and the fastest-growing segment in the Islamic finance industry, reaching to aprroximately US$754 billion by the second quarter (Q2) of CY21, a growth of about 5% from the previous quarter.

## Review of 2021

The credit ratings of Islamic banks in 2021 were a reflection of improved performance indicators and a track back to normalcy. The performance of the top 100 Islamic banks revealed a growth in asset base by about 12%, though profits of the sector slid by about 15%.

The overall credit ratings of the largest Islamic banks (in terms of their asset size) remained or reverted to stable outlooks due to recovered performance and growth momentum. Al Rajhi Bank, one of the largest banks (in terms of asset base) reverted back to a 'stable' outlook in June 2021 from 'negative' in the previous rating review by Fitch Ratings. Similarly, Bank Al Jazira and Alinma Bank, two of the top 15 Islamic banks, reverted to 'stable' outlooks (July 2021) from their previously assigned 'negative' outlooks by Fitch.

An important factor to note is that the banking industry in most parts of the globe, conventional and Islamic, was protected amid the pandemic through government and/or regulators' support and relief packages. The support was mostly provided to mask the risk that would have otherwise eroded the industry's asset quality and also to fill in the liquidity gaps where needed. Resultantly, the credit rating curve of Islamic banks did not tremor from the fallout of the crisis and remained substantially intact with no downgrades of the top Islamic banks.

Among all segments of the Islamic finance industry, the Sukuk market reflected the highest level of volatility amid the pandemic, majorly on account of uncertainty in the oil market impacting the liquidity position of issuers in GCC countries. Crashing oil prices and the low interest rate environment urged the oil exporting countries to secure funds through Sukuk issuance, predominantly in the second half of 2020. 2021 opened up with sluggish issuance that geared up in Q2 2021 when Saudi Arabian Aramco raised about US$6 billion in capital through a Sukuk issuance assigned an 'A' rating by Fitch. However, overall Sukuk issuance during 2021 is expected to remain slightly lower than that in 2020 due to recovered oil prices and a recovery in economic stability. The credit ratings of the Sukuk market remained largely stable in 2021. The defaulted Sukuk volumes remained as low as approximately 0.27% of gross Sukuk issued to date, demonstrating the sound financial muscle of the Sukuk issuers.

## Preview of 2022

2021 demonstrated a strong comeback at many levels. Therefore, 2022 is expected to be a transformative yet stabilization period for the Islamic finance sector. Islamic banking is expected to record a double-digit growth in asset base of about 10–12% in 2022. The economic recovery of major Islamic countries and the oil price movement will be the key determinants for the growth prospects of the industry. The credit ratings of Islamic banks will focus on the way the banks sustain their liquidity profile amid a demand– supply mismatch during recovery cycles.

Other key areas would be the shifts in the funding mix following the pandemic and asset quality management as growth rebounds and government/regulator relief packages expire.

## Conclusion

The Islamic finance industry is a systematically important part of most of the Islamic economies. Its fast-tracked expansion has now created a pressing need for the industry to progress on standardizing its legal and regulatory framework based on its own standards and needs. This would not only enhance the industry's dimensional growth in capital markets but would also enhance the assessment criteria and reference for the development of its credit rating universe.

# Real estate: Go lower or embrace risk

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**Shariah compliant real estate investment has long been an established product offering for Islamic investment managers. Now more than ever, the allure of bricks and mortar runs deep, with investors seeking 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 from scratch or to purchase an existing property for its rental income. The mechanisms to assess the compliance of tenants are well established, with increasing recognition that such criteria fit well within the responsible investment ethos of environmental, social and governance criteria.

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

## Review of 2021

We entered 2021 speculating on whether the strong demand for real estate investments from the last quarter of 2020 was pent-up demand from the full COVID-19 lockdowns, or something more permanent. It became clear that it was the latter, with Islamic investors competing with others to secure opportunities.

Long-leased logistics remained the most favored, but also became out of reach for many investors with a target minimum cash yield. Life sciences and health-related properties quickly went the same way, with private residential, so-called multi-family in the US, seeing significant price increases. Everyone was looking for fundamentals they could lean on to support their acquisition decisions.

This made the office sector very interesting, which went from distinctly off the agenda as the impact of working from home was being played out, to be back in demand. Investors realized that as the largest sector of real estate it could not be ignored, but with an understandable focus on quality and local amenities that would tempt employees back in.

Investors' confidence in the retail sector grew as the year progressed, with the death of this industry outside online having been significantly overstated. There was a realization that people still had to eat, that home improvements were in high demand as workers spent more time in said home and that the convenience of out-of-town shopping had remained very resilient.

While much of this investing was through syndicated club transactions, REITs continued to grow in strength, but almost exclusively those out of Saudi Arabia. Singapore lost its only listed Islamic REIT, while Oman and Indonesia continued to make preparations to embrace this investment conduit.

As the year drew to a close, investors reflected on what they had achieved, with many realizing that their investment volumes had been materially lower than they had wished. The opportunities had been out there, but intense competition had driven yields to


unexpectedly low levels on almost anything with a long secure income stream.

It felt like a fork in the road, where the options were either to accept a lower cash yield or to embrace some risk, either with shorter leases or some vacancy. Few wanted to compromise on property quality, but equally continuing on the same path as before was no longer an option.

## Preview of 2022

As we tip from 2021 into 2022, economies are doing well, inflation is high, benchmark interest rates are creeping up and investor demand for real estate remains undiminished. Inflation is important here, as recent research has reasserted the benefit of property as a hedge for inflation, but there is a lingering doubt that rising interest rates may make the exit in years to come harder to achieve.

Everyone is looking for trends and demographic or economic patterns to determine where to put their money, with a realization that some level of risk may now be acceptable with strong economic fundamentals.

Global tax rules, not of course restricted to Islamic structuring, continue to tighten and will bite further in 2022. Everyone should get used to paying tax. Governments need to fill the coffers back up following COVID-19 lockdowns and start their funding of green initiatives.

Could 2022 be the year of energy efficiency? I think there is a strong chance and an even stronger business case that a focus on a building's green credentials should rank up there with lease length, tenant strength and cash yield. Without a future-proofed property in this regard, tenant demand and in turn future investor demand will fall rapidly.

Last but certainly not least, with the volume of money left uninvested during 2021, I can see a renaissance in fund structures. Investors want their money deployed, not stuffed under the mattress, with those managers who can demonstrate an ability to transact being in the best position to maximize this.

## Conclusion

With strengthening economies, new population behavioral patterns established and the importance of energy efficiency and sustainability established, it is a great time to be investing into real estate. Just do not expect to be the only one looking to buy. Yields will be lower, but it is also not a bad time to be taking on some risk.


# Islamic finance in 2022: Amid continued uncertainty, a time to seize opportunities

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**In the last two years, the Islamic financial sector, just like its conventional counterpart, has gone through an extremely challenging phase. Owing to capital and liquidity buffers built subsequent to the application of global regulatory reforms, the banking system, including the Islamic finance sector, has largely withstood pandemic-related shocks to the financial and economic systems in major Islamic finance markets of the GCC, the wider Middle East, Southeast Asia, South Asia and others. In this article, three main trends observed for the Islamic financial services industry during 2021 are presented. This review is followed by three observations which will impact the stability and future direction of the Islamic finance sector during 2022 and beyond.**

## Review of 2021

Firstly, for most major Islamic banking jurisdictions, the growth rate in this sector is expected to remain higher than the growth rate of the conventional banking segment.

Despite the uncertain pandemic trajectory at the beginning of 2021 and most countries experiencing one or more COVID-19 waves during the first two quarters, the second half of the year witnessed relatively faster vaccine rollout, gradual reopening of economies and increase in crude prices which have spurred credit demand in the GCC and Asia — two core Islamic finance regions.

However, continued disruptions in the global supply chain, rising commodity prices and risk of winter-induced upsurge of COVID-19 cases pose a threat to the economic and financial sector recovery, which will impact the sector's outlook.

Secondly, forbearance measures and payment moratoriums announced by most authorities on the repayment of financing will mask the true extent of the weakness in the asset quality of Islamic banks' portfolios.

Similarly, due to Shariah challenges in the restructuring of debt-based contracts and the impermissibility of profit-on-profit on delayed installments, the profitability of Islamic banks was also impacted.

Thirdly, due to the lower risk appetite of Islamic banks, reduced credit demand, central banks' liquidity support measures implemented during the pandemic and concerns on credit quality of customers, the banking sector in many jurisdictions experienced a surplus liquidity situation during 2021.

Thanks to large sovereign bond and Sukuk issuances in the past two years, this excess liquidity has been mostly channeled to higher investments. The higher investment ratios of Islamic banks have thus increased the risk of the crowding-out of financing to the business sector, especially SMEs, which are the engine of economic growth and employment generation.

## Preview of 2022

Firstly, some businesses and SMEs have suffered rather heavily from pandemic-related economic conditions, but payment moratoriums during most of 2021 have delayed the materialization of these credit risks on the banks' balance sheets.

During 2022, this risk will ultimately get realized, impacting both the asset quality and profitability of Islamic banks, potentially significantly for some banks.

Secondly, on the regulatory front, two major developments will impact the Islamic finance industry. AAOIFI and IFSB are expected to finalize their first joint standard on the Shariah Governance Framework by mid-2022 which is aimed at providing consistent and harmonized Shariah governance guidelines for the various players of this industry.

This harmonization is expected to enhance public confidence on these institutions by offering greater transparency and more effective accountability of relevant organs. Another major development is related to the IFSB's revision to its earlier Capital Adequacy Standard (IFSB-15) where amended guidelines on types of Sukuk eligible for additional Tier 1 and Tier 2 are expected to be included.

Once implemented, these revised guidelines will facilitate further capital-raising by Islamic banks through debt-based convertible Sukuk in Tier 2, which were not permitted in the earlier version.

> **"In the absence of a reliable and widely acceptable indicator, Shariah scholars have generally permitted the use of conventional benchmarks for the time being"**

Thirdly, some industry observers have long been expressing their disapproval for Islamic finance transactions to be benchmarked against interest-based indicators such as the London Inter-Bank Offered Rate (LIBOR) for ascertaining the cost of funds and pricing financing products.

However, in the absence of a reliable and widely acceptable indicator, Shariah scholars have generally permitted the use of conventional benchmarks for the time being.

Over time, industry practitioners have been citing problems such as non-availability of data, cost element in collecting pricing rates in various industries and risk of arbitrage in dual banking markets for not making progress in this direction.

Nonetheless, this permission does not absolve the industry of this responsibility to gradually move toward benchmarks tied to the real economy that are based on asset productivity and profitability of assets. The abolition of LIBOR has provided this golden opportunity to the Islamic finance industry.

Sadly, this opportunity seems to have been missed, apparently due to little appetite by Islamic financial institutions to move in this direction. International standard-setting body International Islamic Financial Market has made a commendable effort to bring the industry practitioners together on this subject and issue a white paper.

Nevertheless, most of the proposals in this document suggest ways to 'adopt' Islamic finance product structuring to meet the requirements of a new reference rate called the Risk-Free Rate (RFR), such as the application of a 'look back' principle (which requires that

for a given repricing period, the accrued financial charges will only be determined at the end of the repricing period rather than at the start of the period).

This and many other requirements of RFR pose Shariah challenges for Islamic finance product pricing and structuring. However, going forward, instead of finding a way to 'conform' to RFR principles, the Islamic finance industry should move in the direction of its core value, ie to produce pricing benchmarks tied to the real economy. If the tone is not set right at this stage of abolition of LIBOR, there is a risk that the direction of the Islamic finance industry will be further lost for decades to come.

As the market share of the Islamic finance industry continues to rise in its major markets — even becoming a quarter or one-third of the entire financial system — it is time that the arguments of 'nascent industry', 'niche market' and 'insignificant sector' are put aside and a concerted, coordinated effort is made by the lead standard-setting bodies, regulators and market players to produce a reliable, replicable and robust pricing benchmark for Islamic finance transactions.

## Conclusion

Despite macroeconomic challenges and volatility in the global economy, the Islamic finance industry is maintaining its resilience and growth trajectory. The ongoing pandemic as well as reforms and revisions in the global standards and benchmarks not only pose new risks to the Islamic finance sector but also offer an opportunity for its stakeholders to benefit from global developments for achieving the objective of shared prosperity and a just financial system.

# Rise of sustainable investing set to trigger growth in Islamic asset management industry

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**One of the few positives that emerged from the coronavirus pandemic has been the resilience shown by the global financial system amid unforeseen economic turbulence. More importantly, the crisis has put sustainable investing under the spotlight and accelerated its adoption. Investors of the current generation look beyond investing purely for returns and consider the social and environmental implications of their investments. With responsible investing gaining more traction, there is a structural shift in the investment industry that could favor the Islamic asset management space. As responsible investing is an inherent part of Islamic finance, the ongoing trend bodes well for the industry in the coming years.**

The growth in the Islamic finance and banking industry over the past few years has led to the Islamic asset management industry emerging from its infancy, with a continuously expanding portfolio of compliant products.

The market size of the Islamic asset management industry stood at US$143.8 billion at the end of 2020, and is spread over 1,600-plus funds including equity mutual funds, money market/trade finance, Sukuk and exchange-traded funds (ETFs).

However, the assets under management (AuM) remain concentrated within the Southeast Asian and GCC markets, with Saudi Arabia, Malaysia and Iran together accounting for more than 80% of the total assets.

Despite the positivity, challenges continue to persist. Diversity from a geographical perspective seems to be lacking due to the under-penetration of Islamic asset management outside core markets such as Saudi Arabia, Malaysia and Iran.

Competitive pricing of Islamic products relative to conventional funds becomes a challenge due to the additional cost incurred to screen companies with regard to their adherence to Islamic principles. In addition, the lack of available products and the varying interpretations of Shariah continue to hinder the progress of the industry.

## Review of 2021

Global equity markets continued to scale new heights in 2021, supported by the reopening of economies and the presence of high levels of liquidity. Despite supply-side shocks and a surge in commodity prices, financial markets continued to march ahead.

During 2021, the performance of Shariah compliant benchmarks has been on par with conventional peers despite the significant run-up in previous years. When assessed on a medium-term basis, in the past three-year period, Shariah compliant indices across markets have outperformed conventional indices by a noticeable margin.

The outperformance could be attributed primarily to the differences in sectoral exposures between conventional and Islamic indices and the investment thesis of Islamic funds. As Islamic funds lack exposure to sectors such as conventional banking, insurance, entertainment, etc, they are overweight on sectors such as information technology and healthcare, which have outperformed the broader markets in recent years.

In addition, Islamic funds, by principle, tend to take longer-term positions in conservatively managed companies with solid balance sheets and avoid highly leveraged companies that boost their returns through excessive debt.

Sukuk issuances dried up in the second half of the year due to the reduction in issuances from GCC sovereigns. The lower funding needs of GCC countries owing to the surge in oil prices during the second half of 2021 have been the primary reason for the reduction in issuances from GCC sovereigns.

## Preview of 2022

The Islamic asset management industry is expected to witness sustained growth in 2022, due to rising demand for Shariah compliant investments. The shift toward alternate investment strategies is likely to continue into 2022 and beyond. The growing adoption of sustainable investment principles and the rising population of high-net-worth individuals who require higher returns amid a low interest rate environment are expected to be the positive triggers for growth in the coming years.

As Shariah compliant investments have outperformed comparable conventional investments in recent years, their customer base is expected to expand beyond those who are primarily focused toward faith-based investing.

During the pandemic, Shariah assets proved to be more resilient compared with their conventional counterparts, which could also improve investor perception toward them as safe havens relative to conventional assets.

The issuance of Islamic instruments is also expected to grow in 2022 due to their alignment with environmental, social and governance principles. Islamic fund managers could tap into these opportunities through targeted marketing initiatives to attain economies of scale.

Progress is expected to be made on the regulations front as well in 2022, as the Dubai Islamic Economy Development Centre and its partners continue to work on a unified global legal and regulatory framework for Islamic finance.

The ETF space is one that offers immense potential for growth. As oil prices begin to stabilize, the growing funding needs of sovereigns, especially in the GCC, are expected to trigger further Sukuk issuances.

Therefore, launching Sukuk-based ETFs could improve retail participation. As the awareness toward sustainability increases, penetration in non-core markets is expected to gradually increase in the years ahead.

## Conclusion

The increased adoption of sustainability principles and the investor search for alternate asset classes with attractive returns are expected to be the key themes driving the growth of the Islamic asset management industry in 2022. As the world continues to recover from the pandemic, the Islamic asset management industry could be set for a watershed moment, both in terms of product development and a widening investor base.

# Changing landscape of Islamic retail banking

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**The retail banking business faced significant challenges in recent years, especially in 2021. The development of technology that runs too fast shifts the customer behavior of the banking industry and leads to a high demand of digital banking. Initially, the banking industry, including Islamic banks, still had more time to adapt to digitalization. However, the COVID-19 pandemic has forced people to isolate themselves, keep a distance from others and limit mobility, encouraging the banking industry to implement digitalization ahead of its initial schedule.**

Moreover, the increase in the population of the millennials and Gen Z who are now at productive ages and are more technological-savvy also challenges the structure of the banking industry. The increase in the percentages of such strategic markets initiates the establishment of new banks, either called digital banks or neobanks. This phenomenon challenges the status quo and forces traditional banks to digitalize as soon as possible.

While bigger banks may have no difficulties adapting to digitalization, smaller banks, especially those with a retail banking business model, perhaps will be in difficulty as they do not have enough capital and funding to support the technological changes. Thus, 2022 could be sending a red alert that could be evident of what Bill Gates once said in 1994: "Banking is necessary, banks are not."

## Review of 2021

However, other than digitalization, Islamic banks have their own problems. In spite of having positive growth, Islamic banks in many countries have declining growth compared with one or two decades ago. According to the Islamic Financial Services Board Financial Stability Report 2021, the Islamic banking segment's performance grew by 4.3% in 2020, compared with 12.4% in 2019. It is not merely due to the pandemic, as in some countries, the market share of Islamic banking is stuck at a certain level with difficulties to grow even before the pandemic started.

Islamic banks, therefore, should revisit their strategic positioning and explore more niche areas based on their specific characteristics. In fact, many stakeholders of Islamic banks still cannot see the difference between Islamic and conventional banks. Moreover, as conventional banks can also have Islamic windows, there is no value creation that fully-fledged Islamic banks can offer, as being Shariah compliant has not become a differentiation. Therefore, 2022 is a decisive year for Islamic banks, particularly those who focus their services in the retail banking sector. They should be able to catch on with the changing trends in the retail banking industry, while at the same time introduce new products and services that cannot be offered by conventional banks.

## Preview of 2022

There are some trends that may change the retail banking industry which need to be anticipated by Islamic retail banking in 2022. First, there would be more retail banks utilizing artificial intelligence (AI). AI is not only used to assist banks in identifying opportunities, promoting innovation, as well as supporting decision-making and communication strategies, but is also used to facilitate customers in getting better advice and solutions for their financial needs.

Second, there is the use of application programming interfaces (APIs) to promote an open banking business model. This facilitates further collaboration of banks with other financial service providers to fulfill customers' needs. Such a business model, however, increases the complexities of banking services which would need the attention of banking regulators and supervisors.

The next trend is that more banks and financial institutions will use automation using internet of things (IOT), robotic process automation (RPA) and digital process automation (DPA). These technologies make banking and financial services become more convenient to customers, therefore banks that cannot adjust to the technological developments will be left behind. Other than the aforementioned trends, the need for other technologies such as cloud computing, blockchain, as well as cybersecurity will also be growing in 2022.

## Conclusion

Islamic banks should move faster to revolutionize their Islamic retail banking services. The positive side of Industry 4.0 is that every institution could have the same starting line. Every bank is still looking for the most suitable business model for itself and for its customers. Therefore, time is essential for Islamic retail banks to benefit from the first-mover advantage.

Bigger Islamic banks with a huge amount of funding should digitalize most aspects of their retail banking services. IoT, RPA and DPA should be incorporated into their new business model in order to anticipate the shifting behavior of existing customers and to attract new customers. Banks should enhance their transaction banking services too, as these types of services are highly sought-after by customers nowadays.

To promote the specificities of Islamic finance, Islamic retail banks can use AI to screen for high-quality customers, especially those who are worthy of receiving Mudarabah financing. Islamic retail banks should adopt blockchain too in order to strengthen their risk mitigation. Such financing can be offered directly to investors using an investment account platform in order to promote more specific products and services that cannot be offered by conventional banks.

On the other hand, smaller Islamic retail banks should find alternative ways to sustain their business. They can adopt an open banking model and find partners to develop their specific business ecosystem in order to grab and maintain specific markets. In this scenario, the adoption of shared APIs is inevitable.

There is always a way for Islamic retail banks to adapt to the changing landscape of the banking industry. Islamic retail banks should equip themselves with the necessary skills, knowledge and infrastructures. Failing to do so may result in a declining trend of Islamic banks. Or even worse, erase the hard work that we have done for the last few decades.


# More risk-driven culture anticipated in 2022

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**As banks and financial institutions navigate through 2021, new challenges for risk management continue to emerge. The challenges posed by the COVID-19 pandemic during 2020 continued as several countries took measures that constrained the economy as a whole. It can be generally agreed that uncertainty is the new norm, and therefore risk management has become more critical for success than at any other time in history.**

Based on the Global Islamic Banker's survey, risk management emerged as one of the top concerns for Islamic bankers in 2021 as a result of unexpected events such as the pandemic and risks related to information technology which are challenging factors affecting risk management.

## Review of 2021

During 2021, banks were super busy working in terms of combating unprecedented situations, fast-changing technologies and consumer behavior, more complex regulations and greater external threats. This was mainly driven by the pandemic which continued to pose challenges as well as opportunities for banks to transform their overall operations.

Key highlights during 2021 in terms of the risk management landscape include the following:

- **Enhancement of regulatory controls**
  Some examples include the UAE regulatory changes in managing risk related to Sukuk and Saudi Arabia strengthening liquidity risk for non-bank financial institutions. The pace of regulatory action on enhancing controls increased during 2021.

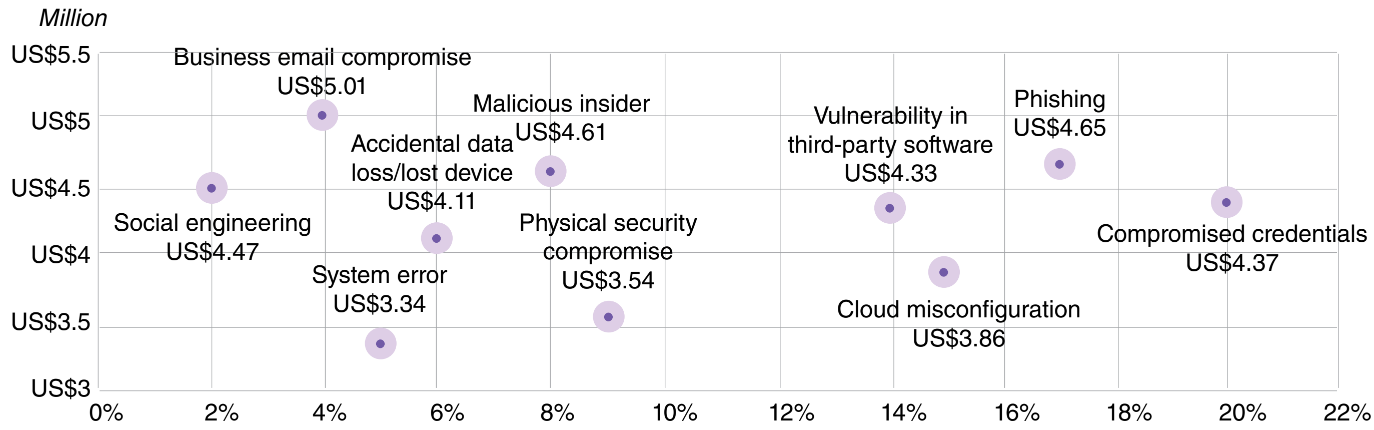
Chart 1: Top 10 regulatory challenges in 2021


*Source: KPMG midyear outlook, 2021*

- **Enhanced efforts by Islamic financial institutions on cybersecurity risk mitigation endeavors**
  As many countries continue to embrace digital transformation, the downside risk associated with the process is causing vulnerabilities in terms of cyber threats. It is worth noting that advancing digitalization can support the transformation of banks' business models with an understanding to increase profitability in the longer run, but it also exposes vulnerabilities related to existing information technology (IT) deficiencies and susceptibility to cybercrime and operational disruptions.

  Chart 2 illustrates the cost of data breaches as reported by an IBM report on security.

Chart 2: Average total cost and frequency of data breaches by initial attack vector




*Source: IBM security, 2021*

- **Credit risk control measure**

  Several banks are opting to stick with low-risk financing. The weaker economic environment leads to deterioration in asset quality although such deterioration is likely to be episodic and sectoral in nature.

- **Emerging trend in developing IT systems for risk management**

  During 2021, government policies surrounding public health practices, social distancing, return-to-work, crowd limits and other pandemic-related regulations and protocols had significantly impacted the performance of Islamic banks. However, many banks were able to successfully overcome the challenges and report a satisfactory profit as well as maintain adequate liquidity.

## Preview of 2022

It is expected that 2022 will be a year of further heightening of risk management controls mainly induced by regulatory pressure and high uncertainty.

The integration of technology risk management capabilities with a broader risk strategy will be a top priority and must be aligned with enterprise and operational risk priorities that are supported through the use of technology, data and skilled technology risk professionals. The growing competition and rising uncertainty in the marketplace demand a more agile, data-driven approach to managing risk, and automation is the key to making this happen.

Fintech products and services may arise and affect the viability of the current banking model and planned strategic initiatives of traditional banking. The banks will have to take action to embrace the new technologies such as artificial intelligence, blockchain and machine learning. 2022 will see more regulatory controls being initiated in terms of regulating the fintech landscape, hence there will be more pressure on fintech companies and banks which are embracing digital technologies.

Financial institutions (Islamic and conventional) will need to continuously demonstrate resiliency and control effectiveness against expanded cyber and vulnerability threats resulting from the expanded use of digital platforms. The alarming cybersecurity statistics for 2021 are a call to take the risk management mission more seriously

Regulatory changes and scrutiny may heighten, noticeably affecting the manner in which banking services will be produced or delivered.

Hence, there will be more emphasis on managing compliance risk during 2022.

Banks will be required to focus more on green initiatives and addressing climate change risk will be required of banks from 2022 onwards. The impact of climate-related risks is becoming more apparent to banks, and the pandemic has led to an increased focus on the need to speed up progress in the management and disclosure of such risks.

Operational risk and business continuity programs will be required to be reprogrammed to meet the new world of uncertainties.
There will be a scarcity of risk management professionals especially those with high strategic and technical capabilities. The future role of risk managers will be more operational as well as strategic in nature, hence it can be said that the chief risk officer (CRO) role will be transformed into a role not only as a CRO but also as the backup CEO from 2022 onwards.

## Conclusion

It can be noted that the overall risk landscape has undergone rapid and material change over the past few months, with uncertainties remaining high in the short to medium term. The overall outlook for 2022 will focus on a more risk-driven culture and embracing new technologies.

# History does not repeat … but it tends to rhyme

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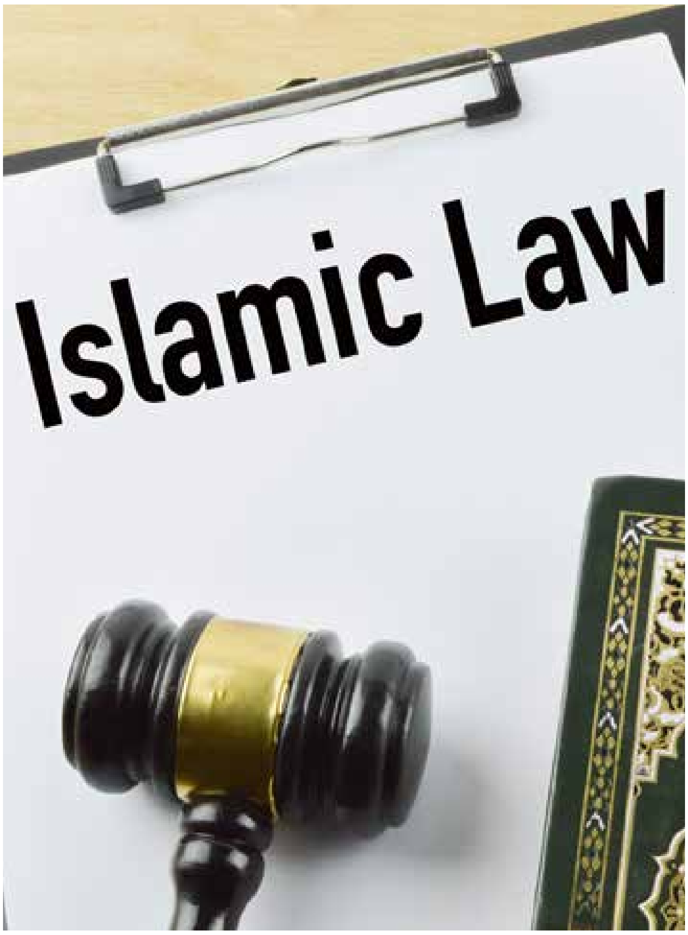


**Well, what is to be said about 2021? It was not as bad as 2020 for one thing! The rest of the world caught up with the UAE in opening up their respective economies more or less. We are in the midst of a global supply chain crisis, labor shortages (how is Brexit working out for you UK?) and an energy crisis. Europe is noticing that renewables are not much use if the wind does not blow, the sun does not shine or the rain does not fall. They turn their face to nuclear power which is of course emission-free. The Taliban are back in power in Afghanistan and not forgetting a climate crisis. So how are the markets reacting to this? All-time highs! Remember, the market can stay irrational longer than you can stay solvent.**

## Review of 2021

With the 'Great Resignation' in full swing, there has been quite a bit of dislocation in general. After spending months in lockdown (unlike the weeks in the UAE), quite a few people decided that they were not interested in whatever job they had. Or indeed, their job unfortunately disappeared during the coronavirus pandemic.

Money was printed like there was no tomorrow by the main global economies and the gigantic bill for COVID-19 will soon be coming due. These are not times that regulators make sweeping changes to the status quo if they can help it. The world in general is finding its feet again in this new normal. Working from home is becoming a fixture of life, or people are just quitting those employers (public and private sectors) who do not permit it.

Of course, there was one regulator who is an exception to the rule: the Central Bank of the UAE. In May 2020, the Higher Shariah Authority was created and in October 2020 it issued specific legislation on how Shariah boards were to be constituted and what departments need to be created and how they are staffed.

The regulations were quite onerous for Islamic windows in particular with little Islamic activity in the UAE onshore and a number of international banks effectively exited the UAE onshore market by asking to place their Islamic licenses on hold.

The effects of the Higher Shariah Authority's ruling on the strict application of AAOIFI Shariah standards are there for all to see. I am not aware of any other regulator who approves specific products. It certainly does not exist in the conventional space which, like it or not, Islamic finance is in competition with.

The International Islamic Financial Market with the assistance of a number of international banks and organizations tackled the interbank offer rate (or IBOR) transition issue and published a paper containing structuring solutions for a risk-free rate on Murabahah and Ijarah transactions in October 2021. This is a seminal and timely piece of work and shows how international consensus-building within the industry can deliver practical solutions for the benefit of everyone.

## Preview of 2022

The bill for COVID-19 and the climate crisis will be the main issue on the minds of most of the larger countries. I think there will be limited moves by regulators to move the goalposts in the Islamic finance space next year, with the exception of onshore UAE as COVID-19 is in the rear-view mirror for the UAE. I think it is a visa requirement to mention Expo 2020 in Dubai!

Data protection will come to the fore in 2022 year as larger and larger fines are issued by the relevant competent authorities in the EU. Nothing motivates a corporate quite as much as the possibility of a large fine or potential jail time for senior executives for breaching rules and regulations.

There will be more enforcement cases for breaches of anti-money laundering and counter-terrorism financing rules recently assessed by the Financial Action Task Force as it will want to see evidence that the laws now in place are adequate and enforced. No better way to do this than point to convictions of senior people for serious crimes.

An area that is exploding at the moment and will require a coherent response from regulators sooner rather than later is the crypto asset space. I have my own recently aired views on Islamic finance and cryptocurrencies and non-fungible tokens. Islamic banks ignore them at their peril; there are already Shariah compliant providers out there selling various crypto assets.

## Conclusion

We certainly live in interesting times. Regulators around the world want to assist in resuscitating their respective economies as opposed to killing companies with overregulation, for now. This will change. We will probably have a few years of hedonism before the inevitable crash. After the roaring 1920s, we had the Wall Street crash. History does not repeat … but it tends to rhyme.

# The future presents many challenges but also sizeable opportunities

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**COVID-19 has led to an unprecedented situation in the world of business, as offices were closed and working from home became a norm. Restrictions on traveling, trade and activities taken to prevent the spread of COVID-19 have led to one of the most severe recessions with global economic output declining by 3.4% in 2020. IMF data suggests the GCC region contracted by 4.8% in 2020. Although firms of all sizes were impacted, SMEs, including Shariah compliant ones, were the most distressed owing to their nature.**

Moreover, SMEs were particularly hit hard because they are over-concentrated in sectors that were directly impacted by the pandemic such as food and beverage, retail, tourism, entertainment, services like home repairs, cleaning services, construction labor, etc, and accommodation.

A study from the JPMorgan Chase Institute found that half of all small businesses only have enough cash on hand to support 27 days of their usual outflows, which makes it difficult for the SMEs to weather such unforeseen tough times. This impacts the overall economy as the SME sector encompasses 90% of businesses and 10% to 40% of all formal employment in the Middle East and North Africa (MENA) region.

The past few months have also proved to be an interesting time for entrepreneurship. Consumers' buying and lifestyle habits have changed. A lot of companies are catering to these new set of opportunities. About 45% of MENA SMEs picked faster access to revenue as the biggest benefit of a cashless economy to business.

## Review of 2021

SMEs have successfully attempted to align themselves with the structural shifts by making certain structural upgrades to their business models like adapting to advanced technologies. In the UAE, Searchie offers a talent acquisition software which uses artificial intelligence to screen and shortlist candidates based on a video interview. In response to the pandemic, Searchie leveraged the market conditions and adapted its software to provide services for screening patients.

According to the OECD, up to 70% of SMEs globally have increased their use of digital technologies in response to COVID-19. However, SMEs are hampered in their growth efforts due to a finance gap. The MENA region accounts for 88% of SMEs, with a financing gap of US$195 billion.

The easing of containment restrictions and increasing vaccination rates in 2021 have led to SMEs performing around their pre-COVID-19 levels. A key driver of this growth is the increasing funding from venture capitalists. Global venture investment in 2021 summed to US$643 billion, compared with US$335 billion for 2020.

Government support by taking an expansionary stance to help distressed SMEs was extremely crucial to aid SMEs. The Saudi government unveiled a SAR70 billion (US$18.7 billion) economic package to support the private sector, especially SMEs.


The Central Bank of the UAE lowered its main policy rate twice and disclosed a AED256 billion (US$69.69 billion) stimulus package. Also, the government aid combined with shortages of raw materials caused by supply disruptions has led to record-high inflation levels.

Consumer prices in the GCC states are projected to have risen by 2.1% in 2021, compared with 1.2% in 2020, as revealed by the GCC Statistical Center. This has deteriorated the profitability of SMEs as the price of raw materials and wages have increased dramatically.

## Preview of 2022

SMEs will have to find a way to deal with the inflationary pressures and have a healthy bottom line, reflecting their need to ascertain whether they can pass on the increasing expenses to their customers.

COVID-19 has stimulated the need of not being dependent on a handful of sources of revenue but to have more varied sources of revenue. Diversification is a key theme in all six GCC countries particularly Saudi Arabia, which has embarked on a massive economic and social reform program called Vision 2030.

Additionally, because of inflation pressures, central banks plan to increase the rates, hence making it difficult for SMEs which are heavily dependent on credit to fund their expenses or expansion plans.

However, the strengthening economic recovery paves the way for moderate growth ahead.

## Conclusion

In general, OIC member countries have been successful in containing the spread of COVID-19 infections and in the treatment of affected people with a case recovery rate of 53.4% compared with the global rate of 38%. Entrepreneurship grew at a record pace in 2021, with more than 4.6 million applications for new businesses filed through October 2021, according to business formation statistics from the US Census Bureau.

SMEs have proved to be extremely thoughtful and resilient given the challenges they faced and continue to face. The future presents many challenges but also sizeable opportunities for the ones that continue to innovate and adapt in this dynamic and fast-paced environment.

# COVID-19 pandemic puts renewed emphasis on inclusive and sustainable growth

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**The impact of the COVID-19 pandemic which extended into 2021 has posed unprecedented challenges for the world and is affecting both societies and economies at their core. While the challenges differ from country to country, it is almost certain to increase poverty and inequalities on a global scale. This makes the UN Sustainable Development Goals (SDGs) to be even more critical but with record fiscal stimulus packages and monetary interventions introduced to counter the impact of the pandemic, there is very little room for governments to expand their spending on the SDG agenda. Therefore, it is vital that Islamic financing steps up to bridge the financing gap and support the achievement of the SDGs.**

On a positive note, the pandemic has led to an increase in awareness among both the public and private sectors to push for sustainable development. The emphasis on environment, social and governance (ESG) investment has helped to drive demand for green Sukuk. According to a report published by the United Nations Development Programme and the Islamic Finance Council UK, an estimated US$50 billion in fresh financing can be unleashed through green Sukuk to meet the UN SDGs.

## Review of 2021

Global Sukuk issuance reached US$147 billion in the first nine months of 2021 and Refinitiv's 2021 Sukuk Perception and Forecast study projected that global Sukuk issuance will hit US$180 billion by the end of 2021. Malaysia maintained its leadership in the Sukuk market, followed by Saudi Arabia, Indonesia, Turkey and Kuwait, which together accounted for 90% of total issuance in the third quarter of 2021.

The issuance of Sukuk in core markets such as Malaysia, Indonesia and some GCC countries continued its momentum into this year as part of the governments' continued measure to finance economic recovery in the post-COVID-19 world.

During this time, there was also a rise in the issuance of sustainable and responsible investment (SRI) Sukuk. In 2021 alone, there was almost an issuance of US$5 billion of SRI Sukuk, which surpassed the previous year's total of US$4.6 billion.

The largest was the US$2.5 billion sustainability Sukuk issued by the IsDB. The funding under the issuance of the sustainability Sukuk was mostly allocated toward financing social development projects while part of it will also be used for green projects that are eligible under the IsDB's Sustainability Finance Framework.

The second-largest sustainability Sukuk facility for 2021 was issued by the Malaysian government and marked the first return of Malaysia into the global market since 2016. The Sukuk facility was intended to finance green and social projects, in line with the SDGs such as renewable energy development and building schools and healthcare facilities. The demand for the Sukuk was so strong that it was oversubscribed by 6.4 times, resulting in the lowest-ever yield and spread for a Malaysian US dollar Sukuk issuance. A total of US$1.3 billion was raised from an initial US$1 billion.

## Preview of 2022

What we noticed in 2021 was the surge in demand for SRI Sukuk, in line with the growing interest in ESG investing. The demand from western global investors for ESG investments puts green Sukuk in a strategic position to attract major new investors. This is because the principles of Islamic finance are underpinned by the objectives of Islamic law and match the aims and objectives of the agendas for the UN SDGs adopted by the UN.

Aside from that, fintech innovation will play an important role in accelerating the growth of SRI Sukuk. The pandemic has amplified the need for digital solutions amid the recurring lockdowns to curb the spread of COVID-19 infections. This will reduce the costs of payment and access to capital domestically and internationally, which will drive financial inclusion.

This development will also open doors for retail investors in Sukuk with the offering through online channels. With fintech innovation, availability of data and online channels, there is easier access to a new class of investors in SRI Sukuk.

Another interesting area to watch out for is the development of blockchain and how Islamic finance can leverage on these technologies for a more level-playing field that will encourage long-term impact investors. UAE-based Wethaq has partnered with enterprise blockchain software firm R3 to pilot its own blockchain-based Sukuk under the supervision of the Dubai Financial Services Authority.

## Conclusion

The COVID-19 pandemic has put a renewed emphasis on inclusive and sustainable growth. Despite the strong momentum that we saw in SRI Sukuk and Islamic financing over the last decade, it is still a far cry from their potential. The rise of ESG investing will add pressure and expectations on the social and economic impact from SRI and Islamic financing.

I believe that the expanding demand for long-impact investment will drive the pace of growth for SRI and Islamic financing in the near future. 2022 could be the beginning of it as the world seeks sustainable investment and financing alternatives to drive a post-COVID-19 recovery.

# Standardization and collaboration among standard-setting institutions (AAOIFI, IFSB and IIFM)

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**Notwithstanding these challenging times of the COVID-19 pandemic, the Islamic finance industry continued to develop through various channels, including regulatory and policy developments, practice and research. Additionally, infrastructure institutions, in particular the standard-setting organizations such as AAOIFI, IFSB and IIFM [International Islamic Financial Market] continued issuing standards and providing guidance for the development of the industry throughout the period. As the COVID-19 restrictions are easing, it is hoped that with the right implementation of benchmarked standards, vital for long-term sustainable growth, the industry will continue to steer forward in the years to come.**

## Review 2021

2021 marked another COVID-19 affected year, although it had limited restrictions compared with the previous year as policymakers pushed for two to three jabs of the approved vaccines. Yet the new variants from time to time continued to haunt us and kept markets and stakeholders skeptical of the industry developments.

Standardization in the Islamic banking and finance industry globally has been a topic discussed since the establishment of the first standard-setting organization, AAOIFI, in the year 1991. To date, the proponents and opponents continue to deliberate on the pros and cons of the need for standardization in the industry. Yet at the same time when it comes to conventional practices of standardization, there is a unanimous agreement that without following them the going concern of the underlying business is at stake and so is that of the industry. Some of the arguments against standardization includes a) it destroys creativity and innovation, b) one-size-fits-all does not work, c) it results in loss of national sovereignty, d) Islamic finance is still a nascent industry and e) only a particular set of standards (Shariah) are required. Of course, none of these is close to reality and remains a myth.

Additionally, all industries that concern the man on the street have and need to have some form of standardization as without it, the efficiencies and economies of scale will be hard to achieve, which is the underlying cause of Adam Smith's 'invisible hand'. It is understandable that standardization within any industry is beneficial for it from various perspectives including leading to better comparability for cross-border transactions; transparency and reliability of transactions and statements; and enhancing understandability and accountability. Additionally, the benefits are reaped by a wide range of stakeholders including the economy, investors and Islamic financial institutions in particular.

Within the global Islamic banking and finance industry, there are three particular institutions that are tasked with the standardization of the industry:

- AAOIFI — to develop standards related to Shariah, accounting, auditing, governance and ethics
- IFSB — to develop standards related to prudential regulations and risk management, and
- IIFM — for the standardization of documentation, mostly for the capital markets.

These three institutions complement each other rather than compete with each other. There are agreements in principle including MoUs signed among the three organizations and they have been actively working and contributing to each other's projects as well as developing joint standards.

As such, they have issued a number of important standards and guidance notes for the industry throughout the year. With regards to AAOIFI, the Shariah standard on payment cards was issued; additionally, three standards were issued by the AAOIFI Accounting Board — these include: FAS 1 (Revised 2021) 'General Presentation and Disclosures in the Financial Statements', FAS 39 'Financial Reporting for Zakah' and FAS 40 'Financial Reporting for Islamic Finance Windows'. The AAOIFI Governance and Ethics Board issued exposure drafts for Islamic crowdfunding and syndicated financing.

On the other hand, the IFSB has also issued two important standards, Core Principles for Islamic Finance Regulation (Financial Market Infrastructures) and Core Principles for Effective Islamic Deposit Insurance Systems, as well as issued an exposure draft related to solvency requirements for Takaful undertakings. The IIFM also issued a number of standards/documents and guidelines as approved by its Shariah committee and these are: IIFM Risk-Free Rate (RFR) Solutions and ISDA/IIFM IBOR Fallback Standard Documentation.

The adoption of these standards is also increasing gradually; by way of example, AAOIFI standards are adopted in various levels by 36 countries and 43 regulatory jurisdictions as reported in the AAOIFI Footprint Report 2020. These include those that adopt standards either fully or partially, use them as guidelines/reference material, supplementary reporting basis, or base their local standards/regulations on AAOIFI standards.

Since the publication of this report, we understand that more regulators have adopted AAOIFI standards and Bahrain has even made AAOIFI Shariah standards part of the law and publishes them in the official gazette.

## Preview 2022

With the enhanced understanding of the standards and through active engagement with different stakeholders (including regulatory and supervisory institutions), it is expected that the implementation and adoption of standards will improve in 2022. This is beneficial for developed Islamic finance markets and the developing markets alike. For the regulators and policymakers in particular, it is important that the industry follows a set of standards that are benchmarked to the highest standards to ensure the financial stability and integrity of the industry in the long run. Additionally, the emerging markets are better off in adopting existing standards issued by these institutions to leapfrog the times rather than developing standards from scratch. The prime examples of such emerging jurisdictions include Afghanistan, Iraq and Libya which follow AAOIFI standards fully instead of developing standards bottom-up.

It is expected that these three standard-setting institutions will continue to develop market-relevant standards in the year 2022. Among them is the standard to be issued by AAOIFI and IFSB on a revised Shariah governance framework, which will replace a number of existing governance standards issued by the two institutions.

*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.*

# Islamic structured finance at a crossroad of digital financial system and 4th Industrial Revolution

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**The Islamic structured finance segment internationally, like any other segment of the global financial system, is undergoing a change not only in the context of the COVID-19 pandemic but in the backdrop of the 4th Industrial Revolution as well that may bring about some fundamental shift in the way finances are dealt with at sovereign, corporate and cross-border levels. 2022 is going to provide more clarity and direction to the roadmap about the technology-driven international financial architectural design, etc.**

## Review of 2021

S&P Global Ratings as part of its report stated that new issuance volume increased by 30% in the first half of 2021 compared with the same period in 2019, a robust growth that reflects ongoing recovery from the COVID-19 pandemic. It indicated that the European investor-placed new issue securitizations could end the year close to EUR100 billion (US$112.81 billion) after bouncing back from the market disruption caused by the COVID-19 pandemic.

The volumes have increased more than 60% year-on-year to EUR52 billion (US$58.66 billion) in the first half of the year on the one hand whereas the global structured finance issuances can reach over US$1.4 trillion on the other. The issuance through the middle of the year was also almost on par with the post-financial crisis record set in 2018.

As per a Moody's Investors Service report, some US$102 billion in Sukuk was issued in the first half of 2021, up 3% on a year-on-year basis, driven mainly by issuances in Malaysia and Indonesia. It further projects Sukuk issuances to be between US$190 billion and US$200 billion this year.

Besides the foregoing, there were a few debut Sukuk issuances that included Saudi Arabian Oil Company (Saudi Aramco) with an issue amount of US$6 billion in US dollar-denominated Sukuk and the Maldives government Sukuk issue that raised US$200 million.

However, Islamic structured finance went beyond this traditional line of financing and investment avenues by moving into the digital assets and technological innovations arena by developing an innovative investment scheme.

Here is an example of it. Aqarchain is a utility token issuance platform that will allow white-labeled hybrid self-tokenization of real estate assets. It claims that it has developed a crowdfunding self-tokenization platform for properties which allows the fractional ownership of properties, where property owners and developers will have open access to bringing their properties on this platform and use the hybrid self-tokenization platform to mint non-fungible tokens (NFT) of the real estate asset and conduct a public sale of the fractional tokens of the NFT.

## Preview of 2022

The oil-rich GCC countries are expected to earn high revenue due to rising oil prices and the Sukuk or other structured options may be relied on in lesser volumes to raise funding in these countries though growth is expected to be there at a relatively lower rate.

However, Malaysia will continue to dominate sales, with activity primarily denominated in the local currency, together with the government of Indonesia as per a Moody's report. It is expected that fresh issuance may come from a diverse base of cross-country issuers including corporates, sovereigns and supranationals.

Further to this, investors globally are now more open to structured investment options as the Islamic finance industry is scaling up to the international level by adopting the best industry practices and disclosure requirements.

UN Sustainable Development Goals (SDGs)-oriented green Sukuk should continue to have more attention from international investors whereas issuers from the GCC and other countries are likely to take the lead to mobilize the funding for their climate-friendly, renewable energy and climate-resilient infrastructure projects.

Another interesting dimension would be the possible introduction of stable-coins, digital assets and central bank digital currencies that may reshape treasury management and financial management practices all across the industry and can help to create more liquid, investable, tradeable and innovatively structured financial options for Islamic financial institutions and investors globally.

The most challenging development for the traditional financial system that has been taking place in the recent past is the emergence of fintech platforms which may connect counterparties for investing and fundraising activities purely as matching-making platforms without having any funds or balance sheet support; the same is expected to gather more momentum going forward.

## Conclusion

As far as the global Islamic financial industry is concerned, global Islamic structured finance can be divided into:

a) Ongoing deal flows and transactions related to traditional structured finance products and investment vehicles
b) SDGs-related climate financing and Sukuk issuances to fund climate-friendly initiatives all across the globe
c) Blockchain technology-based financing and investment vehicles such as fractional ownership-based investments in financial or real assets-backed funds/investment schemes, and
d) The impact of central bank digital currencies, stable coins and digital assets such as NFTs on the financial and economic landscape of the world.

It will be very important to see how the foregoing all play their role in shaping up the international Islamic financial system to achieve the anticipated benefits.

# Islamic syndicated financing: Potentials to be optimized

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**Syndicated financing is a term used when there are two or more banks or financial institutions that join together to finance a deal and each contributes its part of financing to a borrower. There are at least two benefits of a syndicated financing for banks or financial institutions.**

First, it will reduce the concentration risk for banks or financial institutions to a particular borrower.

Secondly, it will minimize the use of banks' legal lending limit. Technically, Islamic syndicated finance is similar to the conventional one in terms of having a lead bank and participating financial institutions. The lead bank will normally play the role of originating the deal, coordinating the preparation and finalization of documentation, and closing the deal. Normal Shariah compliant modes of financing will be used in Islamic syndicated finance.

According to AAOIFI, there is no Shariah restriction for the participation of conventional banks and/or financial institutions in Islamic syndicated finance as long as the contracts, projects financed and the modes of financing are arranged in line with Shariah. The same also applies to the lead syndicate, where a conventional bank or financial institution can also be the lead bank.

## Review of 2021

According to an S&P Global Ratings report, 2020 marked the increasingly important role played by Islamic syndicated finance which performed better than the Sukuk market. By mid-2021, the total syndicated financings in the Middle East rose 33% to US$50.4 billion compared with the same period in 2020 (Table 1). Saudi Arabia and the UAE accounted for 91.3% of all financing proceeds.

Considering the share of Islamic banking assets in Saudi Arabia and the UAE stood at 68% and 19% respectively by the third quarter of 2020 (IFSB, 2021), the portion of Islamic syndicated finance of the overall syndicated deal could be around US$26.7 billion.

In 2021, some Islamic syndicated finance started involving some non-core Islamic finance countries such as Egypt and Pakistan.

The government of Egypt has mandated Emirates NBD Capital and First Abu Dhabi Bank as the joint global coordinators, lead arrangers and bookrunners on the deal. It is a three-year syndicated financing having green and Islamic finance components aimed at mobilizing US$2 billion.

In Pakistan, Ajman Bank and Commercial Bank of Dubai concluded a US$350 million Murabahah syndicated financing for the Ministry of Finance. Other participating financial institutions include the Gulf International Bank, the Arab Investment Company, the Islamic Corporation for the Development of the Private Sector and the UAE.

Other smaller syndicated deals in Pakistan include the PKR4.5 billion (US$25.4 million) facility arranged by Meezan Bank and Faysal Bank in favor of Engro Enfrashare. Participating banks include National Bank of Pakistan, MCB Islamic Bank and Allied Islamic Bank. The funds raised would be used to finance the development of tower sites for various mobile network operators operating in Pakistan.

One major Islamic syndicated finance deal took place in Bahrain amounting to US$200 million, as an addition to the existing deal of US$1.4 billion for the state-owned Oil and Gas Holding Company (nogaholding).

The company is the hydrocarbon and energy investment and development arm of the Kingdom of Bahrain. This five-year Islamic syndication led by National Bank of Bahrain attracted the participation of eight financiers consisting of regional banks from Bahrain, Saudi Arabia, Kuwait, the UAE and international banks active in the region.

Other Islamic syndications taking place in a core Islamic finance country involved Abu Dhabi Islamic Bank (ADIB). ADIB led the Islamic syndicated finance deal amounting to AED1.32 billion (US$360 million) in favor of Abu Dhabi-based Gulf Marine Services (GMS), the largest provider of self-propelled, self-elevating jack-up barges in the world. ADIB tailored the Islamic syndication to meet the particular needs of GMS including refinancing existing facilities and financing the acquisition of two extra vessels.

## Preview of 2022

As Islamic syndicated finance is increasingly playing a more significant role in the Islamic finance industry, it will attract even more players into it. Islamic syndication has shown that it could expand the choices for fund mobilizations in the market in addition to Sukuk.

Global Islamic banking assets, which stood at US$2.35 trillion in 2020, are the potential pools of funds for the further growth of Islamic syndication; this is not to mention the possible participation of conventional banks. This in turn could also foster the development of Islamic markets — given competitive alternatives, more economic players in Muslim countries may be attracted to use Islamic financing instruments.

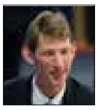
Islamic syndicated finance is actually a perfect match with the needs of many Muslim countries for infrastructure financing. Syndicated deals, compared with normal bank financing, could naturally provide larger financing amounts with a longer duration. Here, a group of participating banks would share the financing risks. From the beneficiaries' perspective, they might be more efficient in terms of timing and documentation. Thus, there are indeed potentials to be optimized in the area of Islamic syndicated finance.

## Conclusion

Islamic syndicated finance is basically part of Islamic banking activities. However, it has not really become mainstream in the operations of the Islamic banking industry. This may change as Islamic financial institutions will always be in constant need of coming up with more innovation and product diversifications to stay relevant.

Times of crisis are actually a blessing in disguise for the growth and expansion of Islamic syndication, taking into consideration the need for banks and other financial institutions to spread the risk and pool resources. Here, through syndicated financing, Islamic financial institutions could actually realize their developmental role more by financing large infrastructure needs in Muslim-majority countries.

# Time for Islamic finance to shine within sustainable and responsible finance



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**So much has changed during the past year and a half since the COVID-19 pandemic spread globally. It has been with this backdrop that sustainable finance has moved significantly onto center stage. The outlook I made in IFN's special report on coronavirus on the 15th April 2020 has held up rather well. I wrote that: "The challenge we face in the future is that even knowing what could happen, we face a few ways to individually mitigate the impacts ahead of time. These are systematic risks and they resist our efforts to reduce the impact on an individual level with diversification [unlike ESG]. This is the common thread that highlights similarities between the impact of the pandemic with the impact of climate change."**

Reviewing what has happened since the start of the pandemic, including many developments this year, there are some significant steps forward. Writing this on the eve of the COP26 conference in Glasgow, the direction of travel is right but the speed — as rapid as it has become — remains too slow compared to the problems we seek to tackle and the challenges we will face in addressing them.

## Review of 2021

One of the distinctive and welcome changes that sustainable Islamic finance saw during the past year has been the expanding geographical footprint of the changes. At the start of 2021, Bangladesh Bank, which has been active in issuing sustainable financing policies for the past decade, followed up a sustainable finance policy update with a mandate for banks to direct 2% of financing to green and 15% to sustainable projects.

This step-up in policy was followed in other countries; in February Indonesia's Otoritas Jasa Keuangan (OJK) released Phase 2 of its Sustainable Finance Roadmap that announced the release of a draft taxonomy in 2022. In September 2020, OJK had relaxed credit assessments and risk calculations for electric vehicle purchases and companies involved in electric vehicle manufacturing.

A report released in February 2021 from the RFI Foundation estimated that a large proportion of greenhouse gas emissions linked to household financing in Indonesia, including from Shariah banks, was due to the purchase of cars and motorbikes. Subsequently, Indonesia's energy ministry announced targets to make all new motorbikes and cars to only be electric-powered by 2040 and 2050 respectively.

The March to June period saw significant issuance of sustainable Sukuk from the IsDB and the government of Malaysia, raising US$2.5 billion and US$800 million respectively. Indonesia returned to the market at the end of May for its longest tenor (30 years) of green Sukuk. At the same time in Sudan, a company also launched a small green Sukuk facility to fund renewable energy projects.

Developments over the summer returned to Malaysia where regulatory encouragement for banks, including Islamic banks, to consider climate risks was on the rise. In a speech at the Joint Committee on Climate Change's flagship event, Bank Negara Malaysia (BNM) Governor Nor Shamsiah Mohd Yunus described BNM's efforts to increase consideration of climate-related financial risks in banks' risk management approaches.

Nor Shamsiah warned that the bank would use the tools it has available, including Pillar 2 capital requirements and supervisory assessments for 'outlier' banks on climate risk management. She further laid out a four-year target for BNM to conduct climate-related stress tests of the financial industry in Malaysia and previewed announcements of a time frame for mandatory climate-related financial risk disclosures from Malaysian banks. This includes classification and reporting of lending and investing activities in line with the Climate Change and Principle-based Taxonomy by July 2022.

Capital market activity continued with the release of APICORP's green Sukuk framework that is expected to lead to green Sukuk issuance next year. Meanwhile, Bangladesh saw the country's first green Sukuk wrapping up in October and Turkey saw the issuance of the first environmental, social and governance (ESG)-linked sustainability Sukuk from Kuveyt Turk. Malaysia returned to the spotlight in September and October with the announcement of a national 'Net Zero by 2050' target and new sectoral guides from the Value-based Intermediation Community of Practitioners on oil and gas, construction and infrastructure and manufacturing.

Subsequently, the rush toward Glasgow continued with major announcements of national net zero targets by the UAE (2050) and Saudi Arabia (2060), and targets in Pakistan to cease importing coal, increase renewable energy share to 60% and electric vehicle share to 30% all by 2030. At the time of writing, the remainder of the year is likely to continue the pace of new announcements on sustainable finance, although some announcements may subside after COP26 wraps up in November.

## Preview of 2022

The impact of the COVID-19 pandemic led to a sea change in the way that ESG and climate risks were perceived around the world, including in Islamic markets. As we have seen over the last year, not all of the changes that will influence Islamic finance in 2022 are narrowly constrained to what is happening in that market; the wider context matters.

As the ratchet mechanism in the Paris Agreement continues to focus efforts toward greater ambition over time, it seems inevitable that more green Sukuk, financing and other social, sustainable and transition financing will be issued. Climate change is where most of the efforts on sustainable finance have garnered headlines, but at the same time, Islamic financial institutions — including banks, asset owners and asset managers — are progressing on their understanding and integration of ESG data.

This expanding focus on ESG, climate change and public health issues is likely to continue in 2022 while the COVID-19 pandemic remains with us. Other systemic issues besides public health and climate change — namely natural capital and biodiversity — seem poised to gain attention as regulatory frameworks designed for climate-related financial risks are being adapted for nature-related risks too.

## Conclusion

This should be the landscape where Islamic finance can thrive and separate itself because of its connection to a strong underlying ethical purpose. It will require significant effort to manage the technical side of ESG-, climate- and nature-related issues but the new year should be the time for Islamic finance to shine within sustainable and responsible finance.

# Takaful in Asia — on the road to recovery

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

**Although some economies in Asia continue to be affected by COVID-19, the Takaful industry has improved in 2021 and grown impressively in the first half of the year. Thereby, it has benefited from increased awareness about the benefits of Takaful and continued acceleration in digitization.**

## Review of 2021

The General Takaful industry in Malaysia grew by 13.6% in the first half of the year with a gross written contribution of RM1.86 billion (US$447.68 million) maintaining a market share of 15.5%. This impressive growth ratio is partially due to the fact that the industry was severely affected by COVID-19 in the first half of 2020.

It is good to see that the industry growth ratio has almost bounced back to the pre-COVID-19 level of 18.8% in 2019. As a result, the General Takaful industry in Malaysia should be able to surpass 2020's gross written income of RM3.46 billion (US$832.79 million).

At the same time, the net claims incurred ratio of the industry has reduced in the first six months of the year by 1.5 percentage points compared with 2020, from 53.3% to 51.8%, which can be attributed to the COVID-19 partial lockdowns which occurred during the first half of the year. This led to a slowdown in public transport and postponements of medical treatment. However, as the situation continues to normalize, it can be expected that the loss ratio will increase again.

Further, the year-on-year growth of 46.7% for the Family Takaful business in Malaysia to RM4.68 billion (US$1.13 billion) is driven by the significant increase in the single contribution (+37.6%) and annual contribution (88.6%) businesses.

As a result, Family Takaful could further increase its market share with regards to new business contributions to 36.7%. In Indonesia, the Takaful sector continued to grow as gross contributions soared 51.9% compared with a year ago to IDR11.55 trillion (US$809.34 million) in the first six months of 2021. With this, it increased its market share in the first half of the year from 6.5% to 8.7% compared with a year ago. After a slowdown of regulatory activities due to COVID-19 in 2020, this picked up again in 2021.

In Malaysia, Bank Negara Malaysia issued, among other new regulations, new guidelines relating to climate change (eg Climate Change and Principle Based Taxonomy) and has come up with an exposure draft for a revised Risk-Based Capital for Takaful (RBCT) framework.

Both regulations will have an impact on the Takaful industry. In Indonesia, the spin-off requirements by 2024 are still going ahead and the preparation for the upcoming implementation of IFRS 17 is continuing across the region.

## Preview of 2022

To maintain its growth momentum and to bring Takaful to the next level, the Malaysian Takaful Association (MTA) has come up with several key themes for the new year as follows:

1. Implementation of value-based intermediation for Takaful (VBiT): In June 2021, the MTA launched the VBiT framework whose main objective is to deliver a positive socioeconomic

impact while sustaining profitable returns for industry players. To achieve these ambitious goals, it will be important for the MTA to ensure that the framework is implemented by various member companies.
2. Financial resilience/inclusion: The aim is to broaden financial inclusion whereby more Malaysians can participate in Takaful plans in an efficient and safe way. A case in point is the recent launch of the Perlindungan Tenang voucher initiative which is supposed to broaden in 2022.
3. Digitization: There will be continued efforts in respect of digitization with the aim to provide secure, low-cost and contactless tools to individuals and businesses which have become critical under the pandemic.
4. Halal ecosystem: The goal is to complement the Halal sector with Takaful solutions as part of the Halal ecosystem, which is developing rapidly throughout the world.

While these key themes apply to other Takaful markets as well, there are some specific aspects in other countries which need to be considered in 2022.

In Indonesia, the key question remains whether the regulator will go ahead with its requirement for Shariah business units to convert to fully-fledged Takaful operations by 2024.

Until now, only a few Takaful window operations have done so even though the deadline to submit the revised spin-off plans was in the middle of October 2021. There are plans for General Takaful operators to become part of the State Property Insurance Consortium which should promote the growth of General Takaful in Indonesia which has been struggling in the past few years.

Other structural challenges will need to be addressed in Indonesia such as developing an Islamic finance ecosystem that supports Takaful operators, attracting adequate capital, strengthening the regulatory framework and raising awareness of Islamic finance products.
Besides Brunei — where Takaful already has a majority market share — Takaful has started to make inroads in other countries in the region as well such as the Maldives, Sri Lanka and Thailand.

As some of them are Muslim-minority countries, it is up to individual companies to continue pushing the Takaful agenda as they cannot count on regulatory support.

## Conclusion

Takaful has proven its resilience during the pandemic. It is now up to the Takaful industry to prove that it can maintain its growth trajectory in a more 'normalized' market environment.


# Global macro conditions enhancing trading and brokerage activity

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**Trading and brokerage activity continued the trend of increased volumes in 2021, as economic uncertainty caused by the continuation of the COVID-19 pandemic and expansionary monetary policy pursued by leading global central banks continued to affect global markets. As a result, valuations and trading volumes in equity, commodities, crypto [cryptocurrency] and derivatives markets increased.**

Despite ongoing dislocations in labor markets, industrial supply chains and periods of COVID-19 resurgence (such as the current rise in cases related to the Omicron variant), many asset classes have seen precipitous valuation increases, many reaching all-time highs in 2021.

Investors generally pursued a ‘risk-on’ mentality during the year, benefiting from the considerable levels of quantitative easing provided by global central banks with the intention to support global markets. The main beneficiaries of this were technology stocks and cryptos.

Shariah compliant products also benefited from this increased investor activity, with many new and innovative products coming to market, particularly in the crypto sector.

## Review of 2021

According to Tradeweb, a leading global operator of electronic marketplaces for rates, credit, equities and money markets, their total reported trading volume for January–November 2021 was US$217 trillion, with an average monthly year-on-year (y-o-y) increase of 22.6%.

The asset classes that experienced the largest y-o-y growth were US government bonds which were up 44.3%, swaps/swaptions were up 44.9% and rates derivatives were up 76.7% y-o-y. Considering the increasing inflationary concerns that have been percolating through the global investor zeitgeist, the increases in some of these interest rate sensitive asset classes should not be surprising.

Another important trend during the course of 2021 was the continuation of an increasing number of retail traders entering the market. Trading apps such as Robin Hood continued to onboard retail users at an astonishing rate, many of whom had never traded before.

Boosted by the distribution of stimulus cheques in the US, Europe and other major economies, Robin Hood saw its user base grow by 73% from 13 million in 2020 to 22.5 million in 2021. This growth in retail traders contributed to the increased trading volumes and volatility in ‘story stocks’, such as Tesla, GameStop and AMC.

GameStop and AMC were the central figures in perhaps the global markets and trading story of the year in January–February 2021, whereby a sophisticated group of retail traders formulated a trading strategy on a discussion group on Reddit called r/WallStreetBets.

Their plan was to buy GameStop and AMC shares and call options, with a view to driving the price up and liquidating the leveraged short positions of several hedge funds that had amassed huge short positions against the companies, betting on their collapse.

The total crypto spot trading volume for 2021 (up to the 15th December 2021) was US$14.27 trillion, an increase of 7.9 times from US$1.81 trillion in 2020. This astonishing rise has been partly due to the rise of corporate, institutional and sovereign investment in the asset class. MicroStrategy is the largest publicly traded holder of Bitcoin, with over 121,000 Bitcoins on its balance sheet for a total value of US$5.9 billion (as of the 21st Dec 2021).

Led by its visionary CEO, Michael Saylor, MicroStrategy has issued several rounds of corporate bonds with the sole intent to buy Bitcoin. Institutional investors have begun actively trading cryptos, such as Bank of America that has begun trading crypto futures.

Regarding crypto futures, the total trading volume up to the 21st December 2021 was US$21.78 trillion, an increase of 3.7 times from March–December 2020/2021. Given the intense volatility inherent to crypto markets, many traders routinely use derivatives contracts to hedge their spot positions, hence the large volumes of derivatives trading volume for a relatively young asset class.

Several highly respected Islamic scholars have come out in support of cryptos' Shariah compliant features during the course of 2021, which is an important step in the further adoption of cryptos across the Muslim world.

Total Sukuk issuance continued its upward trajectory during the course of 2021, with global issuance reaching US$147 billion up to the third quarter (Q3) of 2021, up 7.2% from US$137 billion across the same period in the previous year, according to Refinitiv.

End-of-year projections are for total Sukuk issuance to reach US$180 billion and to reach US$290 billion in 2026, as GCC economies bounce back from the twin shocks of an oil price slump and the COVID-19 pandemic.

One of the main trends in the global Sukuk market has been the increasing traction gained by environment, social and governance (ESG) Sukuk, with 73.5% of respondents to a Refinitiv survey stating that ESG-related Sukuk, including green, sustainability and Waqf Sukuk, were gaining the most traction compared to other emerging trends. Cumulative ESG Sukuk issuance amounted to US$15 billion up to Q3 2021.

## Preview of 2022

As global governments and corporations settle into a steadier post-pandemic modus operandi, the primary driver for determining the momentum and direction of the global economy, trade flows and asset valuations will be how global economies combat rising inflationary fears.

In the US, the Federal Open Market Committee projected three interest rate increases in 2022, as well as an accelerated tapering of its asset-purchasing program.

The European Central Bank also announced a tapering of its bond purchasing scheme; however, it has not yet announced interest rate increases, given the fragility of its post-pandemic recovery when compared with the US.

China is the outlier, announcing in December 2021 that it would cut interest rates for the first time in 20 months.

Furthermore, Chinese corporate debt (particularly among housebuilders) and its demographic challenges of an aging and reducing population pose a significant risk to interconnected global markets.

## Conclusion

The trading and brokerage industry continues its staggering recovery following the onset of COVID-19 in 2020. All-time high valuations and trading volumes were achieved in equities and cryptos, as well as new entrants to global markets through channels such as retail-focused trading apps and innovative bond issuances bringing a new dynamic and vigor to global markets.

As these new and existing market participants continue to battle macroeconomic turbulence in the face of the evolution of the COVID-19 virus and rising inflation, further uncharted territory is expected to be entered into in 2022.

Under these uncertain conditions, the principles of Islamic finance of participating in secure investments will gain increasing pertinence and adoption.

*This article is the author's independent personal opinion and should not be construed to represent any institution with whom the author is affiliated.*

# Islamic finance: Providing opportunities to women

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**In 2020, Islamic finance assets reached US$2.7 trillion with a 10.7% year-on-year growth. Iran, Saudi Arabia and Malaysia are the leading countries in promoting Islamic finance. The Islamic finance sector, despite having growth, is predominately run by men. On one hand, the world is applauding leaders like Jacinda Ardern, Christine Lagarde, Dr Shamshad Akhtar, Dr Zeti Akhtar Aziz, and on the other hand, there are very few females in leading roles in the financial sector especially the Islamic segment.**

Islamic history portrays women leaders in finance like Hazrat Khadija Khuwaylid, who was famous for her knowledge and experience in trade. About half of the world's population consists of females but only 19% of them managed to obtain decent jobs and very few attain a C-level position.

The reason for the fewer number of females in the Islamic financial sector is due to the lack of support from institutions, governments, regulators and family. Culture is to be blamed as in many countries, men are supposed to work and earn money whereas women have to stay at home and take care of the family.

In Malaysia, 33% of the senior positions are held by women (Thornton International Business Report: Women in Business 2020) compared with Pakistan where 12% of the employed workforce in the financial sector are women.

Islamic finance provides several avenues for women, especially in Malaysia, to join the management of Islamic financial institutions, Shariah advisory committees and boards. The UN Sustainable Development Goal (SDG) 5 is specifically for gender equality and all the governments are committed to providing a level playing field for women in business and finance.

## Review of 2021

Regulatory bodies, governments, financial sector and businesses are committed to empowering women as this will bring financial inclusion and lead to prosperity of the nations. In terms of Islamic finance, leading countries in this field have included women in every level of business and management.

Regulatory authorities, for example the Saudi Central Bank, have instructed financial institutions to establish 'ladies only' branches, provide financial services to women and give them an opportunity when hiring for the branches and senior management.

The State Bank of Pakistan recently issued a policy that gender diversity must be improved at all financial institutions. It emphasized that banks must develop policies to increase female staff to 20% at the workplace by 2023.

Countries that are already implementing Islamic finance in its true spirit are now working on issuing circulars/notifications for enhancing women participation. However, those that are still in its infancy stage are only focusing on the implementation of Islamic finance rules/regulations.

## Preview of 2022

Women participation in the Islamic finance industry is on an upward trend which portrays that more women will be hired at all management levels in the Islamic financial sector and women leaders will come forward for the senior positions either in C-level/board or Shariah advisory roles.

To date, there are no women sitting on Shariah boards in Pakistan, whereas in Malaysia, it is a common practice to have women scholars at the Shariah board or senior level. There is even women representation in the Shariah Advisory Council of the central bank of Malaysia, Bank Negara Malaysia, and the Securities Commission Malaysia.

None of the Islamic banks in Pakistan have women as CEOs or deputy CEOs. This gives an ample opportunity for women to come forward and break the glass ceiling.

2022 seems to be a very optimistic year for the increased role of women in the Islamic finance industry but support from the regulatory authorities, governments and financial sector institutions is a must.

When you see SDGs, Islamic finance and women empowerment, then there are several commonalities. Islamic finance promotes diversity and success for specially women.

## Conclusion

Women representation in leadership roles in the Islamic finance industry is restricted with very few holding positions such as CEOs in Islamic banks or positions of influence. Even though the regulators have taken great initiatives to increase female empowerment, however in terms of employment, this will not be an easy task until every individual takes responsibility to work for this cause.

Islamic finance has an advantage as it is for all and provides opportunities to women. Some of the most common reasons as to why women do not work in the industry are: lack of education, family pressure/strictness, gender biasness, unsafe environment and cultural issues.

To see more women in leading roles in Islamic finance, we need to educate people about the rights of women and the teachings of Islam. The government must take the responsibility to encourage and appreciate the efforts of women who are already working hard in the Islamic finance field.

Companies must take responsibility to encourage women to take up decision-making roles and provide them a conducive environment. Facilities such as daycare centers, safe office transportation and user-friendly workplaces should be provided to female employees that will help remove their fears.

Businesses in the Islamic finance industry should provide special perks to women employees who bring innovative ideas to the table or are employed for a long period of time, such as women leader awards. This will encourage women to stay in the industry for a longer period.

The Islamic finance industry has the potential and if governments and regulatory authorities take the initiative to make women as part of this cause, there will be a stronger growth as it is proven in countries that are already on the Islamic finance bandwagon.

# COUNTRY REPORTS

# Is there hope for Islamic finance in Afghanistan despite political and security uncertainties?

***Manezha Sukhanyar*** *is the former chief of Islamic banking at Maiwand Bank. She can be contacted at sukhanyarm@gmail.com.*

**Afghanistan's banking sector has grown quickly since the Taliban regime's demise in 2001. However, holding a bank account is still a new concept in Afghanistan, with many hesitant to get one due to a lack of trust, illiteracy, restricted financial services and facilities and involvement of interest. In Afghanistan, there are only 12 banks operating, with three state banks, seven private banks and two international bank branches serving a population of 37 million people, 99% of whom are Muslim. Despite the fact that online banking is very common in other parts of the world, many in Afghanistan do not feel comfortable using it for their transactions. Some people are skeptical of the online system, while others want to use it but have restricted access to high-quality internet services.**

The Central Bank of Afghanistan and the Afghanistan Banking Association have made many achievements and successes in recent years. However, there are still challenges and weaknesses in some areas, such as a lack of professional expertise, a developed system, online banking, an internal control system and compliance. Aside from all of these challenges, COVID-19 has impacted Afghanistan's banking system, especially as online banking is not widely used.

## Review of 2021

Afghanistan has had a difficult year in 2021. Afghanistan's financial industry, like that of the rest of the world, has been hit hard by the COVID-19 pandemic. However, the pandemic situation is more difficult in Afghanistan since online banking is relatively new and a large percentage of customers lack access to technology, reliable electrical sources, reliable internet connection and a restricted number of ATMs and point-of-sale terminals.

More seriously, the 15th August 2021 was the turning point for Afghanistan. Afghanistan's people believe that history is repeating itself, that the country has turned back 20 years. Since the Taliban's takeover of Kabul, the banking industry has faced an uncertain future.

Banks were closed for several days, as they ran out of cash. The Taliban leadership instructed banks to gradually begin operations, and they were instructed to pay US$200 or approximately AFN20,000 to their customers once a week.

Customers panicked and feared what will happen if banks are unable to pay their deposits. They queued at banks to withdraw their money, but the banks did not have enough cash to pay them.

The Biden administration has frozen Afghanistan's central bank's assets held in the US, the IMF has blocked millions in aid and other international organizations' sanctions have been imposed.

Recently, the UN warned that Afghanistan's financial system could collapse if immediate action is not taken. People are unable to repay loans, there is a cash liquidity crunch and deposits are low. The economic cost of a collapse and the resulting social fallouts


would be "colossal". It has been reported that nonperforming loans increased to 57% in September from around 30% at the end of 2020. The IMF predicts that the Afghan economy may shrink by up to 30% this year.

## Preview of 2022

2022 is highly unpredictable since it is mostly dependent on the survival of the Taliban regime and its political connection with the rest of the world. Banks may continue to pay consumer deposits, but only to a limited extent. However, because Afghanistan is heavily reliant on imports, what would happen to the economy if businesses are not allowed to transact? It will be extremely difficult, and the entire country will be put in jeopardy.

In addition to the liquidity problems, banks will confront a staff shortage because females may not be allowed to work under the Taliban regime. According to the head of the United Nations Development Programme in Afghanistan, the breakdown of the financial sector is impeding the country's rapidly declining economic activity and could jeopardize foreign aid operations, as banking is also one of the most important connectors of the country to the outside world.

## Conclusion

The banking industry's two decades of progress and success have been jeopardized since the Taliban took control of the country. The entire country is dealing with an uncertain future. In addition to political unrest, the COVID-19 situation presents yet another hurdle for the banking industry. The COVID-19 problem will have a significant impact on Afghanistan's economy, as it will take years to recover and will be further hampered by political and security uncertainties.

# Islamic finance - major axis in the new financing model of the Algerian economy

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**Algeria is the largest country in Africa with an area of over 2.3 million square meters and a population of 45 million. About three-quarters of this area is covered by sand of the Algerian desert, which provides a major part of the fossil energy that is oil which constitutes the main source of currency for Algeria.**

Dependent on oil prices, after the oil shock of 2014, Algeria has resolutely moved toward a new model of non-hydrocarbon growth, supported by a new model of financing. It is in this context that the country is trying to make the most of Islamic finance by officially authorizing this activity from 2020.

## Review of 2021

In Algeria, the financial system is dominated by the public banking sector, with its six major banks, plus 20 private banks and public and private financial institutions. This sector finances more than 85% of the needs of the national economy.

However, the fall in oil prices during the first half of 2014 was the cause of a drastic decline in bank liquidity, directly impacting the financing of large companies and major projects.

In addition, the existence of a parallel economy, whose sums in circulation are estimated by the president of the Republic to be more than US$90 billion, complicates the situation, insofar as this money does not benefit the community but on the contrary, it causes significant shortfalls for the state budget including in terms of taxation.

It is in this context that the public authorities have started a series of reforms with the aim of better financial inclusion, fighting against the informal market and guaranteeing the sustainability of the financing of the economy.

## Preview of 2022

The reform of the financial system is among the priorities of the government. Thus, the first step was the creation of the National Charaic Authority of the Fatwa for the Islamic finance industry (Regulation No 20-02 of the 15th March 2020 defining the banking operations under Islamic finance and the conditions of their exercise by banks and financial institutions published in the Official Gazette No 16).

The second step authorized conventional banks to offer Shariah compliant products through the opening of Islamic windows. Thus, the banking operations authorized by the central bank concern Murabahah, Musharakah, Mudarabah, Ijarah, Salam, Istisnah, deposit accounts and deposits in investment accounts.

In addition, in 2021, the Ministry of Finance published the Executive Decree n° 21-81 of 11 Rajab 1442 corresponding to the 23rd February 2021 which fixes the conditions and modalities of the exercise of Takaful insurance. This enabled a private insurance company, GAM Assurance, to obtain in December 2021 the authorization to put on the Algerian market the first Takaful products of the market.

## Conclusion

It is obvious that the ecosystem of the Islamic finance industry, even if it is not yet fully established, has achieved in such a short time considerable progress supported, it must be said, by the efforts of the highest authorities of the country, headed by the president of the Republic.

Thus, the complementary finance law for 2020 and the finance law for 2022 have introduced tax adjustments for both banks and individuals, with exemption from taxes regarding the operations and income related to Islamic products.

In order to complete the ecosystem, a project of setting up Sukuk at the level of the Algiers Stock Exchange has been initiated by the Ministry of Finance which will certainly open new horizons to the Algerian stock market which will, in the years to come, play a central role in financing the national economy.

# Challenges and opportunities of Islamic banks in Albania

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**The conventional banking industry in the Republic of Albania is almost as old as the modern state, which was declared independent on the 28th November 1912, since the first bank was established in 1913. After the fall of the communist regime in the early nineties, the banking industry entered a new era by being adopted to the market economy. Moreover, with a well-structured financial legislation and regulations which adhere more and more to be fully compliant to the EU's legislation, Albania is currently home to 12 banks with domestic and foreign capital.**

According to the Albanian Association of Banks, the banking sector comprises ALL1.73 trillion (US$16.1 billion) in total assets and ALL1.44 trillion (US$13.4 billion) in deposits. The rate of non-performing financings has reached the lowest level of 6.35% since 2008 (Bank of Albania). Furthermore, it has miraculously survived the recent COVID-19 pandemic period.

## Review of 2021

Islamic banking is gaining increasing popularity in various international financial markets and Islamic banks can be found today in Muslim and non-Muslim countries. However, Albania does not seem to be among the countries that have Islamic banking products.

Nevertheless, based on the 2011 census data, 1.58 million Albanians declared themselves as Muslims and the Islamic financial incentives in the Albanian market are very small in comparison to what the industry has achieved internationally.

However, some significant steps have been taken. An institution that offers Islamic financial services in Albania is the United Bank of Albania which was established in 1993 under the name Arab – Islamic Bank.

The United Bank of Albania owns a 1.1% share of the credit market in Albania, six branches and around 86 employees. One of its shareholders is the IsDB which owns 42.2% of the shares.

Further, despite the lack of a specific law compliant to the Islamic banking industry, the United Bank of Albania has adopted and modified several instruments to the level permitted by Shariah. Among the instruments offered by the United Bank of Albania are Musharakah, Murabahah, Ijarah and diminishing partnership contracts.

Nevertheless, the low market share of Islamic banks in Albania indicates some hesitation in the relationship between the Islamic banking industry and Albania which seems to be a puzzle when compared to what the Islamic banking industry has achieved so far in many financial markets, and the liberalization of the Albanian financial market.

Hence, are Islamic banks not willing to enter Albania? Or is Albania not willing to accept these institutions?

Thinking reasonably, the answer to both the aforementioned questions is clearly a 'No'. Firstly, Islamic banks have spread dramatically in the markets inhabited by the Muslim communities and have entered markets even under strict conditions by adapting themselves or their products to the market legal requirements, thus it would be very odd that these banks would not be willing to enter a country where the Muslim community exceeds 1.5 million members.

Secondly, the Albanian financial market is a free market where fair competition is supported and new business initiatives are encouraged as long as they respect the legal requirements. Thus, the rejection of Islamic banking from the side of Albania seems not to be a just argument.

Perhaps a strong reason behind this hesitation and lack of interaction between Islamic banking and Albania is the fact that both parties may have not considered carefully how to benefit from each other, and that comprehensive studies that analyze the economic benefits of this possible relationship have not materialized yet.

## Preview of 2022

There has to be an introductory information process between the Islamic banking industry represented by its own regulatory institutions like the General Council for Islamic Banks and Financial Institutions, AAOIFI, the IFSB and the Albanian financial regulatory institutions represented by the Ministry of Finance, the Bank of Albania, the Financial Supervisory Authority and the Deposit Insurance Agency.

This process can be achieved by the organization of Islamic banking conferences in Albania with the participation of representatives from both parties, and the academic participation from the scholars interested in the Islamic banking industry;

The presence of the United Bank of Albania, which has experience in the Albanian market, may be another prospect for the implementation of Islamic banking in Albania, in case the IsDB decides to push other Islamic banks to enter the Albanian market;

The accomplishment of the first two phases should encourage Islamic banks to open foreign branches or subsidiaries in the Albanian financial market. This process has to be associated with training procedures for the Albanian staff that will provide the industry with local experienced human resources;

In this phase, stand-alone Islamic banks should be opened in Albania, or the conventional banks that already operate in Albania may open their Islamic windows. They must work to gain the trust of customers and the market regulatory institutions by providing financial solutions that satisfy the market needs and requirements, and prove to the market that their industry brings innovation and encourages fair competition in the Albanian financial market.

Nowadays, the world is suffering from several crises which are appearing one after another. Even the most prestigious institutions which provide loans to many countries such as the IMF and the World Bank have almost closed the doors to whoever is asking for financial aid from them.

Hence, the Albanian government may consider Islamic banking as an additional financial source to exploit. It has to promote this new philosophy to Albanian customers who may face the lack of information and knowledge about Islamic banking. Likewise, the government has to take its duty very seriously by sending students to countries where Islamic banks operate in full Shariah compliance.

Accordingly, it should exert pressure over Islamic financial institutions and especially the IsDB which is a key partner to Albania to send their professionals over in order to promote Islamic banking.

A subject titled 'Understanding Islamic Banking and Finance' should be added to the curricula of high schools and universities with economic and financial profiles.

## Conclusion

Therefore, all the interested parties such as the Albanian government, Islamic banking and finance institutions, local investors and even individual customers especially Muslims must play their role toward the implementation of the aforementioned phases. They must show their motivation, interest and courage to urge Islamic banks to gain market share.

# The dynamic economy of Australia that remains robust

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**The Australian economy has rebounded strongly over the past 12 months since the great coronavirus pandemic of 2020 caused a short recession. The government mandated a strict zero-COVID-19 policy by implementing prolonged periodic lockdowns in the most populous states; however, economic activity was not severely hampered, due to various stimulus initiatives by federal and state governments.**

Government fiscal and monetary policy was activated to support the economy which cushioned the impact on the economy caused by the pandemic. Currently, the lockdowns are finally ending with vaccination rates now surpassing 80% double dosage for eligible individuals, allowing Australia to begin returning to the new normal.

## Review of 2021

It has been a year like no other with the great pandemic continuing to dominate local and global economies and testing governments' ability to cope with a historic black swan event. The Australian government injected unprecedented amounts of stimulus into the economy to try and protect businesses and households from a deep and prolonged recession. These measures included JobKeeper packages for business to retain their workers, monetary policy measures by way of lower financing rates and boosting credit availability in the economy.

The Australian economy contracted 7% in the second quarter of 2020 (Q2 2020); however, it has rebounded strongly by expanding 9.6% in Q2 2021 year-on-year, illustrating the effective policies provided by the federal government.

The resurgence in the employment market was also unexpectedly strong, where the unemployment rate dropped from 7.4% in June 2020 to 4.5% in August 2021. Consumer spending has also recovered strongly from a historical low in Q2 2020 to pre-pandemic levels.

The extraordinarily large-scale deployment of monetary and fiscal policies by central banks and governments over the past year has laid the groundwork for subsequent higher inflation rates, hovering around 3%. The fast-spreading Delta variant has caused significant disruptions on the global supply chain, including Australia, causing 'supply chain-included inflation'. The Reserve Bank of Australia's tapering started this September by reducing securities purchases from AU$5 billion (US$3.73 billion) to AU$4 billion (US$2.99 billion) per week, causing falling stimulus, in turn increasing financing cost in real terms.

Over the past year, Australian residential property markets and equity markets have both benefited significantly from lower interest rates. As of November 2021, Australian residential property prices increased significantly in both Sydney and Melbourne, by 30.4% and 16.8% respectively. Australia's overall annual house price growth also made history, with the 21.9% growth becoming the fastest annual rate of growth on record. The equities market had a stellar year as well with the ASX 200 delivering more than 24% over the past 12 months, while returns on Australian bonds were -3.5%.

Banks in Australia benefited largely from economic recovery as investors are expecting lower loan deferrals, bad debts and revived credit growth.

Meanwhile, demand for mortgages continues to rise exponentially on the back of high demand volumes for residential property.

## Preview of 2022

The IMF cut its growth forecast for Australia's GDP from 5.3% to 3.5% in 2021; however, it upgraded the forecast for next year from 3% to 4.1% as it expects a strong rebound in the Australian economy after restrictions ease.

With two of the largest states, New South Wales and Victoria reopening, the national economy should see a strong rebound, led by the tourism and educational sectors which are big contributors to the Australian economy, while utility companies will benefit as people return to offices, shopping centers and restaurants.

Although surging housing and energy prices put pressure on inflation rates, the Federal Reserve has already indicated that interest rates will remain at historical lows until 2024.

As for the Islamic finance industry in Australia, it has capitalized with high returns in the equity and property markets to provide investors with exceptional returns, while also enjoying exponential growth in Islamic mortgages.

There are more Islamic finance product and service providers now in Australia, with community awareness of Islamic finance rising steadily. This appears to be having a positive impact with product quality and competitiveness, ensuring that Muslim consumers are the clear winners.

The next step for the industry would be to have its very own first Islamic bank regulated by the prudential authority, to ensure the Muslim community has access to all financial products that conform to their religious beliefs. I am glad to say that a few entities have or are in the process of applying for an Australian banking license, which allows us to look forward to exciting times ahead.

## Conclusion

In 2021, Australia has seen a strong recovery from the great pandemic of 2020, driven by strong growth in consumer demand, and supportive government fiscal and monetary policy. The expectation for Australia's economic growth in 2022 is very positive; however, the inflation rate driven by surging energy and housing prices along with the foreseeable ending of government support will impose challenges on the economy.

The Islamic finance industry within Australia is going from strength to strength with larger providers providing leading products that now compete with the conventional market. All looks good for Australia's first Islamic bank as well, with a real possibility in the short term.

# Bahrain — consolidation and digitization the key themes

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**Bahrain has always remained among the top destinations for Islamic finance — it was ranked 4th in the world and 2nd in MENA for Islamic finance development according to Refinitiv's 2021 Islamic Finance Development Indicator. Total Islamic finance assets stood at US$102 billion, ranking 8th globally.**

Recovery from the COVID-19 pandemic was swift due to a world leading vaccination program and a comprehensive stimulus package from the government, which enabled the economy to recover quickly. Consolidation remains a key theme in the financial sector along with digitization and fintech.

## Review of 2021

The Bahraini economy registered annual nominal growth of 20.7% and real growth of 5.7% in the second quarter (Q2) of 2021 compared with Q2 2020, thanks to the progressive normalization of economic activity at home and externally.

The GDP rebound was significantly driven by a growth in the non-oil sectors, whereas the oil sector witnessed nominal growth of 98.3%, reflecting the increase in global oil prices even though output fell.

Real GDP growth for the full year 2021 is expected to be 3.1% and is expected to maintain at this level for 2022 as per the Financial Stability Report of the Central Bank of Bahrain (CBB) (September 2020).

During this time, the Islamic finance sector witnessed significant moves toward consolidation. Although all transactions did not complete, however, the current state of the financial sector necessitates consolidation and the activity witnessed herein establishes that view:

- Gulf Finance House's voluntary takeover offer of Khaleeji Commercial Bank (KHCB) — an offer has been made and is being considered by KHCB's board.
- Esterad's proposed acquisition of Venture Capital Bank — a non-binding letter of intent has been issued and it would be a key transaction in the country's Islamic wholesale banking space if successful.
- Al Salam Bank-Bahrain entered into discussions with Ithmaar Holding for the potential acquisition of a group of assets, which likely includes Ithmaar Bank, the Islamic banking arm of the group. This follows on the Bank of Bahrain and Kuwait's unsuccessful attempt to acquire the same assets earlier in the year.
- Kuwait Finance House's planned acquisition of Ahli United Bank was delayed due to the pandemic — it officially remains suspended at the moment but has been one of the biggest stories in consolidation for Bahrain for the last few years.

In addition to consolidation, another theme has been Bahrain's advances in fintech and cryptocurrencies. The first Shariah compliant crypto exchange, CoinMENA, was launched in Bahrain and the Central Bank of Bahrain also announced plans to offer a digital dinar through a digital payment platform which will be available 24/7.

Additionally, the world's first Shariah compliant cryptocurrency, the Zamzam token, has been launched in Bahrain; this has the potential to change the digital landscape in the Arab world and has attracted eminent scholar Shaykh Nidham Yaquby onto its Shariah board. This token also has a large sustainability component as it is a token where donors can directly support philanthropic projects with transparency, knowing exactly where and how their funds are being deployed with zero fees.

In December 2021, the CBB announced a new and improved Regulatory Sandbox Framework which will allow fintech firms to test their ideas in a more efficient and effective environment. The regulatory sandbox which has been in operation since 2017 currently has 23 sandbox-approved companies.

Bahrain is also making strides in open banking. The CBB issued the second phase of the Bahrain Open Banking Framework, which is to be implemented by the 30th June 2022. Additionally, Tarabut Gateway (the largest open banking platform in MENA) and Zain Bahrain launched telecom-powered open banking payments.

Another significant development during the year has been the announcement by Citigroup which plans to open a global tech hub in Bahrain with the aim of creating 1,000 coding and programming jobs in the country.

## Preview of 2022

Bahrain has announced a US$30 billion plan spread over 20 new projects in five new offshore cities. The plan includes creating a new causeway with Saudi Arabia and a 109 km metro system. As part of the new strategy, the private developers will be able to bid for contracts to develop government land. This development bodes well for investors in real estate which is a favored asset class for Shariah compliant investors.

## Conclusion

Fintech and digitization will remain the key themes for the coming year, with consolidation also continuing to be in play as financial institutions seek to achieve scale in a competitive environment.

Bahrain's focus will continue to be on technology going forward with the aim to attract more start-ups to the country and the government will be playing an active role.

# Bangladesh: Islamic finance industry keeps booming

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Among all the Muslim nations, Bangladesh registers an impressive growth in the Islamic finance industry that came into being in the country in 1983. Since then, public demand for Islamic banking and financial services from businesses and the general public has been strong due to the country having the most Muslims (91%), constituting around 8% of the world's total Muslim population. Increasing public demand and policy support have been the drivers of growth of the Islamic finance and banking sector in Bangladesh.

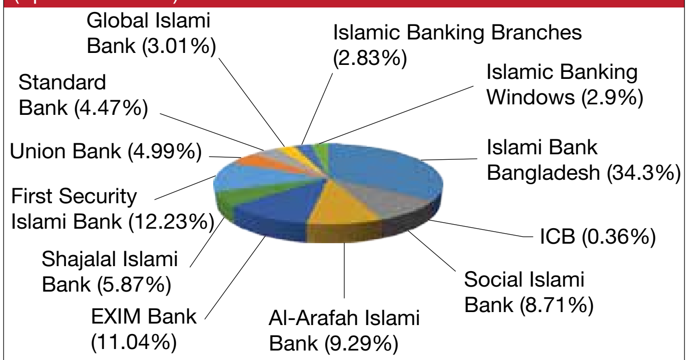
## Review of 2021

As per a report of the central bank, Bangladesh Bank, the deposits in Shariah-based banks in Bangladesh have increased by 12.61% for the period of January to June 2021. It has been observed that the total deposits in Shariah-based banks increased to BDT32.79 billion (US$375.03 million) at the end of June 2021 from BDT29.41 billion (US$336.37 million) as of January 2021.

In terms of investment for the Shariah-based banks in the country, it increased by 11.53% at the end of the June 2021 quarter from the end of December 2020. It is worth mentioning that excess liquidity in the Shariah-based banks increased to BDT363.65 billion (US$4.16 billion) as of June 2021 from BDT293.17 billion (US$3.35 billion) as of December 2020.

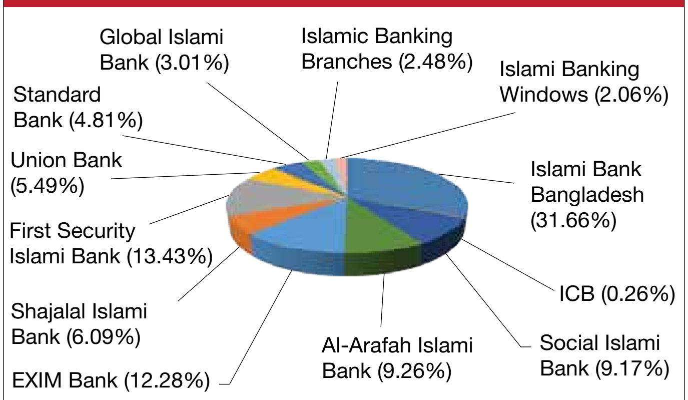
At the end of June 2021, there are 10 fully-fledged Islamic banks operating with 1,569 branches out of a total of 10,788 branches in the whole banking sector. In addition, 39 Islamic banking branches of eight conventional commercial banks and 194 Islamic banking windows of 13 conventional commercial banks are also providing Islamic financial services in Bangladesh. Presently, 33 out of the 60 scheduled banks are offering Islamic banking products and services.

Chart 1: Share of deposits made by Islamic banks in Bangladesh (April–June 2021)




*Source: Bangladesh Bank*

Chart 2: Share of investments of all Islamic banks (April–June 2021)




*Source: Bangladesh Bank*

Two conventional commercial banks, namely Standard Bank and Global Islami Bank, have converted into fully Shariah-based banks from January 2021, which also contributed to the increase in the overall market share of the Islamic banking industry in the country. Sukuk have been issued by the government of Bangladesh to finance a project toward the supply of safe water which added a new feather in the cap of the Islamic finance industry in Bangladesh.

## Preview of 2022

The government of Bangladesh should make the necessary amendments to the existing financial Acts, regulations and laws to ensure that Islamic banks are able to operate smoothly amid a favorable economic environment, and that Islamic insurance companies along with other subsidiary businesses can be established. The central bank should take the initiative to develop certain instruments to manage finance and savings and create a specialized window for Shariah-based transactions.

A fully developed Islamic banking department should be established to analyze, monitor, supervise and guide Islamic banks toward the purposes of sustainable development as well as their overall development.

For Sukuk to be more popular and eventually outperform the country's traditional bond market, the establishment of a secondary capital market is a plausible idea. In line with this, green Sukuk can be a newfound potential in this region where sustainable banking is strongly relevant. This development necessitates that a group of scholars with expertise in secular financing mechanisms and techniques and Islamic jurisprudence be nurtured. This initiative requires an effective and standard regulatory framework that must be enacted to create a level and fair playing field for all stakeholders of the Islamic finance and banking industry.

Islamic banks along with conventional commercial banks which have Shariah-based banking windows/branches should work to be part of AAOIFI. In addition, these companies need to adopt Shariah compliant fintech systems to ensure that financial transactions are carried out more efficiently.

## Conclusion

The Islamic banking industry of Bangladesh has great potential for growth that would allow it to maintain a position of strength among its neighboring competitor countries. With a promising pipeline for Sukuk and more Islamic banks and financial institutions offering innovative Shariah compliant products, a better outcome can be ensured.

Therefore, a more standardized and comprehensive regulatory infrastructure is required. In Bangladesh, Islamic finance is now one of the fastest and most sustainable financial sectors. At present, the market share of Islamic banks in the entire banking sector stands at 27.26% in terms of deposits and 27.55% in terms of investments.

Despite the ills of the COVID-19 pandemic, 2021 has already been remarkable with far-reaching effects for the country's Islamic banking industry due to the economic landscape being positively competitive and strong against the other conventional industries.

"A bigger Islamic banking presence will raise awareness among the Muslim-majority population on financial products that are Shariah compliant. The subsequent rise in demand is likely to outweigh the increased competition, which will in turn drive growth and profitability of the sector," a Moody's Investors Service analyst opined.

Bangladesh requires an investment of around US$300 billion to fulfill the dream of becoming an upper middle class country by 2031 which is only possible through infrastructure development. For this purpose, innovation of Islamic finance products like Sukuk and other Shariah-based infrastructure financing tools can bring a new frontier for Bangladesh.

Table 1: Islamic banking activities compared with all banks in Bangladesh (BDT billion)

| Particulars | April–June 2021 | | | January–March 2021 |
|---|---|---|---|---|
| | All banks | Islamic banks | Share of Islamic banks (%) | Share of Islamic banks (%) |
| | 1 | 2 | 3 = (2/1*100) | 4 |
| Total deposits | 13,504.14 | 3,681.63 | 27.26 | 27.54 |
| Total loans and advances | 11,905.16 | 3,279.43 | 27.55 | 27.72 |
| Remittances | 524.05 | 200.39 | 38.24 | 32.82 |
| Total excess liquidity | 1,696.51 | 363.65 | 21.44 | 15.35 |
| Total number of bank branches | 10,788 | 1,802 | 16.7 | 16.3 |
| Total agricultural credit | 70 | 11.48 | 16.4 | 18.38 |

*Source: Bangladesh Bank*

# Bosnia and Herzegovina: Land of opportunities

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**Bosnia and Herzegovina (B&H) is a beautiful country in the heart of Europe, rich in culture, tradition and natural beauty. Favorable geographical position, richness of natural resources, attractive investment locations, fertile and unpolluted land, skilled and educated workforce and low business costs are just some of the reasons for a decision to invest in B&H. Banking is one of the most stable sectors in B&H. There are 23 commercial banks in B&H ensuring employment for more than 10,000 people. For the development of Islamic finance in Bosnia, the regulatory environment is the biggest challenge. Bosnian banking law does not recognize trade, which effectively prevents banks from using Murabahah, Salam and Istisnah in their operations.**

Bosna Bank International (BBI) was founded in 2000 by the IsDB, Dubai Islamic Bank and Abu Dhabi Islamic Bank. It is a fact that in a market that did not know the concept of Islamic banking, in an environment where the way of doing business using Islamic finance is not regulated nor were there specialized staff in this area, BBI managed to grow into a leader in innovation in Islamic banking.

The Islamic finance industry in Bosnia has turned toward a more social impact-oriented approach to Islamic finance, rather than just technically applying Islamic finance instruments in its operations. It started from a greenfield operation, while other European banks took over small banks that were established immediately after the war.

## Review of 2021

According to the data of the Central Bank of Bosnia and Herzegovina on the 31st May 2021, the total assets of the banking sector of B&H had an annual growth of 7.24%. The total net profit of the banking sector in the first quarter amounted to more than EUR55 million (US$62.18 million) and is higher by 16% compared with the first quarter of 2020.

The adverse effects of the COVID-19 crisis on the quality of the financing portfolio have been successfully mitigated, thanks to the measures imposed by the watchdog. However, the actual results of the pandemic on the nonperforming loan indicator will be known in 2022 when the regular repayment of the financing portfolio covered by the measures (moratoriums, grace periods) continues in accordance with the original repayment plans.

BBI is the only bank in B&H that operates by Islamic principles and is a strong and stable Islamic bank that plays a vital role in the Bosnian finance industry.

Overall, Islamic finance has continued to grow in all of its segments in 2021 despite the effects of the crisis caused by the global pandemic. BBI increased the number of clients and expanded branch network. At the end of the third quarter, financing growth was 9.3% year-on-year (y-o-y) for the corporate segment and 6.5% y-o-y for the retail segment of clients.

By the end of the third quarter of 2021, BBI achieved a record business result in terms of income. Growth in the deposit segment was significantly higher than the market average. Customer deposits increased by 16.4 % and reached a record amount of more than EUR500 million (US$565.26 million). This increase in deposits is a sign of clients' trust in BBI and confirms the positive image of a solid and stable bank.

BBI, as a socially responsible development institution within the Sarajevo Business Forum (SBF) platform, worked on creating and presenting various opportunities and potential for investments within the 'Creativity to the development strategy of Sarajevo' plan.

In addition, cooperation was established with educational institutions within the 'BBI Leadership and Excellence' project in the past period. A leadership program with pupils and students was implemented this year through the high school and university curriculums.

## Preview of 2022

The SBF and Sarajevo Halal Fair are initiatives that have positioned the Islamic finance industry as a leader in the B&H market when it comes to foreign direct investment.

These events will be launched and organized in 2022, where domestic and regional businessmen will have the opportunity to present their projects and products to foreign companies and investors.

The focus will, of course, be on development again, and 'nearshoring' as an opportunity for growth will be presented at the highest level. B&H has the chance to become one of the pioneers in 'nearshoring', and such an opportunity should be used.

## Conclusion

During the pandemic, the Islamic finance industry continued to grow, despite market stagnation. It invested in the development of its infrastructure, and undoubtedly showed a lasting orientation to the development of B&H and its economy. In the future, the further development of infrastructure and digitalization will be one of the priorities in this industry.

# Brazil: A landmark step toward an Islamic banking industry

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**For many years, the Brazilian financial market had been discussing how it could be possible to have Islamic banking activity to be effectively functional in Brazil. Since Brazil became the most relevant producer and exporter of Halal animal protein, and is preparing itself more and more to produce other sorts of Halal products, it is almost natural that the interest in Islamic banking activities increases and induces the main players of the market to look for ways of making such a practice possible.**

## Review of 2021

In the last decade, we saw growing interest in the subject by means of many events that had been organized by universities; the Arab Brazilian Chamber of Commerce; and Fambras, the main Halal certification organization, among other entities, and in 2021 it was no different, with several panels of discussion being organized and made feasible via the internet, despite all the difficulties imposed by the COVID-19 pandemic. Anyway, 2021 was not only about replicating what happened in the years before; it brought more light to the subject.

In April 2021, a formal application was filed at the Senate for a discussion of what should be necessary to be adjusted or reviewed in the Brazilian tax environment so as to make Islamic banking activity viable in the country.

The Brazilian tax environment is complex and manifold and similar to what happened in other countries, some specific adjustments would be necessary.

A good example refers to the utilization of SPVs in many Islamic structures, a tool also used in other financial structures. But the transfer of assets to and from such an SPV would trigger the ITBI tax, which is applicable on the transfer of property or real estate in Brazil. The good news is that there are already some exceptions in the law regarding the application of such tax, which could also be considered in an Islamic structure, but some legal adaptation would be necessary as happened in other countries.

As stated in the informative note produced by the advisors to the Senate on the subject, there is a certain diversity in the way each country has promoted the legislative innovations necessary for the incorporation or feasibility of Islamic finance in the legal system. In any case, SPVs and the special tax treatment on asset transfers are essential aspects adapted in each jurisdiction.

Generally speaking, countries governed by secular laws do not make explicit reference to the Shariah religion or principles, nor do they guarantee the adequacy of instruments to the Islamic doctrine. However, the instruments are objectively defined in the aspects demanded by the Islamic investor, which satisfy the religious principles, even without directly referring them.

This discussion that will happen in Congress with the presence of senators and authorities from the central bank and the Brazilian Securities Exchange Commission, in addition to experts on the subject, will certainly be a landmark in the establishment of Islamic banking activities in Brazil.

On the other hand, an important achievement in the year was in the academic field by means of some articles published, which evidence local interest and the deepening of knowledge on the subject. It is worth noting the dedication of Ahmed Sameer El Khatib, a Brazilian, an Arab descendent and a postdoctoral fellow at University of São Paulo.

Ahmed has continuously published articles since 2008 and in 2021 made great contributions to the industry via the publishing of four relevant studies: 'The influence of the geographic environment on the performance of Islamic banks' — Revista Catarinense da Ciência Contábil, vol 20, p. 1-13, 2020; 'A study on the influence of the board of directors on the corporate social responsibility of Islamic banks. Cap accounting and management (ufsc)', v. 2019, p. 53-65, 2020; 'Digital currencies and religion: the use of bitcoin in Islamic finance' — Scientific Journal Hermes, vol 27, p. 296, 2020; 'Religion and finance' — Journal of administration, accounting sciences and sustainability, v. 9, p. 73-84, 2020.

To close the year on a positive note, a relevant debate will take place in Sao Paulo in December during the Global Halal Brazil – Business Forum, with discussions on how the Islamic banking growth may contribute to the improvement of the world economy and the prospects of investments in the Halal industry in Brazil.

## Preview of 2022

It is expected that 2022 will be even more rewarding than 2021, with the expansion of the Halal industry, the continuation of the discussions in Congress and more relevant articles being published, not forgetting the great possibility of having the opening of some windows in the capital markets and also, why not the first issuance of a Sukuk facility by a Brazilian issuer?

## Conclusion

In conclusion, we may say that the initiative of Congress and the valuable academic production in the year, in addition to the continuous flow of events bringing discussions on how to have an active Islamic banking industry in the country, are evidence of how Brazil is determined, and investing, to get closer to the Islamic world and become a partner in a fruitful way for both sides.

# Brunei Darussalam: Moving into the new decade

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**The first Islamic financial institution in Brunei Darussalam, Perbadanan Tabung Amanah Islam Brunei — an Islamic trust fund — was established in 1991. Since then, Brunei's Islamic finance sector has seen the merger of two Islamic banks into Bank Islam Brunei Darussalam (BIBD), the establishment of local Takaful operators and, more recently, an Islamic window to conduct Islamic investment business.Brunei's Islamic finance sector hosts 10 fully-fledged Islamic financial institutions and one Islamic window.**

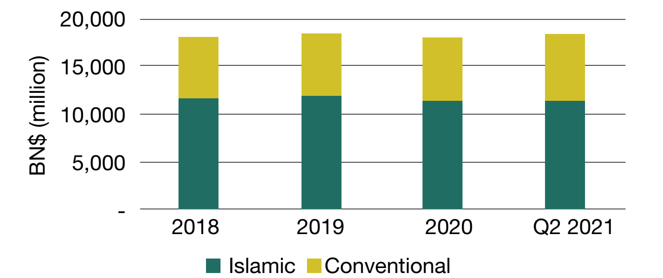
## Review of 2021

*Regulatory landscape*
Islamic finance has been identified as one of the key areas of development under the Brunei Darussalam Financial Sector Blueprint (2016–2025), where Brunei envisions itself hosting an innovative and dynamic Islamic finance hub. The blueprint sets out the strategic framework adopted by the Brunei Darussalam Central Bank (BDCB) to guide the development of Brunei's financial sector.

Brunei was ranked 11th out of 135 countries in the ICD–Refinitiv Islamic Finance Development Report 2020 where, among others, the country was recognized among the top four countries for the highest number of female representation on Shariah boards.

In recognizing the growing importance of environmental, social and governance (ESG) to generate positive societal impact, Brunei witnessed a local Islamic asset management firm, BIBD Securities, becoming a signatory to the United Nations Principles for Responsible Investment in 2021, the first financial institution from Brunei to commit as a signatory.

Chart 1: Total banking assets (2018 –Q2 2021)




*Source: Brunei Darussalam Central Bank*

*Banking*
Islamic banking assets have dominated the total banking assets for the past four years, which stood at BN$11.4 billion (US$8.49 billion) as of the second quarter (Q2) of 2021. Brunei was ranked in the top four for the highest share of Islamic banking assets against total banking assets in the ICD–Refinitiv Report 2020.

*Capital market*
The capital market is one of the areas with the most potential for Islamic finance development in Brunei. This was echoed in the ICD–Refinitiv Report 2020, where Brunei was recognized as the fastest-growing market in Sukuk assets globally.

In October 2020, the BDCB introduced the BDCB Islamic-Bills (BDCB I-Bills) Programme to help facilitate liquidity management for banks and diversify the money market instruments available. Since its maiden offering, 43 series of BDCB I-Bills have been issued, where the total holdings of the BDCB I-Bills outstanding stood at BN$79 million (US$58.7 million) as at Q3 2021.

The BDCB is also the agent of the government of Brunei in managing and administering the issuances of Sukuk Ijarah. As at Q3 2021, the government of Brunei has issued over BN$14.8 billion (US$11 billion)-worth of short-term Sukuk Ijarah securities. The total holdings of the Brunei Darussalam Government Sukuk outstanding stood at BN$280 million (US$207.9 million) as at Q3 2021.

In April 2021, Brunei saw the inauguration of a conventional capital market service license holder granted approval to conduct Islamic investment business through an Islamic window.

*Takaful*

Takaful assets grew by 6.2% year-on-year, reaching BN$595.7 million (US$442.3 million) in 2020. Brunei was ranked as the country with the highest Takaful assets to GDP in 2019, where Takaful assets contributed to 1.12% of GDP.

*Fintech*

In efforts to facilitate a fintech ecosystem for Brunei, the BDCB published a white paper titled 'State of FinTech in Brunei Darussalam 2020', which among others, proposes the establishment of Brunei's first Islamic fintech hub.

The country observed increased diversification of Islamic finance products and services, including the introduction of an eZakat digital platform by the Brunei Darussalam Islamic Religious Council and industry players. The BDCB FinTech Regulatory Sandbox housed its first Shariah compliant fintech company in late 2020, testing Shariah-based a peer-to-peer crowdfunding platform for MSMEs.

*Human capital development*

In 2021, the Centre for Islamic Banking, Finance and Management was successfully rebranded to the Brunei Institute of Leadership & Islamic Finance (BILIF) to act as the Centre of Excellence for the finance industry in Brunei, offering learning and development programs, and international certifications such as those from AAOIFI.

With the support of the Ministry of Finance and Economy and the BDCB, the BILIF organized the Capacity Building Programme on Sukuk and ESG in September 2021. The program was a result of project funding awarded to Brunei by the Standing Committee for Economic and Commercial Cooperation, which assists OIC member countries and affiliated institutions in realizing strategic outcomes relating to economic and financial cooperation.

The BILIF, in collaboration with the BDCB, also organized the Brunei Darussalam Islamic Capital Market Conference 2021, which featured renowned Islamic finance experts and players across the globe discussing issues and challenges in the development of sustainable Islamic capital markets.

In recognition of the BILIF's efforts and contributions toward human capital development and Islamic finance in 2021, it was awarded two international accolades: the GIFA Excellence Award for Islamic Finance Training and Education 2021, for providing learning solutions, events and services for human capacity development in the areas of Islamic finance and leadership, as well as the Award for Contribution to Organisation at the HRD Awards Asia 2021 for its role in effective employee development.

## Preview of 2022

Future initiatives to develop Brunei's Islamic financial sector include issuing a standardized Sukuk legal documentation template benchmarked against the International Islamic Financial Market, launching retail Sukuk to increase the participation of retail investors in the capital market, registration of Shariah advisors operating in Brunei and issuing a series of Shariah standards for Shariah compliant products to facilitate product innovation and harmonization.

## Conclusion

Three decades on since the establishment of the first Islamic trust fund, Brunei's Islamic finance sector has developed into an ecosystem containing various Islamic products and services, as well as different types of Islamic financial institutions. This has gained notable recognition from the international arena, in particular, in an improved position in the Islamic Finance Development Indicator published by ICD–Refinitiv and awards by GIFA Excellence and HRD Awards Asia. Brunei endeavors to continue developing its Islamic finance sector with hopes of being an international Islamic finance hub in line with the Maqasid Shariah.

# Financial world evolving and Islamic finance will be key component of evolution

***Jesse Reitberger*** *is a financial advisor/CEO of Canadian Islamic Wealth. He can be contacted at jesse.reitberger@canadianislamicwealth.com.*

**From Canada's first mosque (Al-Rashid) opening its doors in 1938 to the present day, each year more and more Muslims call Canada home. The pioneers of our communities set us up with places to pray, Halal restaurants and shops to get Halal meat. In recent years, Muslim Canadians have gone from a community trying to meet its basic needs to a community of financial prosperity. More and more, our community is made up of entrepreneurs, business owners and professionals looking to grow their wealth, invest their money and leave a legacy on the Muslim Canadian community. In 2021, this shift in community mentality was reflected in the creation and growth of organizations committed to helping Muslims prosper in a Halal way.**

## Review of 2021

The first notable thing to happen in Canada is when Canadian Islamic Wealth opened its doors to provide Muslims in Canada investment advice, insurance options, financial planning solutions and much more. It currently helps over 175 Muslim families all across Canada and manage over US$10 million in Halal assets only.

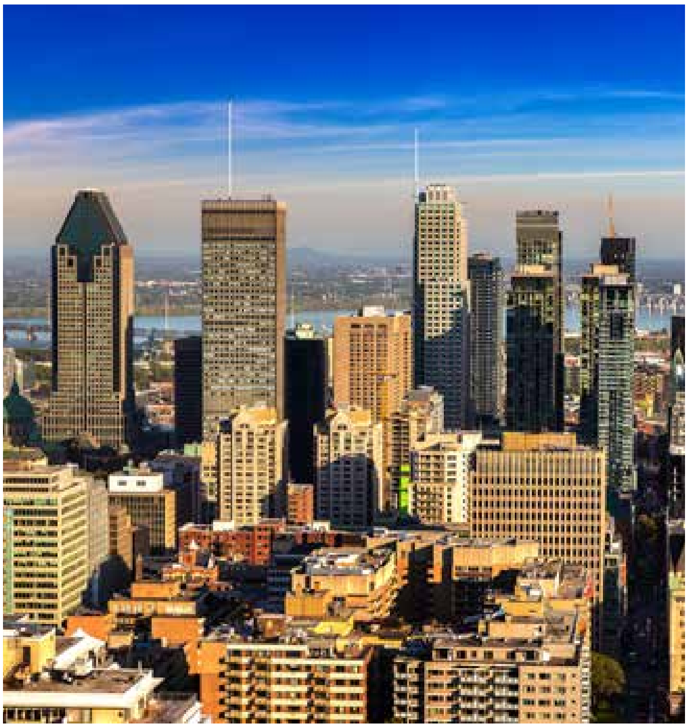
A market that Muslims are more and more curious about is the world of Bitcoin and cryptocurrencies. The challenge for many is finding out whether these alternative investments are in fact Shariah compliant. According to many scholars they can be, but each crypto must be researched and investigated on its own. This is why Marhaba Defi was born as a platform for Muslims to get into the crypto world without having to navigate what is Halal and Haram. This platform is designed by Muslims for Muslims. Although it is an international project with team members from around the globe, Ahmed of Think Halal and Grow Rich is a Muslim Canadian from Toronto heavily involved with the marketing of this project.

Another big development was the launch of the first-ever Canadian-focused Halal exchange-traded fund (ETF) by a fintech company called Wealthsimple. Although its goal is to cater to everyday Canadians, it has been offering some form of Halal investing for the last two years. This year, it launched the Halal ETF as an option for Muslim Canadians.

Manzil created Canada's first-ever Halal mortgage fund to offer Halal mortgages to its customers. It has had a strong rollout and high demand for its products. Manzil is highly focused on making sure Muslims get the best deal possible when choosing to use its products. Nader Tohomy of Halal Stock Talk, who is also a realtor in the Greater Toronto Area, is spearheading this division of Manzil to help prospective homeowners get the best deal at the best price.

## Preview of 2022

In 2022, the goal of all Islamic finance projects across Canada needs to be adoption from the broader Muslim community. There are between one million and two million Muslims living in Canada (by conservative estimates). If all these folks invested their money



in the Manzil Halal Mortgage Fund, Canadian Islamic Wealth or adopted some of the Marhaba Defi project, it would create flexibility and velocity within the Islamic finance space to allow for more projects and greater success.

Unfortunately, it is not that simple. All these Islamic finance companies need to take steps to acquire community trust and build engagement. This will take time due to many companies coming in and not being genuine in their approach to help the community.

I do not know what is in store for the other organizations mentioned previously. However, Canadian Islamic Wealth plans to employ three to four new associates this year and create satellite offices in four major cities in Canada (Montreal, Calgary, Edmonton and Mississauga). This is part of our plan to build trust and community in 2022.

## Conclusion

In 2021, we saw the Muslim population of Canada reach the highest it has ever been. With more and more Muslim Canadians demanding Halal ways to achieve their goals, the creation and development of companies like Manzil, Marhaba Defi and Canadian Islamic Wealth were almost inevitable.

The fact that all these start-ups managed to make it through the worst of a global pandemic shows the power of Islamic finance. Frankly, many non-Muslim Canadians are getting just as fed up with conventional finance.

More and more people are turning to ethical alternatives like Islamic finance, environmental, social and governance and even seeing crypto as an alternative to big banks that are ready to run over people to make a buck. Only Allah knows what 2022 has in store, but it is clear the financial world is evolving and Islamic finance will be a key component of this evolution.

# China flourishes with Islamic finance and Halal economy

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**China, the second-largest economic power in the world with a 20 million Muslim population, still shows great prospects in terms of Islamic finance and the Halal economy in the early 2020s despite the impact of the COVID-19 pandemic. Although Islamic banking, Takaful and other Islamic finance activities have been progressing slowly in the 'Kingdom of the Dragon', Sukuk is a potential sector that will soon make some breakthrough.**

Given China's strong economic ties with the Islamic nations, the Halal economy has been flourishing with a very good shape in terms of volume and influence.

## Review of 2021

Bond Connect plays the main role in Sukuk opportunities for Chinese investors. In September 2021, the People's Bank of China (PBOC) announced the launching of the 'Southbound Link' (SBL) of Bond Connect.

The annual total quota of the SBL is CNY500 billion (US$78.2 billion) equivalent, and the daily quota is CNY20 billion (US$3.13 billion) equivalent. The PBOC adjusted the annual total quota and daily quota of the SBL based on the cross-border capital flow situation. Domestic investors who meet the requirements of the PBOC can invest in bonds through the SBL.

The target bonds are all bonds issued overseas and traded in the Hong Kong bond market including Sukuk. At the initial stage, the SBL first opened spot bond trading. The SBL adopts the international nominal holder system arrangement.

The scope of domestic investors is tentatively designated as primary dealers for some open market businesses approved by the PBOC. Qualified domestic institutional investors and renminbi qualified domestic institutional investors can also conduct overseas bond investments through the SBL. Domestic investors are not allowed to illegally arbitrage foreign exchange through the SBL.

Domestic investors who use the renminbi to invest in foreign currency bonds can handle foreign exchange fund conversion and foreign exchange risk hedging services through the interbank foreign exchange market. If domestic investors no longer invest after the maturity or sale of the investment bonds, the relevant funds should be remitted to the country and converted back to the renminbi.

The SBL will help improve the institutional arrangements for the two-way opening of China's bond market and further expand the space for domestic investors to allocate assets in the international financial market. The SBL will also help consolidate Hong Kong's connection with the mainland.

## Preview of 2022

The close ties of China and Indonesia in terms of Islamic finance and the Halal economy will be the main story in the coming year. China has a dominant position in the export market of Islamic clothing and other equipment needed by Muslims. The partnership between Indonesia and China is strategic and comprehensive. In 2022, the total trade volume between the two countries is estimated to reach US$80 billion.

The spending of the Indonesian Muslim community reached US$228 billion in 2020 and it is estimated that global Islamic spending will reach US$2 trillion in 2022.

The aforementioned figures show the huge potential of the world's largest Muslim population and the challenges associated with the Islamic economy. The trade relationship between China and Indonesia has been going on for hundreds of years due to seasonal and regional differences.

In 2020, the trade volume between Indonesia and China was nearly US$78 billion, making China the largest trading partner for Indonesia. In general, China is the main trading partner for the ASEAN countries, while Indonesia's trade volume ranks only fourth.

## Conclusion

Given the continuous economic growth of China amid the COVID-19 pandemic and its excellent control measures, Islamic finance and the Halal economy are positively developing under the latest Bond Connect regime and the close economic ties with Indonesia in terms of Halal products.

# The steady expansion of Egypt's Islamic finance industry

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**Egypt continues to gradually realize its Islamic finance aspirations. Each year brings a significant new market or regulatory development. The value of the Islamic banking market rose 12.2% to hit its zenith of EGP390 billion (US$24.76 billion) this June, a third of which is concentrated in Faisal Islamic Bank. The rate of corporate Sukuk issuances seems to have slowed, but a sovereign Sukuk issuance is on the horizon. The Egyptian government is eager to employ Shariah compliant financing structures to diversify available incentives that could attract foreign direct investment.**

## Review of 2021

Egypt's passage of the Sovereign Sukuk Law created a framework for Shariah compliant government bond issuances. The Ministry of Finance is authorized to establish joint stock companies as SPVs to manage such issuances. The Financial Regulatory Authority (FRA), the primary regulator for corporate Sukuk, has an advisory role vis-à-vis government Sukuk.

The Sovereign Sukuk Law provides for the creation of a separate two-tiered regulatory system comprised of the Oversight Committee and the Supreme Valuation Committee. Sovereign Sukuk can be issued in local or foreign currencies. All funds will go directly to the state budget and then be allocated to specific ministries or government entities in accordance with their needs.

There were fewer corporate Sukuk issuances than 2020. Only Sarwa Sukuk Holding and EFG Hermes were licensed by the FRA to issue Sukuk. Sarwa Sukuk Holding issued EGP2.5 billion (US$158.71 million) in Sukuk Mudarabah with a seven-year tenor. The proceeds will fund the expansion of the issuer's parent company, Contact Financial Holding. Middle East Ratings and Investment Service rated the Sukuk an 'A minus'.

The International Islamic Trade Finance Corporation (ITFC), a subsidiary of the IsDB, has continued its long-standing tradition of providing key financial assistance to support Egypt in its economic recovery.

This year, the Ministry of Planning signed a protocol agreement to receive a combined US$1.1–400 million for the General Authority for Supply Commodities to ensure Egypt's ability to meet its import needs, and US$700 million for the Egyptian Petroleum Corporation. In total, Egypt has benefited from US$12.5 billion in ITFC financing since 2008.

In a similar vein, the Islamic Corporation for the Insurance of Investment and Export Credit, the IsDB's vehicle for Islamic insurance policies, issued US$4.84 billion in insurance coverage and policies for Egyptian banks, importers and exporters.

The government preceded its upcoming sovereign Sukuk issuance with a three-year US$2 billion syndicated loan, bifurcated into green and Shariah compliant tranches.

The country's Islamic banking sector remains strong. Banque du Caire and Banque Misr are conventional banks with Shariah compliant windows through which they handle their Islamic finance transactions. They led a six-bank consortium in extending EGP3.3 billion (US$209.49 million) in Shariah compliant Mudarabah financing to Al Marasem International for Development, one of Egypt's largest contractors building a residential district in the New Administrative Capital.

Finally, Abu Dhabi Islamic Bank–Egypt (ADIB Egypt) partnered with Masria Digital Payments and Khazna to create a Shariah compliant prepaid card called Khazna-Meeza, similar to those offered by National Bank of Egypt and Alex Bank.

The target segment is the unbanked population, which the World Bank estimated to be 67% of Egyptians and which remains woefully underserved by conventional banks. ADIB Egypt previously launched Meeza, a prepaid card for its existing customers.

## Preview of 2022

Although the Executive Regulations to the Sovereign Sukuk Law have yet to be passed, the Ministry of Finance has indicated that the first sovereign Sukuk issuance will be in 2022 and will be valued from US$1.5–2 billion. Egypt is projected to require US$68 billion in loans and financing in 2022.

Another significant development is the IsDB's decision to hold its 2022 annual meetings in Egypt, bolstering the country's position as Africa's new Islamic finance epicenter. As the Islamic banking sector expands in Egypt, the number of banks with Shariah compliance licenses is expected to grow. Currently, there are 14, three of which are exclusively Islamic banks.

There may also be some new corporate Sukuk issuances on the horizon. ADIB Egypt issued a board of directors resolution to establish a subsidiary Sukuk issuance company with an authorized capital of EGP100 million (US$6.35 million). The bank plans to issue more than EGP1 billion (US$63.48 million) in Sukuk through the new company once it obtains its FRA Sukuk issuer license. Four major real estate development companies, including Wadi Degla, Palm Hills Developments and Amer Group, may also issue Sukuk in 2022.

## Conclusion

It seems that Egypt's Sukuk market has finally emerged from its decade-long inchoate stage. The regulatory environment promotes Islamic financial structures in the private and public sectors. International investors will be drawn to upcoming Sukuk issuances in the financial and real estate industries.

The country's credit rating is 'B2' with a stable outlook, which should affirm investor confidence in the market. Internally, Islamic financial institutions are tailoring their offerings to suit SMEs and disenfranchised segments of the population. Islamic finance will likely have a larger role in the future.

# Islamic solutions in France: A solid niche in search of growth

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**2021 has shown a certain resilience of Islamic finance in France. The players present in the market have succeeded in adapting to the difficult context while developing. The offerings available in the market in real estate financing and savings have made it possible to address a wider clientele, and the market players continue to develop.**

**It remains quite apparent that, despite its potential, Islamic finance remains a niche. This can be a strength in a conventional market, but it can also be a weakness if we consider a country where the offerings in the field of savings tend to be oriented toward the real economy and to the exclusion of investment in sectors that pollute or have a harmful impact. This is also the case when, in the field of real estate financing, the normalization of low rates tends to influence the Muslim consumer in his choices.**

## Review of 2021

*Savings market*
Muslim consumers appear to be increasingly aware of, and seeking, savings solutions. A leading player in the market like 570easi has responded to this demand by continuously developing different Shariah compliant solutions covering the different savings needs of Muslims. These solutions cater to a more and more well-informed public concerned with valorizing their financial assets while reconciling their faith, performance and security, together with an environmental protection approach.

Muslim consumers have access to real estate savings solutions for offices and businesses located in all major French cities (approximately 30 million real estate assets), as well as a life insurance policy offering various Shariah-certified funds, including an infrastructure fund, a world's first for the general public. They will also benefit very soon from a PER retirement savings solution allowing them to save while benefiting from taxable income deductions.

Other players such as First Union or Sunna Kapital also offer some of these solutions but in a more confidential manner and in smaller volumes.

*Murabahah real estate financing market*
In 2021, the dynamics have been interesting with regards to Islamic real estate financing. The production of Murabahah has been sustained, driven by an exceptional 2020 with a strong demand from Muslim consumers.

Market players reached their annual production of 2020 by August 2021. At the end of 2021, demand remained strong and we even saw a certain acceleration with a return to the market of properties available for sale.

The players continue to invest in this market by expanding their teams and developing their presence throughout France to be able to support this growth.

## Preview of 2022

For the main players in the market, the last few years have allowed them to consolidate and validate their model. Muslim customers are increasingly vocal about their need for Shariah compliant solutions.

For 2022, it will be a question of consolidating and developing in a significant way the outstanding amounts in savings and also in Murabahah.

A major recruitment and structuring effort is underway at most of the major players in order to be able to absorb a greater volume of savings and real estate financing investments.

The current trend in favor of ethical and socially responsible investment gives additional legitimacy to Islamic finance as alternative finance. This is also the direction that some Islamic finance players are taking, choosing a more neutral but still differentiating marketing positioning.

However, the number of players offering Islamic finance solutions is still too small to serve customers effectively. The Islamic clientele is increasingly expressing its need to see new players emerge in order to be able to compete and to have alternatives to the traditional players.

Some initiatives are emerging, but too scattered at the moment.

## Conclusion

Islamic finance in France was able to develop in 2021 despite a context marked by uncertainties. This seems to be a good sign for the future with new solutions available, especially in savings, and a strong acceleration of the players in this field.

However, the players and the available offerings remain too embryonic and we feel there is a real need for novelty as consumers are demanding more and more from the players.

# Riding the wave of digital zeitgeist

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**Germany hosts some of the biggest Muslim communities in Europe but the market for Islamic finance is still in fledgling stages. According to the Ministry of Interior, about 1.2 million Muslims arrived in Germany between 2011 and 2015, raising the total number of Muslims living in Germany to between five million and six million. With the new arrivals, Muslims of Turkish origin now account for half of the Muslim population in Germany. Traditionally rather skeptical toward Islamic finance, the trust within communities of Turkish origin was further shaken by a fraud scheme in the 1990s when community members lost large parts of their savings due to investing in an Islamic finance alternative. With the resulting distrust and a general rather low curiosity toward Islamic alternatives in banking, demand still ranks rather low in this group although the young generation are showing more interest in alternative products to conventional banking.**

Thus, KT Bank, Germany's first Islamic bank which was granted a license in 2015, raised some interest within the communities. But the management of the subsidiary of Kuveyt Turk Bank also recognized the need to educate the community about the possibilities of Islamic finance, for example by holding talks in mosques, as general awareness remains low. A study from June 2020 shows that more than 60% of Muslims do not even know that an Islamic bank exists in Germany.

One of the reasons is the rather diverse setting of the Muslim communities and the fact that the new arrivals have other things on their mind than discussing investment alternatives when first arriving in Germany.

Nevertheless, after KT Bank moved to open several branches in the biggest German cities, others followed suit but no other fully established bank of yet. Al Baraka launched a digital Islamic banking service in Germany in 2018, and several smaller finance consulting companies opened up. The first Islamic fintech was even already developed in 2012 and reached the breakeven point three years later.

## Review of 2021

KT Bank in 2020 only managed to generate an annual surplus of EUR282,000 (US$318,773) for the first time after it reported losses during the previous years to the Bundesanzeiger. For 2021, KT Bank hoped to reach a surplus of EUR1.3 million (US$1.47 million). Whether this goal can be realized will only become clear in 2022 but the bank also encountered, on top of the risk due to the COVID-19 pandemic, one more substantial drawback due to its alignment to the Turkish Islamic banking market.

As the number of Islamic banking institutions is rather small within the EU, KT Bank works with Turkish Islamic banks. Those banks, however, suffered in 2021 due to the unstable political situation in Turkey with the AKP government changing not only the head of the central bank but also recently the finance minister amid a worsening economic and financial crisis.

On top of this risk, the economy within Germany did not pick up as hoped as the COVID-19 pandemic is not, as everyone hoped, over yet. Both factors might lower the envisioned result, especially as the

management planned to tap the business segment to strengthen its stance.

But INAIA, the first German Islamic finance fintech, launched a new Islamic real estate platform in 2021 as the demand to settle remains stable during the years and especially as families of Turkish origin now envision their future in Germany rather than, as with the older generations before, in Turkey.

In addition, Caizcoin is shaking up the crypto world. Caiz, meaning lawful in Arabic, is set to bring the meaning into cryptocurrency. Caizcoin is built on Caizchain, which is claimed to be a blockchain fully compliant with Shariah standards. The firm plans to launch in Germany by the end of 2021 or the beginning of 2022 but has yet to overcome German banking regulations. All companies which offer cryptocurrency exchanges are obliged to apply for a license from the German Federal Financial Supervisory Authority (BaFin) as the legislator has subjected cryptocurrencies to extensive regulation in Germany due to, among others, strict anti-money laundering objectives. As a consequence, the bureaucratic obstacles are rather high for new market entries.

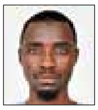
## Preview of 2022

Nevertheless, digital companies could be the new kids on the block to look out for in 2022 as the younger generation of Muslims is highly interested in cryptocurrencies as an alternative to traditional assets. An Islamic, affordable alternative could be a promising choice for the digital natives.

## Conclusion

In the more traditional sphere, old problems remain. One of them is that double taxation is still in place in Germany when dealing with real estate as the regulator did not change any of the banking or fiscal rules to accommodate Islamic finance in Germany. As tax regulation remains the task of the lawmakers in parliament whereas the banking regulations fall under the control of BaFin, the situation is unlikely to change. But, as the short history of KT Bank proves, there is a small but stable niche market that could be tapped further with innovative ideas.

# Ghana's continued push for Islamic finance development



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**Ghana was not spared the global impact of the COVID-19 pandemic. The government of Ghana (GoG)'s response, according to the IMF, helped contain the pandemic and support the economy, but at the cost of a record fiscal deficit.**

The IMF, after its Article IV consultation [1] with Ghana on the 19th July 2021, observed thus: "The pandemic had a severe impact on economic activity. Growth slowed to 0.4% in 2020 from 6.5% in 2019, food prices spiked, and poverty increased.

"The fiscal deficit including energy and financial sector costs worsened to 15.2% of GDP, with a further 2.1% of GDP in additional spending financed through the accumulation of domestic arrears."

The GoG was quick to cite the IMF's verdict that the economic outlook generally is improving, with the rebound coming despite the fact that risks remain, as well as the evolution of the pandemic and one of the biggest concerns of the economy, rising debt.

*The existing Islamic finance ecosystem*
Ghana's Islamic finance space has been marking time over the years primarily at the stage of advocacy especially to the Muslim population on the importance of Shariah compliant banking.

Two of the most practical strides were Salam Capital's microfinance proposition which unfortunately had challenges that saw it fold up, and the Muslim Ummah Development Initiative (MUDI)'s Halal investment program.

MUDI states on its website: "Our long-term vision is to provide Halal investment alternatives to the conventional investment channels in banking, financing, and insurance."

Aside of advocacy, limited engagement with policymakers has also seen what is the most significant shift yet in the area of policy when in 2016, the Banks and Specialized Deposit-Taking Institutions Act 2016 was amended by parliament to include non-interest banking in Ghana.

One of the major issues that have been raised over the years has been for Islamic finance advocates to turn their focus to an incremental rollout of products especially by using windows in conventional banks.

With the acquisition of erstwhile Barclays Bank by ABSA Bank, it is hoped that an Islamic banking window will soon be opened especially given that ABSA's parent bank in South Africa offers such a facility.

## Review of 2021

2021 can best be described as a year in which the advocacy angle of Islamic finance received a big boost at different levels.

In March, the Kwame Nkrumah University of Science and Technology's Short Course Unit ran a two-day program on Islamic finance with a view on the role it can play in Ghana's infrastructure development.

It was led by head of the unit, Prof Naail Mohammed Kamil Dangigala, who took participants through a specialized training program on the Islamic finance ecosystem. Participants were from the public and private sector institutions.

In July, MUDI launched an expo, which is slated for January 2022, with the aim of creating a platform for Muslim entrepreneurs to exhibit products and services that are Halal (ethical) to both Muslims and non-Muslims in the country.

The Islamic Finance Research Institute Ghana (IFRIG) also held its second annual Islamic Finance International Conference (IFIC) in early November with a focus on how Islamic finance can cure the country's rising public debt.

The discussion comes at a time when players in the political and economic fields are calling for a serious debate on the issue of the rising public debt of Ghana which according to the 2022 budget as a percentage of GDP stood at 77.8% at the end of September 2021, up from 76.1% at the end of December 2020.

Another significant engagement was IFRIG's two-week Specialized Training on Islamic Finance for selected personnel of Bank of Ghana in August 2021. The training was held via Zoom with facilitators within and outside of Ghana.

## Preview of 2022

IFRIG, with its new relationship with the GoG and the Ministry of Finance, will be looking to leverage on the initial training for GoG personnel to continue the capacity-building and advocacy efforts with other key stakeholders.

The Securities and Exchange Commission, the National Insurance Commission, the Ministry of Finance and Economic Planning and other players in the banking industry are all lined up for specialized training.

Also, MUDI's 2022 expo will be keenly awaited as other interested parties leverage on the successes of the last few years to keep the dream alive.

With respect to official economic indicators, on the 17th November 2021, Minister of Finance and Economic Planning Ken Ofori-Atta presented the 2022 budget to parliament with some of the key takeaways being as follows: total expenditure (including clearance of arrears) is projected at GHS137.5 billion (US$22.13 billion), equivalent to 27.4% of GDP, and the 2022 estimate represents a growth of 23.2% above the projected outturn of GHS111.6 billion (US$17.97 billion), equivalent to 25.3% of GDP for 2021.

## Conclusion

Without a doubt, there is potential for the Islamic finance space to keep growing in the country. According to finance experts who spoke at IFIC 2021, it would take a concerted effort by stakeholders to march toward the realization of the ultimate goal of a fully-fledged industry.

Partnerships at home and assistance from leaders in the subregion — especially in Nigeria — are two critical tools that can help advocates drive the dream to its destination.

# The flourishing of Islamic finance and the Halal hub in Hong Kong

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**Being a non-Muslim city, the Hong Kong Special Administrative Region of the People's Republic of China (Hong Kong) continues to make the best use of its international financial center status and proven track record of successful sovereign Sukuk issuances so far totaling US$3 billion with a Muslim population of 300,000 in building up the Islamic economy and Halal market in recent years with the full support of investors, practitioners, academicians, religious organizations, government and other relevant stakeholders.**

## Review of 2021

Although the local development of Islamic finance in Hong Kong slowed down amid the COVID-19 pandemic, Hong Kong made some excellent progress by enhancing economic ties with China and the Islamic world. The unique super-connector has entered into trade agreements and comprehensive double tax agreements with Muslim nations in the Middle East. Sukuk applications in local infrastructure projects were explored and Islamic finance courses were held for professionals interested in pursuing a career in Islamic banking.

Allalah Consulting has been liaising with the Financial Secretary Office of the Hong Kong government on the potential opportunity of issuing Sukuk or green Sukuk for the entire or partial funding requirements of HK$600 billion (US$77.09 billion) for the Lantau Tomorrow Vision infrastructure project which will ease the housing issues faced by Hong Kong's 7.8 million people. The firm is also in discussions with the Hong Kong Federation of Trade Unions Spare Time Study Centre (HKFTUSTSC) to provide foundation courses in Islamic finance for professionals in the industry.

The Incorporated Trustees of the Islamic Community Fund of Hong Kong has granted more Halal certifications to local restaurants providing Halal food as well as to other imported or locally produced daily necessities and food produce. This helps to boost the Halal sector in Hong Kong for both Muslim and non-Muslim consumers with Halal assurance.

## Preview of 2022

It is expected that Hong Kong's Islamic finance and Halal sectors will further flourish in the coming years, particularly making use of the high interdependence and integration of the two sectors effectively.

With the recovery of Hong Kong's economy, closer economic ties shall be realized by the resumption of cross-border traveling in and out of Hong Kong, which essentially can also help boost Halal tourism in the long run, given Hong Kong's abundant tourism resources in terms of hotel, restaurants, mosques, Halal product marketplaces and landmarks.

Sukuk issuances, including the fourth sovereign issuance and the inaugural corporate issuance, are expected to materialize in the 'Pearl of the Orient' in the forthcoming years. Green Sukuk are also under serious consideration.

Sukuk funding is highly supported by the trends and is evidence of Hong Kong placing great emphasis on environmental, social and governance in its economic recovery plan, where a number of project objectives and investment criteria are highly correlated with Islamic finance.

With this in mind, Islamic finance professionals are needed to make this happen. More educational institutions like HKFTUSTSC are working together with worldwide recognized Islamic finance academic institutions which are anticipated to offer relevant certificate courses, diplomas or degrees.

## Conclusion

Hong Kong, being a highly ranked free economy and the main gateway to China, is regarded as the ideal regional hub of Islamic finance and the Halal industry.

Apart from Sukuk issuances, Halal products and Islamic finance education, there are high hopes for Hong Kong to establish a fully-fledged Islamic bank, regulated Islamic funds as well as Takaful in the coming years.

Among the catalysts for boosting these areas, governmental support is of utmost importance. Market players, both local and global, are hoping for further action from the Hong Kong government in enforcing more relevant policies and regulations, especially in terms of tax incentives, stock exchange listings and Islamic finance professional qualifications.

These are to strengthen Hong Kong's market efficiency, certainty and sustainability to cater to the actual implementation of Islamic finance and Halal businesses.

# Islamic banking and finance in India: One must not lose hope!

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**Islamic banking is again in the news in India after the Jammu and Kashmir High Court issued notices to the government and the Reserve Bank of India (RBI). Some enthusiasts hope that Islamic banking could be introduced in India through legal channels. Those who keep an eye on the political developments consider this only as a matter of whipping some passion at a time when some big Indian states are going to have provincial elections.**

Earlier in 2015, the RBI's internal committee (known as the Deepak Mohanty Committee) had recommended the introduction of interest-free banking as a trial by some commercial banks in India. Political tide by then had turned in favor of the Bharti Janta Party which, led by the current prime minister, had achieved roaring success in the Indian parliamentary elections. Since then, it has become embarrassing even for the RBI to follow up on its own recommendation.

Several pleas to the RBI and the government have received a lukewarm response in the form of a mere statement that the current government has done a lot to improve financial inclusion in the country through the government's flagship scheme Jandhan Account (no-frills banking account) and therefore there is no need for any further attempt on financial inclusion by the government. Nobody seems to understand that the demand for interest-free banking and a no-frills banking facility is not the same.

In 2009 when the Kerala government decided to promote an Islamic non-banking finance company, some right-wing political activists led by a maverick stalwart, Dr Subramaniam Swami, had opposed the move citing the decision to be against India's professed secularism and on account of weakening the autonomy of financial regulators in favor of so-called Shariah advisors.

The High Court of Kerala had decided that floating a company working under Shariah principles is neither a compromise on Indian secularism nor a manner of ceding any regulatory authority to the Shariah advisors. The company since then is working albeit on a very low profile.

In the same year, central government-owned GIC Re started offering re-Takaful facilities to Takaful companies spread across the Middle East and Southeast Asia. The company has been very smartly marketing its re-Takaful services over the last one decade but without any explicit marketing through its website. This has kept the company's business growing without any undue controversy. Indian mainstream players have a lot to learn from this strategy.

One may also recall that in 2014, the State Bank of India-owned SBI Mutual Fund had proposed to launch the SBI Shariah Equity Fund, but the plan was scuttled on the eve of its launch.

## Review of 2021

While developments of Islamic finance at the official level look disheartening, it is encouraging to note that Islamic finance has been taking deeper roots within the community-owned informal groups and societies and by adopting other legal formats.

Several state-level cooperative credit societies have come up across the length and breadth of the country that are now doing financial intermediation among their members through Murabahah and Ijarah products. Some have also started experimenting with Musharakah- and Mudarabah-type facilities.

Many chambers of commerce have started encouraging and facilitating their members to meet each other's financing needs without resorting to external capital support. These all are at various experimental stages and with the passage of time, it will definitely improve financial understanding and experience.

Another positive development comes on the front of human development. During the last 10 years, many youngsters have gone abroad to study Islamic banking and finance, many of them to the International Centre for Education in Islamic Finance and the rest to the UK, Turkey and the Middle East.

## Preview of 2022

India now has a good pool of Islamic finance professionals with global education and experience. This availability of talent has immensely improved the creativity which is visible in the practices of the new-age Islamic finance institutions.

Equity and profit-linked debentures not only meet the Shariah criteria of linking risk and reward but this is tax-efficient — a luxury that was not available to old-age Islamic financial institutions.

The emergence of fintech has further revolutionized the thinking behind the Islamic finance concept. Mutual healthcare products are under pilot testing which if successful can revolutionize the availability of mutual Takaful in India.

Indian information technology companies are already serving many Islamic financial institutions globally. Their experiences are available to Indian aspirants in a much cost-effective manner. India provides the most lucrative Islamic finance opportunities globally and it is only a matter of time when all the independent experimentation will lead to the creation of the next Islamic finance unicorn from India.

## Conclusion

Indian Muslims' desire to have government-supported Islamic banking and finance has not borne fruit and it seems challenging to imagine any change in stance in the near future.

Any attempt by the community to get Islamic banking introduced via a legal injunction is highly unlikely and risky as the courts lack enforceability power in business matters.

However, the community's own effort in promoting value-based financial intermediation through available legal structures like cooperative credit societies and others will help deepen the market and strengthen the case for Islamic banking before Indian financial regulators. The community needs to realize that Islamic banking has a stronger case on business merit than on religious merit.

# A digital-based Indonesian Shariah economic development

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**The impact of the COVID-19 pandemic is still being felt this year and is predicted to continue next year, although not as bad as in 2020. Based on a report by the Indonesian Central Bureau of Statistics, the Indonesian economy grew by 3.5% in the third quarter of 2021, where the World Bank estimates it will reach 3.7% by the end of the year. The Indonesian government continued to strive to maintain economic growth, where as of November 2021, the inflation rate was 1.7%, far below the target of 3%, the depreciation of the rupiah was only -0.5% and the current account deficit was -0.8%.**

## Review of 2021

During 2021, the government support to overcome the negative impact of the pandemic through stimulus and incentives in many economic sectors has proven to accelerate the recovery of the Indonesian economic growth.

The government policies on economic digitalization have had a significant impact on the revival of the economy. The Indonesian people, with a majority being the youth, responded quickly to these policies.

The digitalization of Islamic finance in Indonesia is not only about a payment system but also includes opening an account in the Islamic financial sector and a Shariah securities transaction system.

This increases the efficiency of the business process, where opening an Islamic financial account only takes less than 30 minutes with low initial funds of less than US$10. Thus, the number of local investors increased significantly and beat the dominance of foreign investors, both in terms of ownership (53%) and transaction value (75%).

The Indonesian Islamic finance industry has launched new regulations on Islamic securities crowdfunding and Sukuk listing, a new Shariah stock index and the IDX [Indonesia Stock Exchange] Islamic website, to create sustainable growth.

With these new innovations, it is hoped that the market will be more liquid and have many investment product options for investors.

The Islamic finance market showed better performance, in line with increasing public understanding that encourages the growth of Islamic financial inclusion.

As of the third quarter of 2021, Indonesian Islamic finance increased by 16.6% and the Islamic capital market is still dominant with a 62% market share. Islamic investors increased by 20.3% with the transaction value increasing significantly by 183% year-on-year.

The Indonesian government is also consistent in continuing to support the development of environmental, social and governance (ESG)-based investment products. As in previous years, Indonesia consistently issued sovereign green Sukuk for the global market, green savings Sukuk and retail Waqf Sukuk for the local market in 2021.

## Preview of 2022

In 2022, COVID-19 will still be a world problem, especially with the discovery of a new variant at the end of 2021 which raises concerns that the number of infected people will explode again.

However, assuming the number of people who have been vaccinated is increasing and many countries have started to find strategies to control its spread, there is little concern that the economy will be affected again.

The IMF predicts that the global economy will grow by around 4.9% in 2022, while Indonesia will grow even higher at 5.9%. This means that Indonesia will recover faster than the global economy.

Incentives and stimulus policies by the Indonesian government will continue next year, with a focus on some of the key sectors most affected. Likewise, macroeconomic indicators will continue to be closely guarded so as not to interfere with the ongoing recovery.

The development of the Halal ecosystem will be increasingly focused on with full support from the government and private institutions, both from the demand and supply sides. Bank Syariah Indonesia, the result of a merger of three state-owned Islamic banks, is expected to have completed internal consolidation so that it is ready to accelerate Islamic economic growth.

Likewise, the Indonesian Islamic capital market will continue to grow significantly, supported by innovations in digital-based market infrastructure.

The plan to establish a Shariah investment bank initiated by the National Committee for Islamic Economy and Finance (KNEKS), the conversion of several conventional financial institutions to Shariah and consistent government support for economic and financial digitalization,will be the main factors driving Shariah economic growth in 2022.

As the chair of the G20, Indonesia will further enhance ESG-based economic growth. The issuance of green-based Shariah securities will continue to be carried out, including the plan for the IDX to issue a green Shariah stock index which will be the basis for the issuance of green Shariah investment products.

## Conclusion

2022 will still be a year full of challenges. Apart from still facing the potential of an increase in the number of people infected with COVID-19, Indonesia is also facing the challenge of economic growth which has yet to return to normal conditions. There is a lot of homework that must be done immediately so that the economy gets back on track.

The number of people who have been vaccinated is one of the factors that must be immediately resolved by the government. Encouraging an increase in public spending is another matter that must be resolved immediately because the Indonesian economy is demand-driven.

Collaboration between government institutions, the private sector and community organizations must continue to be improved to accelerate the inclusion of Islamic finance. Supported by the digitalization of the economy and Islamic finance, it is not impossible that Islamic economic growth in 2022 will be higher than expected.

# Changes and further horizons in Iran's Shariah compliant financial system

***Majid Pireh*** *is the secretary of the Shariah committee at the Securities and Exchange Organization of Iran. He can be contacted at m.pireh@seo.ir.*

**The financial system in Iran, as a wholly Shariah compliant financial market, is composed of the banking and capital market sectors as the two pillars of its financing system. 2020 was, in brief, a year in which due to the presidential elections many managerial changes took place in both the economic and social environments. The banking system witnessed a new governor taking the seat and the capital market welcomed a new president of the market regulator.**

## Review of 2021

Similar to the rest of the world, Iranians were greatly challenged by the undesirable financial circumstances due to COVID-19. The Central Bank of Iran took the initiative to provide more efficient Islamic social finance instruments by introducing low profit rate Murabahah facilities.

Likewise, the capital market introduced crowdfunding platforms to finance socially related projects. As another Islamic social finance mechanism, the banks provide Shariah compliant facilities to assist the community in paying their house rents.

Tradability of the justice shares was another important Islamic social finance initiative which took place in 2021. During the period of 2006 until 2021, the shares were not tradable in the market and hence, the owners were not able to convert them to cash.

Initially, only the lowest income groups were eligible to receive the shares, but in recent years around 49 million people, around 60% of Iran's population, have received the shares. In 2021, the shares became tradable in order to assist the people to get financing in compliance with Shariah principles.

The second important issue which the financial markets witnessed in 2021 was in relation to crypto assets and cryptocurrencies. Herewith, due to its investment attractiveness, many people are curious as to how the crypto asset market will be in the future. This is still an issue on the table for Shariah experts, and neither the Shariah Council of the central bank nor the Shariah committee of the Securities and Exchange Organization has issued any resolutions about the Shariah aspects of crypto assets.

I should emphasize that the policymakers are still trying to manage the introduction of a national crypto asset.

Nevertheless, as at the end of September 2021, the value of outstanding Sukuk plus Islamic treasury notes in the capital market reached over IRR4.3 quadrillion (US$102 billion) which was a 30% increase in comparison with the corresponding figure at the end of the 21st March 2021 (ie the end of the Iranian year).

As at the end of September 2021, the value of outstanding Sukuk issued by the government, municipalities and corporations reached more than IRR2.79 quadrillion (US$66 billion). However, on the same date, the government issued more than 86.5% of the financial products while the rest were issued by corporations and the municipalities.

In the capital market, 11 investment banks and five data processing companies have received operation licenses. Likewise, 30 portfolio managers and 244 funds are providing services to their clients following the regulations which the regulator had announced.

Nevertheless, in the banking system, eight state-owned banks in addition to 20 private and semi-private banks were actively providing services to their clients. Additionally, two Qard Hasan banks are technically operating in the field of Shariah compliant microfinancing.

## Preview of 2022

For the Iranian new year (beginning from the 21st March 2022), financial market practitioners expect a better economic situation in Iran, especially in terms of managing the high inflation rate that currently exceeds 33%. Clearly, the new central bank governor should do the best in this regard.

2022 will hopefully see improvement in the Shariah supervision of both the capital market and banking system. The capital market needs to be backed by more experienced Shariah experts who can materialize the resolutions of the Shariah committee. Islamic financial literacy is an important initiative on the table for both markets.

Structuring government financing instruments such as general Sukuk Wakalah and finalizing the issuance of Shariah compliant white certificates are other notable plans.

We can expect some notable changes and improvements in 2022 in terms of financial conditions and subsequently improvement in a better way of servicing the citizens of Iran. While COVID-19 is still a very challenging issue, many experts hope to have its bad financial effects reduced considerably.

## Conclusion

The financial policymakers learned lessons the hard way in 2021. The Iranian Islamic financial market has a lot to do in order to realize its Islamic finance goals, hence, we can expect much more developments to take place. Hope is a key word in this regard and this is a great opportunity for the government to provide better services to the people. Here's to 2022 with great wishes for the betterment and development of the Islamic finance and banking industry.

# Iraq: No need to reinvent the wheel

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**It is very nice and interesting nowadays to walk on the streets of Baghdad and watch how peaceful it has become after years of many painful events. Currently, many positive things are happening in Iraq in general and especially in Baghdad with many new buildings and real estate projects under construction.**

## Review of 2021

In every corner of Baghdad, malls and many commercial as well as residential buildings are under construction.

Various new products and brands are coming into the Iraqi market. Iraq is on its way to becoming a normal country like the rest of the countries in the world. The social and economic lifes of the Iraqis are changing.

All this is happening during a period of low oil prices. The crude oil prices are now on the rise and are soaring at a fast pace. Hence, the rising oil prices will help Iraq to become a more contemporary country and it seems there will be many positive economic developments in Iraq.

This is good news for the Iraqi government, the Iraqi banks and the people of Iraq. There will be growth in all sectors which would need the banks' support. Islamic banks in Iraq in particular have an excellent opportunity to benefit from the evolving developments and apart from benefiting financially, they can also contribute in building and developing Iraq's economy by leading industrial and developmental projects in sectors that contribute the most to Iraq's economy.

## Preview of 2022

However, Islamic banks need to develop themselves first before developing the economy and leading such important projects. Despite the small developments in the Islamic banking sector, the Islamic banking industry is still considered as a virgin market with a huge growth potential.

Islamic banking is much more developed in countries like Malaysia, Turkey, Bahrain and the UAE which have more varieties of Islamic banking services and products. They also have experienced professionals in this field and use better technology to serve and reach their clients. The Islamic financial institutions in these countries have so much to offer and should explore and seize the opportunities in the Iraqi market.

Islamic banks in Iraq cannot achieve the aspired growth without cooperating with Islamic banks and financial institutions in other more advanced markets. They should enter into partnerships and cooperation relationships as well as develop the caliber and talent of the employees working in the Iraqi Islamic banks.

Furthermore, Islamic banks should be focusing, in the coming years, on attracting all market segments. For such a long time, the Iraqi Islamic banks sought to attract segments which for religious reasons avoid conventional banking and prefer to deal with Islamic banks because they are Shariah compliant. This objective was excellent at the beginning but this period required a

different vision. A vision which targets all market segments, even those which have no reservations in dealing with conventional banks.

The Iraqi Islamic banks should develop their offered services, customer service, products and technology to become attractive to all market segments so that these segments will prefer to deal with Islamic banks in Iraq not only because they are Shariah compliant but because they are better banks, with more services, better products, better customer service and more convenient technology. The more Islamic banks can attract customers, the more profitable the Islamic banks will be.

However, attracting all market segments requires having a huge competitive advantage in terms of services, products and technology used. The Islamic banks in Iraq should improve their services and technology to be able to attract all kinds of customers and not only the customers who seek Shariah compliant products.

## Conclusion

Due to previous wars and past tragic circumstances in Iraq, Islamic banks in Iraq are not on par with Islamic banks in other markets. They have limited experience and expertise in the banking services, products and technology banks are using that customers are enjoying in other more advanced markets. Even though each market is different, the basics are the same. There are many services and products, let alone the technology which can achieve huge success if launched in Iraq, for example, Islamic funds, Islamic syndicated financings, Shariah compliant credit cards, e-payment technologies and such. For these and many more, the Islamic banks in Iraq need to seek the assistance of Islamic banks in more advanced markets. They simply do not need to reinvent the wheel, since someone else has already invented it. By importing and replicating these services and products, the Islamic banks in Iraq can expedite the process and advance the market.

# Italy building bridges with Muslim countries to seize opportunities in Islamic finance

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**2021 has been a challenging year for Italy, during which the government had to face many difficulties related to the COVID-19 health emergency. Most importantly, the new prime minister of Italy is Mario Draghi. During the last few months, a political strategy aimed to support the Italian economy has been implemented and it is predicted to continue its process until the next year.**

## Review of 2021

With regards to the Islamic world, in Italy, Muslims now make up 2.7 million or 4.9% of the total Italian resident population.

As seen in recent years, Italy showed during 2021 its great interest and inclination to open the field to alternative finance and investments aimed at producing a social and positive impact in the community, such as the investments made by investors through Shariah compliant crowdfunding platforms.

Also in 2021, in line with Italy's high interest in collaborating with Middle Eastern and Islamic countries, it is worth mentioning that in the last few months many steps were taken, especially with regards to relationships with Iran, Saudi Arabia and the UAE.

The relationships are based on the growing assumption that Italy represents one of the major trading partners of some of the aforementioned countries and their shared purpose is to provide support to the companies that are involved in sustainable development, green projects and other various fields, in order to increase the competitiveness of trade and export businesses between the countries and to serve mutual interests.

Italy also launched many initiatives to open its doors to Halal tourism after seeing the big opportunity it represents in attracting a new style of tourism by connecting people and cultures. In order to increase the understanding of Halal-related activities and food, Italian universities and research centers are providing education and training programs on the Halal industry.

## Preview of 2022

The consistent interest shown in the last few months of 2021 is expected to flow into 2022 and the aim is to build new bridges between Italy and other Muslim countries and to reinforce old relationships so as to gain brand-new opportunities.

It is important to persist in developing this diplomatic approach to exchange points of view and take into consideration each country's best interests.

After the G20 Summit in Rome which took place in October 2021, new alliances are expected to see the light of day in the near future. On a national basis, it is now evident how much is needed by the legislator or the government to remove obstacles against the possibilities of Italian issuers and intermediaries offering financial products to Islamic investors.

## Conclusion

The hope is to see a development of the presence of Islamic finance in Italy because it is clear, now more than ever, how much 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 in Italy.

New partnerships will pave the way to success on a much larger scale so this represents a unique opportunity for Italy.

Last but not the least, with the rapidly accelerating interest in the environmental, social and governance impact on the global community with the vast involvement of the Islamic finance industry, it is absolute necessary for Italy to look into these issues and take the required action.

# Islamic finance in the Ivory Coast: Timid enthusiasm

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**To diversify infrastructure funding sources in international and regional capital markets, the Republic of the Ivory Coast has issued two Sukuk in the last five years: Sukuk 'Etat de Côte d'Ivoire 5.75% 2015-2020', fully repaid in December 2020, and Sukuk 'Etat de Côte d'Ivoire 5.75% 2016-2023'.**

With a total of XOF300 billion (US$532.51 million) issued, the Ivory Coast is the largest Sukuk issuer in the Francophone West African Economic and Monetary Union (UEMOA) of eight countries, and the second-largest in Africa after Nigeria.

Both Sukuk, issued through securitization vehicles (fonds commun de titrisation de créances or FCTC), were listed in October 2016 on the Bourse Régionale de Valeurs Mobilières which is the UEMOA region's regional stock exchange. Mali, Senegal and Togo are the three other UEMOA countries that have issued Sukuk in the capital markets.

## Review of 2021

With its large Muslim community, the Ivory Coast is a country in which Islamic finance should thrive. However, private-sector practice in Islamic finance is still very limited, with only a few active Islamic institutions such as Raouda Finance, an Ivorian microfinance institution set up in 2009 and specializing in the provision of Islamic financial services.

Burkina Faso's Coris Bank launched in 2018 in the Ivory Coast Coris Bank Baraka, an Islamic window offering various Islamic finance products to individuals and businesses. Additional Islamic microfinance products have been offered to Ivorians in recent years, such as the Pilgrimage Savings Plan (Plan Epargne Pélérinage) and the Al Baraka Mutual Fund sponsored by Raouda Finance: this is one of the first mutual funds in the UEMOA region guaranteeing investment compliance with the rules of Islamic finance, including through an independent Shariah board.

While still largely unknown to the Ivorian public which is used to more traditional financing structures and banking products, the sector's slow development in the Ivory Coast is primarily due to structural constraints including legislative and regulatory complexity. National and regional authorities have acknowledged these weaknesses and implemented measures to better promote Islamic finance.

In the first half of 2018, the Francophone West African Central Bank promulgated banking regulations supporting Islamic finance development across the UEMOA region and opening the door for financial institutions to position in this emerging segment.

Although these instructions constitute an ambitious legal framework for Islamic finance in the region, defining the conditions under which regulated credit institutions may exercise Islamic finance activities and their application remains limited to date.

According to the head of the Financial Sector Development Programme in the Ivory Coast, as of December 2020, "Islamic finance regulation has not yet been sufficiently popularized among credit institutions and decentralized financial systems".

As recently as September 2021, the Regional Council for Public Savings and Financial Market or CREPMF launched a market

consultation exercise in anticipation of its adoption of a regulatory framework for Islamic financial markets across the UEMOA region. This framework should allow regional capital markets to not only diversify sources of financing and investment but also explore new opportunities offered by Islamic finance.

The objective will be to foster the emergence of specialized financial institutions as well as new types of products, including Sukuk, Islamic mutual funds and Islamic finance indices on the regional financial market.

The consultation exercise itself was an occasion to attract market attention to the opportunities of Islamic finance, and was widely publicized across the region among financial institutions and investment advisors.

Market responses are collated by CREPMF, which should issue a summary, revised regulation proposals and other position statements in the coming months.

## Preview of 2022

Despite these proactive measures, other constraints continue to restrict the full realization of the Islamic finance sector's potential in the Ivory Coast and elsewhere in the UEMOA region. A significant aspect remains taxation and the need for an equal fiscal treatment of Islamic finance products with conventional/non-Islamic banking products.

This is even more relevant (and challenging) as financial and banking regulations are issued by regional authorities while taxation remains a national matter and therefore different in every UEMOA country; alignment will be key to the definition and growth of a significant regional market for Islamic finance products.

Additional constraints relate to the maturity of real asset markets across the region, where Islamic finance requirements to identify and source physical collateral may be difficult to implement.

## Conclusion

Insufficient investment in infrastructure, energy and real estate across the UEMOA region, as in other sub-Saharan African regions, may delay the full emergence of Islamic finance as adjustment options are considered and adopted.

# Reality and challenges of the Islamic finance industry in Jordan

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**The Islamic finance industry started in Jordan with the creation of Law No 13 in 1978 or what is more commonly known as the Jordan Islamic Bank (JIB) Law. Through this law, the first Jordanian Islamic bank, JIB, was established with a total of JOD4 million (US$5.64 million) as its capital. JIB was one of the first Islamic banks to be established in the world and second only to Dubai Islamic Bank (1975). The JIB Law remained as the law that governs Islamic banking activities until 2000 when Law No 28, which organized the activities of both traditional and Islamic banks, was passed.**

## Review of 2021

Currently, there are four Islamic banks in Jordan: three local banks and one foreign bank which is a branch of the Saudi Al-Rajhi Bank. The Jordanian Islamic finance industry also includes 11 Islamic non-banking companies that provide financing services and two Islamic insurance (Takaful) companies.

Jordan has achieved third place globally in Islamic finance education according to the Islamic Finance Development Indicator 2021.

This is due to the Jordanian universities that provide different academic degrees in the field of Islamic banking and finance. Jordan also boasts first place globally in the amounts of Qard Al Hasan funds disbursed with US$133 million, followed by Indonesia's US$5 million and Pakistan's US$300,000.

Tables 1 and 2 show some of the financial data reported for Islamic banks, financing companies and insurance companies that are currently active in Jordan.

**Table 1: Active Islamic banks in Jordan**

| Name of bank | | | Jordan Islamic Bank | Arabic Islamic Bank | Safwa | Al-Rajhi |
|---|---|---|---|---|---|---|
| Year of establishment | | | 1978 | 1997 | 1963 [i] | 2009 |
| Current capital [ii] | | | 200 | 100 | 100 | 15,000 [iii] |
| Assets | | 2020 | 4,844.4 | 2,543.1 | 1.830.2 | NA [iv] |
| | | 2021 | 5,204.9 | 2,717.4 | 2,072.7 | NA |
| Deposits | Current | 2020 | 1,265.2 | 666.5 | 228.4 | NA |
| | | 2021 | 1,363.2 | 777.4 | 282.2 | NA |
| | Investment | 2020 | 2,842.5 | 1,492 | 1,326.6 | NA |
| | | 2021 | 3,068.3 | 1,584.7 | 1,321.2 | NA |
| Qard Hasan (net) | | 2020 | 77.5 | 52.2 | 0.96 | NA |
| | | 2021 | 70.2 | 56 | 1.8 | NA |
| Credit | Retail | 2020 | 750.85 | 317.7 | 283.4 | NA |
| | | 2021 | 804.8 | 345.3 | 330 | NA |
| | Real estate | 2020 | 487.8 | 150.7 | 23.2 | NA |
| | | 2021 | 529.8 | 150.5 | 22.3 | NA |
| | Big companies | 2020 | 564.8 | 355.8 | 376.1 | NA |
| | | 2021 | 529.3 | 396.8 | 422.1 | NA |
| | SMEs | 2020 | 160 | 104.5 | 42.3 | NA |
| | | 2021 | 170.5 | 97.949 | 45.8 | NA |
| | Government and public sector | 2020 | 1.06 | 0 | 150.6 | NA |
| | | 2021 | 1.2 | 0 | 366.4 | NA |
| Number of branches | | | 83 | 45 | 38 | NA |

*[i] Originally was the Industrial Development Bank which became Dubai Islamic Bank and later in 2017 changed to Safwa Bank due to a takeover*
*[ii] All amounts are in Jordanian dinar (JOD) millions*
*[iii] Capital in parent company*
*[iv] Due to the bank being a branch of a foreign bank, separate data is not available*

*Source: The Jordanian Ministry of Industry's Companies Control Department and banks' yearly and quarterly reports*

## Preview of 2022

The Jordanian environment provides the perfect opportunity for attracting Islamic financial institutions into the Jordanian market; this is due to Jordan's political stability and growing public awareness of the importance of Islamic financial institutions and their products that meet the needs of numerous clients in different sectors.

It should also be mentioned that the Jordanian market provides a fertile ground for new Islamic financial establishments that provide financial services in the sectors of infrastructure, clean energy and other sectors that the current Jordanian banking industry does not cover.

## Conclusion

The small size of the Jordanian market also means that new Islamic financial establishments do not require large amounts of capital to enter and compete in the market. Nevertheless, the lack of detailed laws that cover all the financial services and products that could be provided in different sectors, the scarcity of monetary and financial tools provided by the Jordanian central bank to Islamic banks and the concentration of Islamic financial institutions' credit in certain sectors due to these institutions' small capital remain the main challenges that face the Islamic financial industry in Jordan.

**Table 3: Jordanian Islamic insurance companies**

| Company's name | Year of establishment | Current capital (JOD) |
|---|---|---|
| First Insurance | 2006 | 28,000,000 |
| The Islamic Insurance | 1996 | 15,000,000 |

*Source: The Jordanian Ministry of Industry's Companies Control Department*

**Table 2: Companies providing Islamic finance in Jordan**

| Company name | Year of establishment | Method of finance | Current capital (JOD) |
|---|---|---|---|
| Emar | 2007 | Finance lease | 50,000 |
| Islamic Finance House | 2016 | Murabahah | 10,000,000 |
| Dar Al-Aman | 2008 | Murabahah | 16,000,000 |
| Mayser | 2017 | Murabahah | 10,000 |
| First Finance | 2006 | Murabahah | 35,000,000 |
| Samaha | 1998 | Murabahah and finance lease | 12,000,000 |
| Ideal | 2013 | Microfinance | 4,500,000 |
| Ethmar For Islamic Finance | 2014 | Microfinance | 3,000,000 |
| Bindar* | 2004 | Murabahah | 20,000,000 |
| Al Tas-heelat* | 1983 | Credit cards and Murabahah | 16,500,000 |
| liwwa* | 2015 | Crowdfunding | 1,050,000 |

**Provides both Islamic and conventional financing*

*Source: The Jordanian Ministry of Industry's Companies Control Department and companies' own websites*

# A choice between evolutionary and revolutionary growth

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**Doing a review of Islamic finance in Kazakhstan is not an easy task. Kazakhstan was an early starter — in 2009 it was the first country in the former USSR to introduce Islamic banking and finance. There are many positive factors playing well for Kazakhstan:**

- the strong support of the Kazakhstan government for Islamic finance as an alternative funding source
- the establishment of the Astana International Finance Center (AIFC) as a regional equivalent of the Dubai International Financial Centre, and
- the spectacular growth numbers (30.3% annualized) of Islamic banks' assets over the last three years. Conventional banks' assets grew a 'meager' 11–12% (also annualized).

Let's add some gloom to the foregoing rosy picture:

- the total assets of Islamic banks in the country are a paltry 0.25% of all banking sector assets
- the Shariah compliant physical person's deposits are a miniscule 0.01%, and
- the number of Sukuk facilities issued in Kazakhstan is equal to the number of Sukuk facilities issued in the Russian Federation which had not adopted any Islamic finance laws at all. So, a single Sukuk facility for both countries.

## Review of 2021

Still, 2021 was an eventful year for Islamic finance in Kazakhstan:

- Islamic finance assets grew to KZT87 billion (US$198.69 million) — close to US$200 million
- The state DAMU Entrepreneurship Development Fund signed agreements with Al-Hilal Bank and Kazakhstan Ijara Company to provide them with KZT13 billion (US$30 million) in preferential financing to support the SMEs
- A new digital Islamic bank, Tayyab, was set up in the AIFC, and
- The Agency for Regulation and Development of Financial Market signed an MoU for mutual cooperation with the AAOIFI.

## Preview of 2022

The further growth of the industry in Kazakhstan will largely depend on the successful implementation of the Master Plan of the Development of Islamic Finance in the Republic of Kazakhstan for 2020–2025. The goals are very focused — to grow the global investment base, to raise liquidity in Islamic finance markets and to become a regional Islamic finance center.

The plan is not very specific, which on the one hand may show that the legislators are not sure of the ways to achieve the stated goals, but on the other hand, may give the government additional flexibility to adapt to the changing market environment.

In 2022, Kazakhstan's first digital Islamic bank, Tayyab, will likely get its first competitor — Al Saqr Finance, a Shariah compliant finance company, will turn itself into a digital bank. The long-expected launch of Qatari Al Rayan Bank may take place jointly or independently of the Al Saqr launch.

Surprisingly enough, neighboring Uzbekistan holds the key to success of the AIFC in becoming the regional Islamic finance center. Uzbekistan with its fairly large regional economy has been struggling to pass its own Sukuk law (some optimists, including the author, had bravely expected it to become effective by early summer in 2021).

There is a substantial pent-up demand for Sukuk issuances by large Uzbekistani industrial and finance companies. If the AIFC can start converting its numerous Islamic finance marketing tours to the Commonwealth of Independent States countries into actual Sukuk issuances, the effect will be difficult to overestimate.

## Conclusion

For over 10 years, the development of Islamic finance in Kazakhstan had been skidding. The same problems are faced in many developing markets, namely:

- Expensive and insufficient local funding
- Devaluation risks for foreign investors
- The lack of 'long money'
- The lack of familiarity with Islamic finance among the mostly secular population, and
- The insubstantial size of the local market.

So, in 2022 we do not expect Al Rajhi Bank, Dubai Islamic Bank or Malaysia's Maybank to set up multiple offices in Kazakhstan. The key role will lie with the government, and this gives us a unique opportunity to test the commitment of President Kassym-Jomart Kemelevich Tokayev to Islamic finance.

There are a great many things that an enlightened government can do — from issuing sovereign and sub-sovereign Sukuk to offering government guarantees to selected private Sukuk issuers; from offering subsidized liquidity to Islamic banks to joint infrastructure projects with the IsDB; and so the list continues.

So, going back to the 2020–2025 Master Plan: to get liquidity one must have more investors; to get more investors one must have more financial products to offer. To get the investment products, the AIFC must offer incentives to the issuers, such as easy registrations, regulation consulting, joint marketing, etc.

The Sukuk issuance market is very competitive, but the AIFC may and should become the market of choice for Shariah compliant securities denominated in Uzbekistani soms, Russian roubles and Azerbaijani manats.


# Kyrgyzstan continues developing Islamic finance industry

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**Kyrgyzstan is bordered by Kazakhstan, China, Tajikistan and Uzbekistan. The demographic statistics of the country show almost 90% of the population is Muslim. Businesses and companies have paid heed to these demographics well and are now fully invested in shifting toward Islamic finance. It is now an emerging market for Islamic finance as more and more professionals and individuals turn their focus toward Shariah compliant modes of financing.**

Kyrgyzstan is accurately following the roadmap to building a robust Islamic financing ecosystem. With continued development and improvement in the regulatory and legislative environment, and in strengthening institutional capacities to meet growing MSME demand, the Islamic financing market opportunity is estimated to reach between US$342.2 million and US$456.3 million going forward and with deposit potential in the range of US$402.6 million to US$536.9 million. Currently, three banks are providing Islamic banking products in the Kyrgyz economy.

The introduction of Islamic banking and finance in Kyrgyzstan faced obstacles that were mainly due to restrictions from mid-March to mid-May 2020, including the closure of borders, businesses and industries, which have had a strong impact on domestic demand, the driving force behind growth.

## Review of 2021

2021 has been tough for economies globally. The recovery of domestic demand in Kyrgyzstan was fast and depending on the political context, the COVID-19 pandemic and the recovery in Russia. It was driven mainly by the rebound in remittances that began in July 2020 and by the positive contribution of agriculture to growth.

The Islamic finance industry, which has benefited from the suspension of business bankruptcy proceedings and deferrals, will benefit from the anti-crisis fund offering subsidized loans. Private consumption (82% of GDP) and, in turn, services (56% of GDP) suffered from the fall in remittances from Russia, and also from the rise in poverty and unemployment.

After rising sharply in 2020, inflation returned in 2021 to the 5–7% target set by the central bank of Kyrgyzstan, despite the recovery of domestic demand and the rise in oil prices. Monetary policy has a low policy rate (5% in December 2020). The average lending rate is high (17%), which slows down an impulse of credit to the private sector that is not subsidized. The capitalization and liquidity levels of the banking sector have remained stable thanks to the relaxation of prudential rules.

Foreign exchange reserves remain comfortable (US$1.7 billion in December 2020, 4.3 months of import coverage), making it possible to limit the depreciation of the som by intervening on the foreign exchange market.

The National Bank of Kyrgyzstan in 2021 submitted for public discussion the draft resolutions of the board of the National Bank, namely 'On Approval of the Procedure for Accounting for Murabaha Operations' and 'On Amendments to Certain Regulatory Legal Acts of the National Bank of the Kyrgyz Republic'.

The purpose of the draft regulations is to define the accounting rules for the assessment, recognition and disclosure of information about Murabahah transactions. The presented draft

procedure for accounting for Murabahah transactions was developed, including taking into account the requirements of AAOIFI Standard No 28, and is aimed at using a unified method of accounting and disclosing information on transactions by commercial banks.

Currently, two commercial banks of the Republic — EcoIslamic Bank and the Islamic window of Commercial Bank Kyrgyzstan — are offering operations based on Islamic principles of financing, with the application of the principle of accrual when taking into account the margin on the Murabahah transaction, according to which the bank calculates the amount of the monthly margin at the end of the reporting month.

2021 was successful for Kyrgyzstan's financial sector as Kyrgyz and Budapest stock exchanges signed a memorandum of cooperation which will serve as a basis for further mutually beneficial cooperation between Kyrgyzstan and Hungary.

The stock exchanges of the two countries plan to exchange experience in the use of various financial instruments and exchange trading technologies. This will expand the geography and the number of participants in exchange trading in the two countries to attract investment.

The Budapest Stock Exchange is one of the largest in Central Europe. The signing of the memorandum between the two stock exchanges opens up new prospects and opportunities for the development of the stock market in Kyrgyzstan.

Stock exchanges will begin to explore the possibilities of helping companies to enter the European stock market for resident companies. Outreach to the business community will be carried out through the organization of conferences and training seminars starting in the near future.

## Preview of 2022

The public deficit in Kyrgyzstan have not widened in 2021 and is expected to remain significant in 2022. The government and political elite have been unanimous in the decision to stop the previous practice of foreign interest lending due to President Sadyrbek Japarov's new policy on foreign lending.

The government's previous deficit was financed by concessional loans and foreign grants, such as the US$592 million (7% of GDP) from the IMF and the World Bank, received in 2020.

These loans have increased the public debt and are held by multilateral and bilateral lenders (62%) and Chinese Eximbank (38%). Thus, the government of Kyrgyzstan plans to change its debt policy probably with a focus on Islamic debt instruments.

It is expected that the Kyrgyz Islamic banking market will also grow in 2022. Kyrgyzstan's central bank also announced on the 13th October 2021 that its board has made a decision to issue a banking license to JSC Commercial Bank of Kyrgyzstan for the right to introduce Islamic banking operations through an Islamic window in national and foreign currencies.

Other local commercial banks and institutions are also looking for an opportunity to introduce Islamic operations through windows.

And finally, representatives of the financial and private sectors, industry business associations, as well as government agencies of Kyrgyzstan have visited the Astana International Financial Centre (AIFC) where parties reached an agreement on cooperation, in particular between the AIFC and the Union of Banks of Kyrgyzstan, and also via the Russian–Kyrgyz Development Fund.

Within the framework of the memorandum, the Union of Banks of Kyrgyzstan and the AIFC agreed to work on the development of securities and venture capital markets, Islamic and green finance, as well as training programs. Thus, 2022 is expected to be very interesting in terms of the development of the Islamic ecosystem of Kyrgyzstan through cooperation with the AIFC.

## Conclusion

In conclusion, today there are interstate agreements between the countries of the Eurasian Economic Union (EAEU) regarding plans to form a common financial market for the EAEU. This should create conditions for free access of participants to the financial markets of the union.

The insurance sector is expected to be one of the first to receive united rules for regulation and mutual market access. Kyrgyzstan was the first country among the Central Asian countries to incorporate Islamic finance in its economy, but still, the share of Islamic banking in the banking sector of Kyrgyzstan allows entrance into the market by new players.

The further rapid development of the financial sector in Kyrgyzstan shows us good sustainable levels. For example, in the Russian banking system, these banking indicators are much lower; there are more risks in this part. When implementing new projects related to investments in fixed assets, a business needs long-term, inexpensive resources.

One of the tasks for the Kyrgyz Republic's economy is to create large aggregators of products of small- and medium-sized businesses. Businesses in Kyrgyzstan are ready to interact with global investment players.

# Charting Malaysia's Islamic finance new frontier via sustainability and digitalization

***Siew Suet Ming*** *is the chief rating officer at RAM Ratings. She can be contacted at suetming@ram.com.my.*

**Malaysia's economy continued on its recovery path in 2021 amid the reimposition of another nationwide lockdown in June, driven by an improvement in domestic demand and continued robust exports performance. Strong fiscal and monetary policy measures, which cushioned the economic shock, are expected to support GDP growth of between 3% and 4% in 2021. Against this backdrop, Islamic institutions and financial markets have risen to the occasion through their value- and impact-based responses to the COVID-19 pandemic, especially in areas where Islamic finance and sustainability converge.**

## Review of 2021

Malaysia continued to be a prominent global hub for Islamic finance this year. Its Sukuk market entered 2021 on a strong footing, leading global issuance with a 42.4% market share (US$17.9 billion) in the first quarter. Domestic issuance remained active and broad-based, maintaining Malaysia's position as a core Sukuk market. Its Islamic banking sector was also on track to deliver a 7% year-on-year growth despite pandemic challenges. All these point to the country's well-established and deep Islamic capital market.

So far at the time of writing, the government of Malaysia has allocated eight economic stimulus packages and deployed various aid packages worth RM530 billion (US$127.34 billion), of which 62% (RM330 billion (US$79.29 billion)) has been utilized to date. Stricter containment measures taken mid-year, however, have increased financial challenges for the lower- and middle-income groups as well as small businesses.

In response, Islamic financial institutions and Takaful industry players played key roles in assisting their affected customers. Many banks launched their own extended relief programs to affected customers. As of August 2021, total loans under moratorium amounted to RM1.4 trillion (US$336.38 billion), benefiting about 2.6 million customers between the 1st June and the 20th August 2021.

Bank Negara Malaysia's Shariah Advisory Council was proactive and influential in implementing COVID-19 assistance measures. Under its rulings, Islamic banks alleviated the financial burden of its customers by not compounding profit in the new principal amount for restructured or rescheduled financing. In addition, it also simplified arrangements for restructured financing facilities.

The launch of the Value-based Intermediation (VBI) for Takaful Framework and the issuance of the Perlindungan Tenang [Peaceful Protection] Policy Document in June and July 2021 respectively expanded VBI initiatives in the Islamic finance services sector. Amid the pandemic, banks introduced offerings to cover children with learning disabilities, provide usage-based protection and cater for micro SMEs on e-commerce platforms.

The country's sovereign sustainability Sukuk issued in April 2021 further strengthened Malaysia's position as a world leader in Islamic finance. The first to be issued globally, the Sukuk facility combines sustainable finance and Islamic finance in Malaysia's national sustainability agenda.

The confluence and rapid rise of fintech and digital technology put Malaysia in a unique position to capitalize on the opportunities presented to drive economic recovery and accelerate reach for a more socially and financially inclusive economy. The country's promotion of a digital economy — as affirmed in its various frameworks, blueprints and incentives — is timely to address the challenges in a post-COVID-19 economy.

Malaysia's 2021 Digital Economy (MyDigital) Blueprint and the joint Securities Commission Malaysia–UN Capital Development Fund initiative, the FIKRA Islamic Fintech Accelerator Programme launched in May 2021, are further testament to how its regulators have championed the national agenda.

After Singapore, Malaysia will be the second country in the region to issue digital bank licenses. So far, the application process has attracted applications from five consortiums that aim to be a Shariah compliant digital bank, including a Waqf-centric digital bank. The fintech marketplace also saw more players offer Shariah compliant products and services — such as e-wallets, Islamic equity crowdfunding and peer-to-peer financing — to meet customer demand.

The rapid adoption of digital technology has seen the creation of more digital-based fundraising platforms and social finance-based Islamic solutions. Charity crowdfunding initiatives such as Bank Islam's Sadaqah House, Bank Muamalat's Jariah Fund and Alliance Islamic's SocioBiz are some examples.

> "Malaysia, as a global leader in Islamic finance, has clearly taken an early lead"

Through product innovation, Islamic banks introduced social finance initiatives to provide support to those affected by the pandemic, eg Maybank Islamic's Social Impact Deposit where the bank makes a separate contribution to a Social Impact Assistance Account for every deposit made.

## Preview of 2022

Developments seen this year are just the start in Malaysia's five-year plan for the industry, which is encapsulated in the 12th Malaysian Plan (2021–2025) and Capital Market Masterplan 3 (2021–2025). Expectations for the upcoming five-year Financial Sector Blueprint (2022–2026) is no different. Progress made in 2021 will set the pace and act as a stepping stone for the Islamic finance industry to take a lead role in supporting Malaysia's economic recovery over their conventional counterparts.

## Conclusion

The crisis has sharpened the focus on sustainability and inclusivity in the country's transformation agenda, and the role digitalization plays in spearheading these efforts. Undoubtedly, these themes will actively shape future policy decisions. It also presents the perfect opportunity for Islamic finance to gain more mainstream relevance globally by making VBI synonymous with responsible and impactful sustainable financing.

Malaysia, as a global leader in Islamic finance, has clearly taken an early lead.

# The Maldives: A year of hope and recovery from the pandemic

***Dr Aishath Muneeza*** *is the chairperson of the Shariah Advisory Council, Capital Market Development Authority, the Maldives. She can be contacted at muneeza.aishath@gmail.com.*

**2021 can best be described as a year of hope and recovery from the coronavirus pandemic. Like all other countries in the world, the Maldives is faced with challenges in managing the COVID-19 crisis. Due to the pandemic, the Maldivian finance industry adopted various new innovative ways to manage the unprecedented circumstances by adopting technology to provide financial products and services in a socially distant manner. For instance, in 2020, the central bank, Maldives Monetary Authority, made it compulsory for financial institutions to provide debt moratoriums, resulting in Islamic and conventional financial institutions needing to find innovative ways to implement the moratoriums without having customers physically submitting an application.**

In this regard, Maldives Islamic Bank (MIB), the only fully-fledged Islamic bank operating in the Maldives, introduced the 'Moratorium Portal' and a new website was launched in 2020 with a unique interface with online bank account opening features. As such, it is not wrong to state that the pandemic has provided the Maldives with the opportunity to escalate the integration of the finance sector with technology and innovation to continue doing business without a physical presence.

It was disclosed on the official website of the Housing Development Finance Corporation (HDFC) that 71% of their customers were adversely affected by the pandemic where 64.04% of them applied for a debt moratorium and 96.28% of the applications were approved with 19.49% baing customers of HDFC Amna.

## Review of 2021

There were not many Islamic finance developments in 2021 in the Maldives, but the events that has happened definitely prove that Islamic finance is growing in the country. The most remarkable achievement in this regard in the Maldives was the issuance of sovereign Sukuk in the international market and the issuance of treasury bills based on the Ijarah structure.

Further, the HDFC issued its 4th Sukuk to the market using the same Shariah compliant structure which it used before. In terms of innovative financial product developments, the Islamic window of Bank of Maldives (BML) developed BML Islamic Home Improvement Financing and Islamic Home Improvement Finance Plus products where if the product is taken using the concepts of Musharakah Mutanaqisah (diminishing partnership) or service Ijarah (lease), then the customers are able to get cash.

Amana Takaful Maldives conducted its 10th annual general meeting virtually via the FahiVote platform powered by the Maldives Securities Depository and a total dividend of 15% was declared for 2020. The gross written premiums for 2020 stood at MVR127 million (US$8.12 million) and a 7% of reduction in performance from 2019 was seen.

In the same year, MIB launched a new online payment gateway called 'MIB Global Pay' powered by Mastercard. Unfortunately, during the year, though it was expected, SME Development Finance Corporation (SDFC) was unable to start its Islamic finance operations though the work toward it has begun.

## Preview of 2022

2022 is anticipated to be a bright year for Islamic finance. The Maldives will resume work in the new normal and there will be more room for the exponential development of Islamic finance. It is anticipated that there will be more innovative financial products introduced in 2022 and hopefully SDFC would be able to commence its Islamic finance operations.

In terms of developments of the Islamic capital market, with the new second amendment to the Maldives Securities Act (Law No 2/2006), there will be room to introduce Islamic crowdfunding and other innovative types of Islamic capital market products and services that would pave the way to achieve financial inclusion via the Islamic capital market.

## Conclusion

Though the Maldives is a 100% Muslim country, it does not mean that everyone knows about Islamic finance and how it works. The Maldives still needs to work on increasing Islamic finance literacy. In fact, it is imperative to conduct a national survey to find out where the country stands in this regard. For the sustainable development of Islamic finance in the country, a national strategic plan is required to be developed. It is hoped that with political will and support, Islamic finance can be taken to the next level in the future.

# Islamic finance in Morocco in 2021: The year of Takaful

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**2021 was expected to witness the launch of new banking products and Takaful operators to reinforce the participative finance ecosystem in Morocco. Apart from Salam, participative banks have not launched any new offerings and the Takaful operators have not started their activities. Nevertheless, from a quantitative perspective, participative banks have made a substantial jump in terms of assets and financing.**

## Review of 2021

*The diversification challenge of participative banks in Morocco*

Based on a statistical report of the Central Bank of Morocco (issued in September 2021), the total assets of Islamic banks grew by 52% from September 2020 to September 2021. This indicator seems to be very encouraging for the whole industry. Nevertheless, it hides major challenges that the participative banking industry needs to face:

a) Real estate financing represented 85% of the total assets of the industry by the end of September 2021. This percentage has been decreasing very slowly since December 2019.
b) Equipment financing represented 6.7% of the total assets of the industry by the end of September 2021. This category of financing grew by 30.6% in one year.
c) The other categories represented 8.3% of the total assets including treasury financing and consumption financing.

Obviously, real estate and home financing assets represent the least risky assets on any bank balance sheet but at the same time, they generate less profit. In order to reach breakeven, participative banks need to move to short- and middle-term financing in responding to new financing needs. They should also target other segments of customers to serve, including high-net-worth individuals and businesses (especially small- and medium-sized businesses).

Moreover, they have to enrich their range of services to attract more customers and to be perceived as universal banks, not only as specialized financing organs. They have to provide products such as letters of credit, letters of guarantee, daily services, etc.)

Finally, participative banks should accelerate their digital transformation to reduce the gap in terms of geographical proximity and in terms of functional coverage compared with conventional banks.

Such strategic moves would help participative banks to enhance their profit rates and ensure higher rates of return to investment account holders and Sukukholders. This would help them attract more resources and reduce the liquidity gap, ensuring the sustainable development of their activities in terms of the size of assets and enhancing their financial performance.

*The growth perspective of Salam products*

As mentioned earlier, the only product launched in the Moroccan participative finance sector is Salam. Indeed, on the 7th March 2020, the Higher Council of Ulemas approved the model of contracts dedicated to Salam and this approval was officially notified to participative banks in June 2020.

In Morocco, Salam can be used with Wakalah, Murabahah or parallel Salam as exit options for banks depending on the requirements and needs of the customers. If the overall participative finance industry saw a significant development during 2021, this trend did not include Salam due to the following reasons:

1. There was only one bank that launched a Salam offering and it was dealt once using this formula. Nevertheless, due to the complexity of this product, it was not adopted by other banks.
2. Salam is still an unknown formula and huge literacy efforts need to be made.

It is worth noting that Salam is not a call product. It is just a complementary product to provide businesses with short-term cash financing.

From another perspective, in the Moroccan market, commodity Murabahah (Tawarruq) is not allowed which limits the cash financing product offerings. Therefore, Salam seems to be the most appropriate formula to accompany businesses with a liquidity gap.

*The regulatory framework for the Takaful industry*
2021 was not, as expected, the year of launching Takaful. Nevertheless, in the second semester, things accelerated with the approval of the regulatory framework composed of a circular, a ministerial decree and the new chart of accounts dedicated to Takaful and re-Takaful operators.

Based on the experts' forecast, the size of the Takaful industry in Morocco would be limited at the beginning, and then, depending on the product development process and appetite, the Takaful industry would grow accordingly and so would the re-Takaful sector.

From another perspective, reinsurance companies play an important role in providing appropriate solutions to insurance operators in order to mitigate their risks. Their absence can be costly for the whole industry.

In the Takaful sector, most of the legal and Shariah frameworks allow operators to deal with reinsurance companies in the absence of a re-Takaful offering that can cover their risks in a suitable way. The Moroccan legislator also adopted the same approach; meanwhile, Law n° 87-18 recognizes the statute of re-Takaful activity.

Indeed, the law permits exclusive reinsurance operators to set up their re-Takaful window while fulfilling all the necessary segregation and accounting requirements. The Moroccan chart of accounts dedicated to the Takaful industry defines the financial statements for re-Takaful windows.

Finally, introducing both Takaful and re-Takaful operators would improve the Islamic finance ecosystem in Morocco and reinforce its competitiveness. Nevertheless, the main challenge for this industry is the availability of liquid and performance financial instruments.

## Preview of 2022

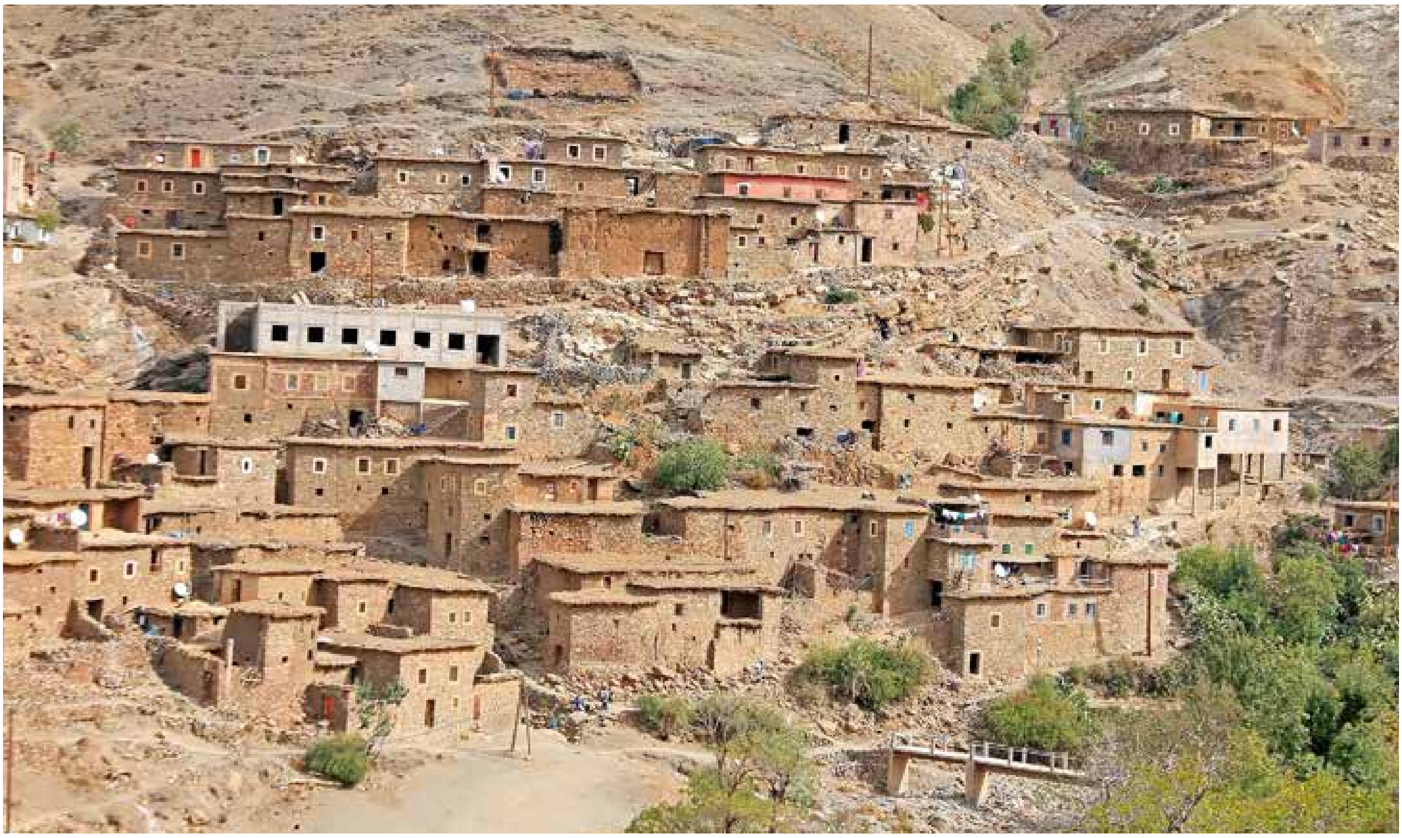
In 2022, the pressure on participative banks would be even bigger to reach breakeven and return-on-equity improvement. The major challenge for them is how to balance between the product development efforts, the growth requirements and the financial equilibrium.

From another perspective, by the end of 2021, the first Takaful licenses would be granted and in the first quarter of 2022, there would be the launch of a Takaful offering that would have a positive impact on the whole industry in terms of product offerings and deposit collection.

## Conclusion

As at the end of 2021, the Islamic finance industry is still relying on Islamic banking and home financing. It is important for banks to diversify their offerings and for regulators to reinforce the whole ecosystem by introducing Shariah compliant mutual funds and real estate investment trusts.

For other players who are having trouble in developing their activity, 2022 would be a decisive year.



# Bigger and bolder: Nigeria's Islamic finance industry on a firmer footing

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**The Islamic finance industry in Nigeria recorded another year of progress in 2021 with operators and regulators alike taking steps to place the sector on a firmer footing. Looking back at how these participants have exerted themselves for the good of the industry over the last 12 months, I posit that 2022 will shape up to be even more positive for the sector.**

## Review of 2021

Beginning in the banking sector, the Islamic finance industry welcomed a new entrant — Lotus Bank — which opened its doors in July to become Nigeria's third stand-alone non-interest bank. Thereafter, Sterling Bank secured in-principle approval from the Central Bank of Nigeria to spin off its Islamic window into a fourth stand-alone non-interest bank which is to be called the Alternative Bank. The growth of the banking space is being driven by increased awareness and demand for Islamic banking products particularly among the growing mass-affluent demographic.

In July, the National Pension Commission (PENCOM) gave pension managers the go-ahead to begin the operation of the dedicated non-interest pension fund category dubbed Fund VI. Subsequently, five pension managers which make up more than half of the industry's assets, as at the time of publication, have launched Islamic pension funds.

As the demand side expanded, so did the appetite for Islamic instruments such as Sukuk. It was particularly gratifying to see a wider variety of issuers deploy the instrument for a broader range of purposes. 2021 marked the first corporate green Sukuk to finance the acquisition of renewable energy assets. A government housing agency also issued Sukuk to fund mass residential property developments.

In addition, state governments raised Sukuk through private debt markets to fund infrastructure projects. Just as the year was rounding up, the federal government launched its fourth Sukuk issuance in as many years. The sovereign Sukuk adopted the forward Ijarah structure which has become the favorite flavor in the market. The Sukuk facility has a 10-year tenor and a rental rate of 13%.

Still in the fixed income space, Nigeria witnessed its first Shariah compliant commercial paper to provide agricultural raw materials to processing companies on the basis of Murabahah. The issue was sponsored by the AFEX Commodities Exchange which currently operates 97 warehouses across the country and has made significant strides to improve domestic food security.

2021 also marked a year for capacity-building with the introduction of non-interest finance Master's and postgraduate diploma programs at the prominent University of Lagos. Similar courses are on offer in other federal universities such as the Bayero University in Kano.

In addition, the Securities and Exchange Commission and PENCOM organized knowledge-sharing and capacity development sessions for Islamic capital market operators and pension fund managers as the latter begin their foray into non-interest investment management.


On their part, industry operators did not relent on public sensitization. The Non-interest Finance Institutions Association of Nigeria hosted the general public to a webinar that highlighted the role of Islamic finance in boosting financial inclusion in Nigeria.
The country also hosted the 5th edition of the Africa International Conference on Islamic Finance which explored avenues through which Islamic finance could aid infrastructure financing and sustainable development.

## Preview of 2022

Nigeria's Islamic finance landscape is like a snowball building momentum, gradually growing bigger and bolder. Besides the prospect of yet another sovereign Sukuk, a number of states have also indicated plans to come to the market. Lagos, the most active debt issuer among subnationals, purports to issue what it terms will be the largest non-sovereign Sukuk issuance in sub-Saharan Africa in 2022.

Similarly, I am aware that another state in Nigeria's northwest has made overtures to institutional investors on the possible issuance of up to NGN35 billion (US$84.68 million)-worth of Sukuk. I expect more issuers to tap into this market in 2022.

## Conclusion

As Nigeria completes a return to economic recovery post-pandemic, I believe that the potential of the Islamic finance sector is immense. One new space to watch is Islamic fintech which is gearing up to leverage technology in improving the digital experience of the growing profile of customers and operators. The market is warming up and we remain fascinated participants and observers of this market development.

# Offshore centers primed to deal with anticipated growth in Islamic finance

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**Moody's Investors Service predicts the Islamic capital markets to rebound in 2022 following an anticipated year of flat growth for 2021. The offshore centers, such as the Cayman Islands, Luxembourg and Labuan, remain primed and ready to participate in and satisfy structuring requirements for this anticipated growth in Islamic finance.**

## Review of 2021

Similarly to 2020, in 2021 global Sukuk issuances were dominated once again by sovereigns, quasi-sovereigns and banks, with such issuances continuing to feature SPVs formed in various offshore centers.
The Maldives had its maiden Sukuk issue this year, and the Emirate of Sharjah and the Kingdom of Saudi Arabia both returned to the capital markets, each using a wholly-owned issuer domiciled in the popular offshore center of the Cayman Islands.

Two notable global issuances this year were made by quasi-sovereigns. In March, the IsDB issued the largest sustainability Sukuk ever (US$2.5 billion) through its existing Sukuk program, which was restructured to add a new Luxembourg co-issuer.

In June, Saudi Aramco made its debut into the Islamic capital markets with the world's largest US dollar corporate Sukuk (of US$6 billion) through a newly established issuance program structured in the Cayman Islands. Both issuing vehicles are 'orphan' companies, meaning their shares are held on trust for charitable purposes by a licensed trust company; these issuers are also managed by independent directors.

Other quasi-sovereigns that issued in 2021 included Malaysian sovereign wealth fund Khazanah Nasional, which raised US$1 billion via a global Sukuk issuance through a Labuan SPV; and Saudi's ACWA Power which made a SAR2.8 billion (US$745.63 million) debut domestic Sukuk issue through a Dubai International Financial Centre (DIFC) prescribed company. Several banks from all across the GCC made global benchmark issuances this year, with a significant number of them doing so to improve their regulatory capital positions.

Each of Dubai Islamic Bank (DIB) in the UAE; Bank Al-Jazira, National Commercial Bank (now Saudi National Bank) and Riyad Bank in Saudi Arabia; Dukhan Bank in Qatar; and Ahli United Bank, Boubyan Bank and Kuwait Finance House in Kuwait issued additional Tier 1 or Tier 2 capital certificates using orphan issuer SPVs formed in the Cayman Islands. National Bank of Kuwait also issued Tier 1 capital certificates this year but used a wholly-owned DIFC issuer instead.

Several other GCC-based banks also issued Sukuk to raise funding, such as Ahli United Bank in Bahrain and Emirates Islamic and First Abu Dhabi Bank in the UAE, each through a Cayman Islands SPV. In terms of corporate Sukuk (apart from Saudi Aramco), there were two global issuances by real estate developers based in Saudi Arabia and the UAE respectively, namely Arabian Centres and Emaar Properties, also through Cayman Islands issuing vehicles.

## Preview of 2022

In addition to the expected continued use in 2022 of the popular offshore centers for Sukuk issuances, such centers will remain an important component for structuring, directly and indirectly, investments into Shariah compliant assets and investments in global assets in a Shariah compliant manner. A popular form of investment which will remain in use throughout 2022 is the Shariah compliant/friendly offshore investment fund that is typically sponsored and promoted by a regulated asset manager.

In 2021, Saudi-based SEDCO Capital launched Islamic funds that were domiciled in Luxembourg, including the sustainability focused SC LO Global ESG Fund for which SEDCO partnered with Swiss-based investment advisor Lombard Odier. Prestige Funds, a UK-based specialist private debt investment manager, launched the first-ever Islamic impact fund, Premium Alziraea Fund, formed in the Cayman Islands. DIFC-based Introspect Capital also launched a Cayman Islands Shariah fund, Introspect Islamic Fund.

Aside from these traditional fund structures, a recent development for offshore centers that we anticipate will expand in 2022 is the structuring of master Islamic investment platforms by Shariah compliant investors to facilitate their quick deployment of capital into global assets. Islamic fintech will remain a major focus for growth in 2022 for several centers. The Central Bank of the UAE recently signed MoUs with the Abu Dhabi Global Market and the DIFC for collaboration on the development of the fintech sector.

The Labuan International Business and Financial Centre continues to strengthen with the recent introduction of a digital governance and cyber resilience framework, which follows the establishment of its digital banking framework in 2020. Environmental, social and governance (ESG) factors will remain key to investors in 2022 and, as was the case in 2021, issuers will continue to turn to offshore centers for the delivery of Islamic ESG products.

As noted previously, the IsDB (using a Luxembourg issuer) floated US$2.5 billion-worth of sustainability Sukuk on Euronext Dublin and NASDAQ Dubai. The proceeds from the issuance will support eligible initiatives under its sustainable finance framework. Kuveyt Turk Katilim Bankasi (using a Cayman Islands issuer) raised a US$350 million ESG Sukuk facility, the proceeds of which will be applied to finance and/or refinance certain sustainable projects. This was reported as being the first-ever sustainable Tier 2 Sukuk issuance globally.

We believe Islamic finance would be advanced with greater promotion and education of the alignment of ESG to the principles of Islamic finance and the methods in which issuers and asset managers could satisfy this requirement. As ESG is becoming a more critical and prevalent investment criterion of global investors, an increased focus on the development of Islamic ESG products would have the potential of drawing more interest from international investors to Islamic products generally.

## Conclusion

The successful issues and launches of Islamic securities and products over the year confirm the continued confidence of international investors in Islamic finance and, in particular, in the use of offshore centers for the structuring of the same, a trend which will continue in the coming years.

# Islamic finance continues to grow in Oman


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**The availability of Islamic finance in the form of Mudarabah, Musharakah, Ijarah and Istinah as a means for funding real estate development, providing working capital to companies and financing SME projects has been a key factor in Oman's economic growth and diversification efforts over recent years for the encouragement of foreign investment. This growth has been further accelerated by the continuing overview and amendments to the Islamic finance regulatory framework by the Central Bank of Oman and the Capital Market Authority (CMA), among others.**

By the end of June 2021, Oman's Islamic banking sector constituted 15% of the total banking market share in Oman, and this percentage is expected to rise to 20% by the end of 2025. According to Moody's Investors Service, Islamic financing has been growing globally at an average rate of 39% between 2013 and 2020.

## Review of 2021

As a result of the encouragement provided by the regulators, Islamic finance has continued to expand in 2021 and has been performing its role in the economic development of Oman despite the impact of the COVID-19 pandemic on the economy of Oman generally.

Carrying on from the success of its earlier Sukuk issuances, in 2021 the government of Oman successfully undertook a further US$1.75 billion international sovereign Sukuk issuance.

In continuation of Oman's efforts to reform and strengthen the regulatory framework for the Islamic finance sector, in view of the growing healthcare needs of consumers in Oman particularly in light of the COVID-19 pandemic, Royal Decree No 45/2021 amending the Takaful Law was issued.

Royal Decree No 45/2021, inter alia, with the aim of regulating healthcare Takaful, separates it from other Takaful activities (Family Takaful and General Takaful). This regulatory fleshing-out of the health Takaful sector is indicative of the CMA's awareness of the growth potential of the overall Takaful market and for it to be adapted to correspond to the ongoing economic changes, healthcare challenges and the needs of prospective customers in the Omani market.

Further, in August 2021, the CMA proposed draft regulations for crowdfunding platforms for public feedback. This move comes as part of the Omani government's efforts to modernize and digitally transform the national economy, including the financial services sector.

The draft regulations capitalize on the increasingly expanding role of crowdfunding in the global economy by establishing a robust crowdfunding framework. The draft regulations recognize and regulate Islamic crowdfunding in the form of Islamic investment notes that constitute securitized joint ownership in Shariah compliant assets and investment projects offered through the platform.

Other proposed legislation includes a draft of the new Sukuk and Bond Regulations circulated by the CMA for public feedback. The draft new regulations further improve and standardize the rules for the issuance of Sukuk and bonds to enhance the efficiency and ease with which such debt instruments may be issued in Oman.

## Preview of 2022

2022 will likely witness the finalization and issuance of the various draft regulations floated for consideration in 2021 with a view to further bolster the Islamic finance regulatory framework in Oman.

Islamic finance is well suited for asset and project financing given its asset-oriented structures (the majority of which in Oman constitute infrastructure projects). Islamic banks may need to consider increasing their competitiveness by developing new investment products, lowering the cost of their products and customizing products that specifically cater to the various developments in the Omani industrial/project sector.

Products such as Ijarah, Musharakah and Istisnah have often been used in developed Islamic economies to successfully fund public–private partnership projects, infrastructure and large-scale industrial and tourism projects. The government may consider the issuance of further Sukuk to fund its economic development programs.

Further, once the necessary regulatory framework is in place, Shariah compliant crowdfunding financing will enable SMEs to access financing at a low cost, and without the need to provide security, feasibility studies or other requirements typically associated with traditional bank financing. Mainstreaming access to finance for SMEs in Oman is likely to substantially boost the development of SMEs and, consequently, job creation and economic growth.

Another important social impact product that is likely to be covered by the upcoming Sukuk and Bond Regulations to be issued by the CMA is Waqf Sukuk, whose structure can be used to benefit the general public. This is something that the regulators may consider when legislating for Sukuk, especially following the crisis caused by the Shaheen hurricane. One could see welfare-specific Sukuk being used to repair the damage caused by similar natural events in Oman.

## Conclusion

To maintain momentum for continuing growth in Islamic finance, the adoption of further reforms may need to be considered in the field, eg regulation of fintech, the setting-up of a separate market for Islamic finance products, development of a stand-alone regulatory framework for the establishment of Islamic funds and other such measures. A sophisticated and an investor-friendly regulatory environment is the key to a flourishing industry.

# Pakistan: Growth and stability through resilience and innovations

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**The Islamic finance service industry of Pakistan has performed well in 2021. Being the second-largest Muslim population in the world after Indonesia provided huge opportunities for the industry. The Islamic finance service industry has now become an important component of the industry by experiencing remarkable growth over the last two decades. The use of Islamic banking products by users such as consumers, the corporate sector and the government is on the rise which is widening the share of Shariah compliant products and services at large within the unserved and underserved sectors. Islamic banking throughout has remained an important segment for the State Bank of Pakistan (SBP). This is reflected though the SBP's dedication, commitment and continuous engagement for the sustainable growth of the Islamic finance service industry in Pakistan.**

## Review of 2021

In Pakistan, the Islamic banking industry has a large share within the overall segment of the Islamic finance service industry. Islamic banking continues to gain popularity in Pakistan as it has an impressive growth rate in the past few years as compared with the growth rate of conventional banking both in assets and deposits.

According to the Islamic Banking Bulletin of the SBP dated the 30th June 2021, the Islamic banking industry has maintained its growth momentum. Assets and deposits increased by 32% and 29.7% respectively on a year-on-year basis. The market share of the Islamic banking industry's assets and deposits in the overall banking industry were recorded at 17% and 18.7% respectively by the end of June 2021. The number of branches also increased by 9% to 3,583 from 3,274 in the previous year.

Despite a difficult operating environment, the results from the banking sector are very encouraging. Meezan Bank had a remarkable growth in its asset size and profitability and holds the leading position within the Islamic banking sector.

Faysal Bank (FBL) made a successful transformation from a conventional bank to an Islamic bank and emerged as one of the major players in Pakistan's banking industry. The conversion of FBL is recognized as the largest and most successful Islamic conversion globally.

During the year, the SBP unveiled a third five-year strategic plan for the Islamic banking industry. The strategic plan has set headline targets to be achieved by 2025. The said plan aims to set a strategic direction for the industry to strengthen the progressive momentum and lead the industry to the next level of growth through specified targets by focusing on six strategic pillars elaborated in the said plan.

Under the supervision of the Securities and Exchange Commission of Pakistan, the non-banking Islamic sector consisting of Takaful, Islamic mutual funds, REITs, non-bank finance companies and Modarabas also performed well.

Within the mutual fund segment, Islamic funds made remarkable progress and attained a sizeable growth. Al-Meezan Fund holds the leading position by having the highest fund size within the said sector.

The Takaful sector is also enhancing its share within the Pakistan market through innovating products and services.

Salam Takaful, one of the fully-fledged Takaful companies, is progressing well and enjoying prominent positions within the said segment and also featured in the coveted list of InsurTech100 for 2021.

Within non-banking Islamic finance, the Modaraba sector also did well and increased its asset size in the 2021 financial year. However, during the year, the tax authority withdrew the income tax exemption for the Modaraba sector which has weakened the confidence of investors in the said segment.

In order to support the construction and real estate sectors, the Islamic banking industry has played a leading role in mortgage financing and secured a share of more than 55% of the overall housing finance market in Pakistan. The Islamic debt market also witnessed a good number of Sukuk issuances within the financial market. The Pakistan Stock Exchange also performed well and witnessed a sharp rise of around 74% since hitting its low during March 2020 on account of COVID-19.

## Preview of 2022

The overall financial sector is broadening across all segments of banking and non-banking. Pakistan's entire financial sector continued to perform well during the challenging times of the COVID-19 pandemic.

Digital banking, introduced during the pre-pandemic times, got market penetration and played a key role in keeping the financial system intact. Within the Islamic finance service industry of Pakistan, Islamic banking dominates and holds a large share within the sector.

The SBP's strategic plan for the growth of Islamic banking would lead the direction in achieving the specified targets by focusing on six strategic pillars. The plan will emphasize on the Islamic banking industry developing innovative Shariah compliant products to cater to the needs of underserved sectors particularly SMEs and agriculture which are critical for the growth of the country's economy.

Achieving high COVID-19 vaccination numbers and the expansion of social protection programs will also help in moving toward inclusive and sustainable growth. The headline targets of the said plan is a 30% share in assets and deposits of the overall banking industry and a 35% share in the branch network of the overall banking industry.

The said target seems quite logical and achievable keeping in view the past performance of the Islamic banking industry in the last few years. The non-banking segments including the Islamic debt and equity markets are also expanding which will ultimately support the growth of Islamic finance in Pakistan's markets.

## Conclusion

Islamic finance, particularly Islamic banking, has achieved impressive growth in the past few years. However, the huge market is still untapped particularly the SME sector of Pakistan. For sensible and targeted growth of the said industry within the masses, there needs to be higher digitalization and fintech collaboration. This could help in strengthening their resilience even in volatile environments and open new avenues for further growth. The Islamic finance service industry has now become an important component of the overall financial sector of Pakistan.

However, the majority of the said industry's network are concentrated in urban areas and they need to expand their outreach to the unserved/underserved sectors in the country.

# Toward Palestine Islamic fintech

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**Palestine has witnessed an increase in demand for Islamic finance, with the entire assets of its three fully-fledged Islamic banks growing from US$1.16 billion in 2014 to US$3.4 billion in 2020, surpassing the annual rate of the nation's typical banking sector, and proving to be a vital contributor to the government's financial inclusion objectives.**

## Review of 2021

The Palestine Monetary Authority (PMA)'s Fintech Advisory National Board formed in January 2021 is tasked to develop the fintech sector that is based on monotheism fintech. In the same year, the regulator jointly launched the official strategic framework for monotheism financial services to strengthen Shariah finance's role in promoting financial inclusion, with a specialization in encouraging Islamic banks to adopt digital transformation and develop methods integrating fintech. The PMA is actively seeking to boost Islamic financial inclusion by developing financial technologies and infrastructure for the payment systems in Palestine, in addition to supporting entrepreneurs, innovative concepts and emerging firms.

Unfortunately, when talking about financial innovation in the MENA region, very few people would think of Palestine as a fintech hub. This perception is understandable given the uncertain political reality in the country due to long years of conflict, occupation and severe restrictions imposed on the Palestinian economy. Of course, the inexistence of a sovereign national currency and the lack of an independent monetary policy are among the main obstacles that have hindered the development of an enabling environment conducive to fintech innovation.

Of course, the inexistence of an autonomous national financial sector, and therefore the lack of a free-cash connected approach, squares off with the measures and are among the foremost deterrents that have ruined the advance of an empowering atmosphere contributory to fintech development.

Islamic banks were able to prove themselves by coming into the Palestinian market and providing their merchandise to fulfill demand; the entire assets of Islamic banks tripled from US$1.16 billion in 2014 to US$3.4 billion in 2020, achieving a compound annual rate of 19% that is almost five times that of the 4% achieved by traditional banks.

The assets of monotheism banks in Palestine accounted for 17% of the entire assets of the banking industry in 2020. Studies and indicators show that there is a high demand for Islamic financial services and a niche between demand and supply which needs accumulated offerings and bigger liquidity to fulfill the current and future demand.

The PMA, in accordance with its future plans, sought to integrate fintech into the Islamic industry and encourage monotheism banks to adopt methods for digital transformation and investment, in addition to developing a spread of solutions to inject short-term Islamic liquidity to assist Muslim financial service suppliers manage liquidity in accordance with Shariah; adopting a periodic external Shariah audit on Islamic banks and specialized Islamic disposition establishments; developing the role of the arbitrator for Shariah management and altering them to review and approve new merchandise; and supplying guidance for the Islamic finance sector on those merchandise, with the aim of developing new financial services that meet the growing demand.

## Preview of 2022

The Palestine Capital Market Authority (PCMA) and the PMA are compelled to complete this strategic framework, and therefore the International Finance Corporation provided support for these efforts which are within the development and growth of the finance and banking sector in Palestine.

It is worth noting that in spite of the challenges, the PMA has overseen the satisfactory allocation of most of the duties allocated to any autonomous establishment — separated from the aptitude to issue national financials.

The PMA has been able to guarantee the viability and solidness of the financial division by following universally accepted standards.

Currently, there are around 60% of grown-ups (aged above 15) in Palestine that have bank accounts and skills in managing account administration like investment and borrowings.

In terms of growth, the PCMA has been able to manage the execution of the non-banking monetary fund division's enumeration protections, financial dealings, contract funding and securities exchange companies.

## Conclusion

The challenges of access to financial services do not appear to be entirely restricted to individuals. In fact, the SMEs in Palestine still face obstacles in accessing normal funding opportunities through banks and credit institutions.

It is believed that varied tech-enabled funding decisions, such as crowdfunding and peer-to-peer lending, can play a huge role in filling the annual determinable SME funding gap of US$630–900 million. This is a big role for fintech start-ups in achieving Palestine's ambitions of financial inclusion through digital technology.

About 65% of Palestine's population consists of the youth and those who are tech-savvy (aged below 29) and this provides fertile ground for the adoption of innovative tech-enabled solutions in financial services, in addition to raising awareness on the importance of financial inclusion in Palestine through harnessing, developing and investment in fintech solutions.

# Forging ahead with Islamic banking in the Philippines

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**Despite the ongoing COVID-19 pandemic, at least three Islamic banks based outside the Philippines have expressed interest in applying to the Bangko Sentral ng Pilipinas (BSP) for a license to conduct their operations in the Philippines under Republic Act No 11439 or the Islamic Banking Law. It is anticipated that actual applications will be submitted to the BSP when the pandemic is definitively controlled and normality sets in. In the meantime, the BSP has issued and will be issuing regulations pertaining to Islamic banking in the Philippines.**

To be sure, these regulations are not presently being issued in a vacuum, because they are intended not only for stand-alone Islamic banks that will be licensed to operate in the Philippines but also Islamic banking units of existing conventional banks in the Philippines.

## Review of 2021

The BSP disseminated a draft circular on the guidelines for reporting Islamic banking and financial transactions. The guidelines require that funds received by an Islamic banking unit of a conventional bank must "not be invested in, or commingled with other funds held by, the conventional bank".

Consistent with this segregation rule, the books and records of the Islamic banking unit must be "kept separate and distinct from the books and records of transactions performed by the other departments/units of the conventional bank".

The BSP also circulated a revised set of regulations governing the Foreign Currency Deposit System aimed at promoting effective risk management in banks including Islamic banks. Apart from explicitly recognizing that Islamic banks have the necessary powers to engage in the business of banking in accordance with Shariah principles, the regulations confirm that Islamic banks have the authority to "accept foreign currency deposits" as provided in the Foreign Currency Deposit Act of the Philippines.

This is the law that authorizes conventional banks to accept deposits not in pesos but in any foreign currency that can form part of the international reserves of the BSP. The BSP regulations now extend that authorization to Islamic banks. It is understood, however, that unlike their conventional counterparts, Islamic banks will not be able to pay interest (Riba) on the deposits, since this is not allowed under Shariah principles.

In this regard, the insurance coverage of interest-bearing deposits in conventional banks under the Charter of the Philippine Deposit Insurance Corporation (PDIC) is not extended to Islamic deposits. To remedy this, Bill No 2089, pending in the Senate of the Philippines, seeks to allow the PDIC to "establish separate insurance funds, and insurance arrangements or structures or Takaful that take into consideration the peculiar characteristics of Islamic banking".

Other regulations previously applicable only to conventional bank are now to be read as covering Islamic banking as well. Thus, with regards to anti-money laundering measures, the BSP issued Circular Letter No CL-2021 requiring BSP-supervised financial institutions (including Islamic banks) to disseminate the amendments to the registration and reporting guidelines of the Anti-Money Laundering Council composed of the BSP governor, the chairman of the Securities and Exchange Commission and the Insurance commissioner.

In addition, BSP Circular No 1117 (Series of 2021) implementing the Financial Institutions Strategic Transfer (FIST) Act would cover not only conventional banks but also their Islamic counterparts. This is the law that allows the establishment of entities (called FIST corporations) whose purpose is to acquire non-performing assets of the banking sector.

## Preview of 2022

As the pandemic continues to subside, 2022 will see renewed interest from foreign banks in entering the banking sector of the Philippines. In turn, the BSP, as the supervisor of all banking and financial institutions in the Philippines, will be issuing more circulars pertaining to the activities of Islamic banks.

In fact, the BSP is mandated under its amended charter to "formulate rules and regulations for the extension of financial facilities to Islamic banks" but "taking into consideration the peculiar characteristics of Islamic banking".

## Conclusion

The prospects of Islamic banking in the Philippines remain bright despite the challenges posed by the pandemic. As recounted previously, there has been no resulting standstill in terms of regulatory issuances from the BSP. This will provide operational clarity to banks seeking entry into the Islamic banking sector of the Philippines.

# Light at the end of the tunnel

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**2021 has been a challenging one for many economies globally as the full impact of COVID-19 was felt across various industries and sectors. The Middle East did not escape the disruption and chaos caused by a sudden contraction of the market last year. Travel, tourism and cross-border commercial activities have all been hugely impacted. Despite facing these turbulent times, it is encouraging to see that Qatar has quietly realized a number of financial and political objectives that have boosted economic activity within the State, particularly relating to the Islamic financial sector.**

## Review of 2021

The year started off with the welcome news of the signing of the Al-Ula Declaration on the 5th January between all the members of the GCC. The agreement primarily restored political relations between Qatar, Saudi Arabia, the UAE and Bahrain; effectively ending the three-year blockade against Qatar and allowing the free movement of people, goods and services throughout the region once more.

As a result, the Qatar Stock Exchange witnessed a significant rise of over 165%, as the market index reached QAR614 billion (US$167.17 billion) during the first month after the agreement was signed. Some of biggest beneficiaries of the agreement have been Islamic banks in Qatar, as they traditionally drew the attention of investors from all around the GCC.

The level of investment coming into Qatar steadily increased since the start of the year. In particular, the amount of cross-border activity involving Qatar and Saudi Arabia saw a marked increase following the establishment of a government-level committee aimed specifically at increasing bilateral investment opportunities.

The much-anticipated merger between Masraf Al Rayan (Masraf) and Al Khalij Commercial Bank (Al Khaliji) first announced in January 2021 has been gaining traction in the latter months of the year as the shareholders of both banks approved the merger during their respective extraordinary general assembly meetings in October.

This merger is seen as a landmark transaction in Qatar and the wider GCC region as it is set to create the largest Shariah compliant bank in Qatar, and one of the strongest in the GCC. In short, this is one of the major developments involving Qatar's Islamic finance industry this year.

In more recent news, the largest state-owned petroleum company in Qatar, Qatar Petroleum, has been rebranded to Qatar Energy. Qatar, the world's largest supplier of liquefied natural gas, still aims to expand production to 127 million metric tons annually by 2027 and expects the natural gas industry to remain a large part of the energy transition for the next few decades. The name change signals a shift in strategy, as Qatar moves its focus to more efficient means of energy and environmentally-friendly technology and away from petroleum and hydrocarbons.

The need for a more sustainable economy is more prevalent than ever, and which the Islamic banks have been instrumental in supporting. Qatar's focus on alternative energy sources is likely to present new opportunities for the domestic Islamic banks to participate in project financings in the years to come.

## Preview of 2022

We are entering the final year before Qatar hosts the much-awaited FIFA World Cup 2022. This event has been in the making for 12 years and has provided immense opportunities for Islamic banks since then.

More than US$200 billion has been spent on building the infrastructure required to host the World Cup. We are now seeing the growth in tourism, hospitality, event management, security and related sectors. These will need support from the local banking sector and Islamic banks will no doubt continue to play a key role in these businesses.

Qatar has demonstrated leadership in its handling of the COVID-19 pandemic by, among other things, being home to the only regional airline that continued to repatriate overseas people throughout the last 18 months.

Qatar has also provided much-needed humanitarian and political support to avert a humanitarian disaster in Afghanistan, by aiding with the airlifting of refugees. Recently, Qatar held its first-ever Shura'h elections which saw the appointment of a diverse number of Qatari nationals to the parliament.

All of these demonstrate that the country is being managed in a careful and placid manner by leadership aware of their wider duties. This is expected to continue to encourage cross-border investments in Qatar, to the benefit of the Islamic finance industry.

Qatar's focus on fintech and its successful outreach to other countries over the past three years have meant that there is significant scope for the growth of Qatar-based Islamic institutions in other markets where the State is looking to develop closer ties.

These opportunities may come by way of the expansion of existing institutions abroad and by providing facilities to joint venture projects and investments being made by Qatari investors in overseas markets. With this, Qatar is well positioned to help develop the Islamic finance industry in new markets.

Qatar's laws regarding foreign ownership caps of listed entities have changed in 2021. It is now possible for listed entities to increase the percentage of foreign ownership from a maximum of 49% to up to a 100%.

This is expected to increase the level of participation and trading in the Qatar Stock Exchange in 2022 and bring with it the prospects for greater growth in the local economy. This will create opportunities for conventional and Islamic funders.

## Conclusion

In conclusion, while Qatar has not been immune to the shocks that were sustained by global economies as a result of COVID-19, it has made some significant progress in creating a positive and encouraging ecosystem that is the source of much optimism.

The lifting of the regional blockade has made a huge difference to global and regional sentiment about the GCC and its future. The rationalizing in the marketplace by the merger of Al Khalji with Masraf Al Rayan shows that there is appetite to cease on market gaps in the Islamic finance sector.

Finally, next year promises to be exciting for all sectors, including Islamic banks, with the hosting of the much-awaited World Cup. Let the games begin!

# Islamic finance in Russia: The first signs of recovery

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**Following the global trend of slow recovery after the crisis caused by the COVID-19 pandemic, the Russian economy is showing positive signs of business activity growth in the Halal and Islamic finance industries.**

Small and average-sized Islamic financial companies, during the isolation and lockdown period, managed to find new ways of communication with customers by inventing and developing new technologies of financial transactions using the online mode.

The demand for Halal food and beverages increased due to the flexible ways of delivery and the mode of payment provided by the distributors for retail and corporate customers.

## Review of 2021

Economies worldwide were negatively impacted by the coronavirus pandemic which limited business activities. In Russia, businesses became more creative in developing online technologies and promoting new online products to the community and corporations.

The Islamic finance industry in the Muslim regions of Moscow expanded either in the form of small Islamic financial companies or the diversification of conventional banks of big banking corporations.

The biggest state bank in Russia, Sber, which is using the facility of its branch in Abu Dhabi 'Sberinvest Middle East', announced the general volume of closed Shariah compliant deals amounting to RUB30 million (US$395,935) and US$262 million. There are also plans to accomplish more Islamic finance transactions worth RUB10 billion (US$131.98 million) in the near future.

New Islamic stock indices were invented by the Moscow Exchange; however, there are no signs of any Takaful operations development in Russia in the last two years.

The Islamic finance educational programs conducted virtually by leading Russian universities have attracted many students and qualified teachers from different countries and regions.

## Preview of 2022

Several factors will impact the development of Islamic finance in Russia. On the one hand, it depends on the general terms and quality of the recovering process of the Russian economy from the pandemic which will hinge on the recovering speed of the global economic situation as well as the proper monetary and fiscal policy of the Russian authorities.

On the other hand, Islamic finance is a model that is attractive during crises due to its stable and low-risk activity that attracts conservative private and corporate investors. Hopefully, the growing demand for Islamic financial instruments in Russia in 2021 will continue in 2022.

The lifting of the lockdown period due to the pandemic will make way for bigger international forums to be held in Russia which will increase participation from Islamic finance experts worldwide.

The increasing number of Islamic finance educational programs in Moscow and other regions will become more specialized and advanced with more variants and options for students of different levels to participate. Joint programs of several foreign universities will attract respectable international Islamic organizations such as the IsDB or AAOIFI as partners.

One of the growing trends in Russia will be the production of Halal food and beverages apart from developing Islamic stock markets due to the usage of new Islamic stock indices such the Islamic Investment Index and the Total Return Islamic Investment Index on the Moscow Exchange.

## Conclusion

Islamic financial institutions have improved online technologies, attracting more customers not only in Russia but also other countries.

Despite the signs of recovery of Shariah compliant transactions and the growing volume of Islamic financial operations of conventional institutions, the gross volume of Islamic financing is not satisfactory. Islamic finance is still a niche product, which only has limited recognition among the Russian community and businesses.

Obstacles still exist in the development of the Islamic finance sector such as the absence of Islamic finance legislation, a non-friendly fiscal policy, unfavorable conditions for foreign investors and no governmental support. All these limit the foreign Islamic investments in the Russian economy which in turn slows down the development of the Shariah compliant sector.

Islamic financial institutions should use their advantages such as their stability and double-risk control to achieve more business share in the national financial market. They need to intensify the popularization of Islamic finance and Halal industry advantages to attract more customers, hence enlarging the volume of transactions.

The growing number of Islamic financial deals can raise the interest of Russian financial authorities followed by some support measures for the Islamic financial sector. This is important not only for the Muslims and their businesses, but for all Russian economies.

# Another record year in Saudi Arabia

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**The Saudi legislative system witnessed significant social, legal and regulatory developments in 2021. A number of reforms focused on entertainment options for the Saudi population and further steps in facilitating the ability of women to participate in the workforce.**

A number of new laws were passed that may impact Shariah compliant investors including in the following areas: privatization, healthcare, data protection, construction and waste management. One of the biggest developments was confirmation from the Saudi Capital Market Authority that foreign investors may now invest in funds that invest in the holy cities of Mecca and Medina.

Despite COVID-19 challenges, Saudi Arabia had a record year in terms of non-oil revenues, with a remarkable volume of mergers and acquistions (M&A) activity led by healthcare, petrochemicals, banking and finance. Saudi Arabia also completed the largest banking merger in April 2021, when SAMBA Financial Group merged with National Commercial Bank, forming the largest bank in Saudi Arabia, the Saudi National Bank, with US$239 billion in total assets. Additionally, there were nine public offerings on the main stock market and six in the secondary market.

The Kingdom also continued to invest through the Public Investment Fund in specific sectors, including entertainment and tourism, announcing 'the Line' and 'OXAGON' cities in Neom, as well as Six Flags Park in Qiddiya.

## Review of 2021

The Kingdom issued many laws and regulations and recently announced the approval of the new Evidence Law. In the following, we highlight some of the laws that we think will be of particular interest to Islamic investors.

*Privatization Law*
The National Center for Privatization issued the Privatization Law in March 2021. The Privatization Law structures the elements of the relationship between governmental entities and private parties in privatization projects. The Privatization Law targets local and foreign investment to optimize state-owned assets.

*Personal Data Protection Law*
Like many components of the international data protection laws such as the GDPR, the Personal Data Protection Law (PDPL) aims to minimize data usage and provides security over the data of subjects. The PDPL applies to the processing data including in relation to businesses and public entities in Saudi Arabia, as well as the data of Saudi nationals located outside the country. Strict penalties stipulated in the law include fines and imprisonment.

*Contractors Classification Law*
This law forbids government entities from dealing with unclassified contractors. The Ministry of Municipal and Rural Affairs and Housing (MOMRAH) is the issuing and supervising authority of contractor classification in coordination with the relevant authorities. Contractors are to be qualified based on their credit rating, technical and capabilities criteria.

The law allows contractors to form consortiums provided one of the parties is licensed with the classification required for such a project. Foreign contractors are subject to this law and may potentially be exempted by the Council of Ministers in certain circumstances.

*Medical Devices Law*
This law delegates the supervision and registration of medical devices to the Saudi Food and Drugs Authority. This law also further clarifies that nuclear and radiological devices must work in coordination with the Nuclear and Radiological Regulatory Authority. This law outlines penalties for violations and non-compliance.

*Waste Management Law*
Saudi Arabia has adapted a new waste management law and enabled MOMRAH to collect waste collection fees for a period of two years. This law regulates waste collection activities and the aftercare of waste disposal sites. This law clarifies the state ownership of the waste when placed in containers or other specified sites and prevents scavenging. This law entails imprisonment of up to 10 years and/or fines of up to SAR30 million (US$8 million) for disposing waste that forms a risk to public health or damages the environment.

*Human Organ Donation Law*
This law sets forth the licensing requirement, processing conditions for organ transplantation and obligations of the medical facilities. It authorizes the Saudi Center for Organ Transplantation to license and supervise the relevant medical facilities. This law provides certain protections for donors and compensation for the heirs. It also states the prohibitions in relation to organ transplantation. There are also certain inspection and procedural stipulations and penalties for such violations.

## Preview of 2022

Entertainment, tourism, food and beverage, and culture appear to be the Kingdom's prime focus despite the challenges posed by COVID-19. It is expected that the entertainment options will continue to be family-friendly and adhere to core Shariah principles as well as being the biggest market in the world for new entertainment and museum projects over the next few years. Supported by a healthy budget, the country is likely to further invest in new growth areas for the Kingdom.

Fintech and e-commerce are still some of the most resilient segments in gaining growth. The Saudi Arabian Competition Authority is increasingly becoming active and announced it blocked a deal in the food delivery space due to potential concentration. We also foresee extensive M&A and capital market activity, including IPOs, during 2022.

## Conclusion

Despite the COVID-19 pandemic, Saudi Arabia saw considerable economic activity and carried further legal reforms in 2021 under the country's Vision 2030 which endeavor to further optimize foreign investments. We expect the Kingdom to retain the growth momentum in 2022.

# Advocacy for a revaluation of Islamic finance in Senegal

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**COVID-19, with its share of economic consequences, has not spared Senegal's economic activity. However, in the financial sector, as in previous economic crises, the field of Islamic finance has not really been affected. On the contrary, given its embryonic state in Senegal, this sector took advantage of this situation to reaffirm its solidity and extend its milestones in Senegal.**

Indeed, despite the pandemic, the players and the authorities have contributed greatly not only to the improvement of the framework but also to the promotion and growth of the activities of this sector. Today, we are beginning to feel the full attributes and potential of this sector, which promises a very good future for Senegal.

Senegal is one of the West African Economic and Monetary Union countries that are bursting with capacity and welcoming with open arms the Islamic finance industry which is in the process of being built there. In other words, we will have to witness a real implosion of this industry which will give a new breath to the economy of the country.

## Review of 2021

2021 went on in a very positive note despite the presence of COVID-19 with considerable progress noted in the Islamic finance sector. Senegal has received a lot of funding from the IsDB. More than 80 development projects worth US$2.6 billion were financed by the IsDB.

Moreover, the International Islamic Trade Finance Corporation, a member of the IsDB group, has recently granted Murabahah financing in the amount of EUR100 million (US$113.05 million) to the National Electricity Company of Senegal (SENELEC), the company responsible for the production, transmission and distribution of electricity in Senegal, intended to cover 19% of SENELEC's financing needs for the purchase of refined petroleum products.

The real estate sector, particularly social housing, also saw the contribution of the Islamic Bank of Senegal which granted funding of US$87 million to the Fund for Social Housing for the promotion of social housing.

The Islamic microfinance sector is undergoing a revival in Senegal with the approval of TAYSIR, the first 100% Islamic institution. This institution will certainly bring a supply that is perfectly in line with the growing demand for Islamic financial products.

We also note projects to redevelop the regulatory framework. Indeed, the Central Bank of West African States (CBWAS) has for several months initiated work for the creation of a central chair committee and the harmonization of the contractual framework of Islamic finance operations proposed by banks and decentralized financial systems. This work is well underway and we hope to see this framework in 2022. The Regional Council for Public Savings and Financial Markets on its part launched a consultation for the establishment of a regulatory framework dedicated to Islamic capital markets.


## Preview of 2022

Given the considerable progress made, it is hoped that 2022 will be a flagship year for the growth of Islamic finance in Senegal. Indeed, since the presence of Islamic financial institutions will be tru-ly significant, a system of supervision by the CBWAS will probably be operational to allow the col-lection of reliable data on this sector of activity.

In addition, with the development of Islamic fintech, we will witness a true evolution and diversification of financial offerings and services. Moreover, we will see very soon the offerings of BBS Invest which proposes a digitization of Murabahah and a revival of the operations of Tawarruq. All these efforts and innovations make it possible to access operations and lift the veil on the presumption of non-compliance of Tawarruq operations. As Islamic finance advocates transparency in operations, digitalization remains the best way to achieve this result.

Meanwhile, we note likely revisions to the regulatory framework that are also highly anticipated in 2022. 2021 was an opportunity for the authorities to gather strong recommendations for the improvement of the regulatory framework of Islamic finance. The latter advocate the completeness of the current normative system in order to encourage the diversification of the offerings of Islamic financial products and services and to encourage the growth of the rate of bancarization.

## Conclusion

Senegal has institutions which for more than 30 years have been experimenting with Islamic finance but to date, its evolution remains at an embryonic level. Despite a glimmer of hope that occurred with the CBWAS's instructions in 2018, the evolution of this subject remains indexed to the will of our policies and regulators.

Thus, it is up to all players wishing to embrace this sector to work in unison in order to develop an advocacy platform to be passed on to the authorities in charge of regulation. The said advocacy platform, to be developed on a national scale, will undoubtedly be in the ear of the regulator which will not fail to reconsider or adopt new standards so that Senegal, a favorable environment to Islamic finance, may become West Africa's leading Islamic financial center.

# Singapore: The reset on nature and Islamic finance

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**The COP26 [the 26th UN Climate Change Conference of the Parties] Report issued by the World Health Organization in October 2021 calls for world leaders to act with urgency on the current climate and health crises, citing the former as the 'single biggest health threat facing humanity'. Hence, Fiqh Al-Ta'amul Ma'a Al-Azamat (jurisprudence of crisis management) is a survival tool for the global community. The Quran (2:155) hinted that a disaster can be a form of divine love and human introspection. Therefore, disasters should be deemed as a test which opens up opportunities for people to have Himmah (determination) and improve the quality of their life, faith and business.**

## Review of 2021

Singapore has been involved in the Convention on Biological Diversity (CBD) since 1996. Several nature reserves are the country's strategy to safeguard biodiversity. The Singapore Index on Cities' Biodiversity is a self-assessment tool for other cities around the world to benchmark and monitor the progress of their biodiversity conservation efforts to ensure a good quality of life for its urban citizens. This complements the UN Sustainable Development Goal No 11 and Maqasid Shariah on lineage/posterity (ie Nasb).

The finance sector is a critical gatekeeper of the CBD. According to the World Economic Forum, the world's GDP is mostly dependent on biodiversity, hence funding of environmentally-destructive projects should cease. The loss of nature creates systemic risks, including disruption of ecosystem services on which business activities' operations depend. Financial institutions face transition risks when aligning with nature-positive regulations.

The Post-2020 Global Biodiversity Framework (GBF) will replace the Aichi targets which expired in 2020. GBF is relevant to the finance sectors, but restoration of nature requires US$720 billion annually.

In January 2021, the Monetary Authority of Singapore (MAS)'s Green and Sustainability-Linked Loan Grant Scheme was announced as the first in the world to support corporates which are moving toward sustainability.

In September 2021, amendments to the Environmental Protection and Management Act gave authority to the government to control the release of hydrofluorocarbons that cause global warming.

However, an independent scientific report (ie Climate Action Tracker) found Singapore's climate targets and policies as "critically insufficient" as unique challenges faced by the country were not

accounted. Hence, the Singapore Green Plan has to be dynamic; that includes continuously harnessing greener options such as solar energy and low-carbon alternatives.

The community longs for an Islamic residential financing, and there is a gleam of hope. In August 2021, Halal Universe wrote in to the CPF Board, exploring if the CPF Act could accommodate a Shariah compliant home financing. The Ministry of Manpower and the Ministry of National Development clarified that they have received proposals from service providers which are keen to offer such facilities in Singapore.

Recently, MAS and Bank Negara Malaysia announced plans to link Singapore's PayNow and Malaysia's DuitNow real-time national payment systems. This signifies a milestone in the bilateral relationship between both countries and an enabler to support post-pandemic economic growth.

With effect from October 2021, businesses that develop solutions to reduce waste and greenhouse gas emissions will gain better access to financing via the new Enterprise Financing Scheme-Green, where the Singapore government will provide a 70% risk-share for loans disbursed by banks (ie DBS, HSBC, OCBC and UOB). It covers developmental capital, fixed assets, trade, project, venture debt and mergers and acquisitions. Other banks offering Islamic windows in Singapore could consider following suit.

Meanwhile, Maybank Singapore is training its staff to prepare for food crises with its urban farming programs. In addition, through Maybank Asset Management, the Maybank Asian Growth & Income Islamic Fund was launched. It is Singapore's first Shariah compliant balanced fund that utilizes quant investing technology and environmental, social and governance screening.

## Preview of 2022

A Yemeni scholar, Dr Al-Habī b Abu Bakr Al-'Adny, has contributed to the study of end of times (ie Fiqh At-Tahawwulat), whose aim is to instill the proper attitude in the Muslim community when there are intense global revolution in the following.

- Ilm (knowledge)
- I'tiqod (human philosophy)
- Iqtisad (global economy) and
- Hukm (legal reasoning).

Hence, Muslim scholars with Adalah (just and piety) and Isnad (knowledge with authority linking back to Prophet Muhammad) are urged to continue guiding the Muslim community to be aware of the dynamic subtle changes affecting the world, in order to remain God-conscious and steadfast.

We should see more involvement of the UN in the future. World leaders are appealing to the UN to facilitate resolutions to long-standing disputes between nations, human displacement and climate disasters as the UN General Assembly continued its endless debates.

To reach the desired targets of the GBF, financial institutions need relevant reporting guidance and understand nature-related risks. The Taskforce on Nature-related Financial Disclosure, launched in June 2021, included Herry Cho, the head of sustainability and sustainable finance from Singapore Exchange. Key agencies such as MAS, National Environment Agency, Ministry of Finance and Ministry of Sustainability and the Environment have important roles.

## Conclusion

Jami` at-Tirmidhi (Hadith No 2629) states that religion (being the natural disposition of humans) began as something strange and it will return to its original state. Hence, the global community must find meaning in their lives to help one another. The mindset of profiteering, economic enslavement and environmental degradation must end.

Environmentalist Dr Jane Goodall said: "Our health and wellbeing is inextricably linked with the health and wellbeing of the environment in which we live."

Despite an apocalyptic outlook, coupled with the effects of COVID-19, there is hope, hence a reset is necessary. Sustainable development, Islamic finance and the relationship with nature are critical factors. Humans must understand the role of humans as 'Khalifahs' on Earth and stay united.

Mishkat al-Masabih (No 173) mentioned that God will not cause everybody to err and He is with the community. Hence, the government bodies, scholars and non-governmental organizations in Singapore have to continue making the country green and liveable. The last Semitic revealed book emphasizes that the fate of humans will not change until they change their own destiny (Quran 13:11). With good political leadership, strong business infrastructure, a large base of professionals and the stable backing of the local Asatizah, Singapore can move only forward, making a positive impact on the economy, community and the environment.

# Somalia: Land of Paradise holds many unseen opportunities

***Hassan Ahmed Yusuf*** *is CEO of HAY Consultancy. He can be contacted at hyusuf@hayconsult.com.*


**In 1970s, Somalia was called 'Land of Paradise' by Italian tourists and Somalia's economy was at its best stage where many factories such as those producing sugar, fish, meat, edible oil and milk were operating. Mills processing most of the crops such as sorghum were also operational. Bananas and hide skins were being exported to European countries while livestock as well as frankincense and myrrh went to the Arab countries.**

The Somali currency was strong and pegged against the US dollar at SOS6.3 for many years. The Somali currency was based on gold as Somalia did not detach from the gold currency standard when the rest of the world did in 1970 in the Bretton Wood system until the collapse of the Somali government in 1991.

As a result of the civil war affecting many areas in Somalia, the economy deteriorated rapidly between 1988 and 1990, resulting in the country's collapse in 1991. After a long civil unrest in Somalia and many reconciliation conferences to establish central authority, an international community led by the US recognized the Somali federal government in 2012.

Since then, institutional progress has been made, and a provisional constitution and federal member states were established. In the north, in 1991, a state called Somaliland (still unrecognized by the international community) proclaimed independence from the rest of Somalia.

## Review of 2021

In Somalia, progress has been made in reestablishing civil and government institutions including the Central Bank of Somalia, the parliament and the Senate (Upper House), with the help of many countries, mainly the US, the UK and Turkey. Many government agencies are currently functioning.

The IMF and the World Bank are helping to reform government financing programs which led to removing Somalia's arrears of debt held by the IMF, Paris Club and other countries such as Saudi Arabia and Algeria to pave the way for IMF technical assistance and infrastructure development including in health and education.

Somalia has an active private sector that is vibrant. Almost all functioning economic industries are privately owned across sectors from airlines, telecoms, banks and import and export companies to farms and the petroleum industry. The banking sector is growing rapidly with six main banks functioning at an 8% market penetration. Additional foreign banks have been licensed by the Central Bank of Somalia. The growing financial industry is the engine fueling the economic growth of the country as the World Bank has mentioned several times.

Banks are operating in acceptable international standards and some are audited by the 'Big Four' firms like Deloitte. Banks are diversifying their portfolios and one of them is preparing to issue Sukuk instruments to finance the improvement of infrastructure and vital economic industries. The telecoms industry has more than a 70% market penetration and more than 90% of transactions are settled in cashless electronic methods.

The real estate sector is another business sector that is currently booming. Mogadishu city land in prime areas (20x12 meters) costs more than US$2 million. Projection in real estate shows that in the next five years, more than 50,000 units will be established in Mogadishu alone, according to one construction company's forecast data. Economic sectors like farming are being revived and new roads are being paved in major economic cities of the country.

## Preview of 2022

The international community recognizes the strategic location of Somalia as the country lies along the trade routes of the Red Sea and the Indian Ocean where thousands of ships move different ways. Due to this fact, DP World, the investor and manager of many ports around the world, and the UK's CDC Group have started investing US$1.72 billion in a few countries in Africa including Berbera Port in North Somalia (Somaliland).

At present, there are major investment changes in Berbera Port which have brought state-of-the-art facilities that would serve two million containers to the neighboring country of Ethiopia. The port will have other infrastructure including a new container depot and business parks including free zone areas in the near future.

Somalia is continuing to rebuild major economic sectors that are vital for economic development and attract foreign direct investment. Furthermore, governance and economic institutions including research centers are coming to the scene.

## Conclusion

Somalia also has several other advantages including fast and growing urbanization; increasing use of digital services such as mobiles, android applications and e-commerce; a young population that is increasingly graduating from local universities; and current investment in vital sectors such as energy, education, health, ports and roads which will create more economic opportunities and employment.

Another essential sector is manufacturing that can feed neighboring Ethiopia which has a population of more than 100 million. Goods manufactured in Somalia could be tax-free if sent to Ethiopia. In a nutshell, the existing opportunities are unlimited and companies that move now can reap the benefits as first movers.

# South Africa: A regional economic leader

***Dr Aziza Yarlaeva Ebrahim*** *is the strategy and Islamic finance advisor at Islamic Finance Think Tank (IFTT). She can be contacted at aziza.cifp@gmail.com.*

**The South African financial sector offers world-class financial services to its consumers, from well-established Shariah compliant wealth managers and investment funds to conventional banks that offer Shariah compliant financial services, which are more competitive than the conventional financial products. This financial competitiveness has allowed Islamic finance to penetrate not only its traditional consumers but also attract a large segment of its non-traditional consumers in the country.**

South Africa's economic recovery plan is based on significant infrastructure developments, which have set the stage for substantial Shariah compliant investment product development in the market.

## Review of 2021

As the economic situation in the country continues to deteriorate, despite achieving a growth of 5% in 2021, revised from 4% previously, according to the IMF (https://www.imf.org/en/Countries/ZAF), South Africa is less likely to sustain its recovery beyond 2021, with growth expected to slow to 2.2% in 2022.

Unemployment rates have been increasing and are reaching their peak for the last 15 years. Unemployment in 2020 was revised to 32.6% in the first quarter of 2021.

Disruption waves of the COVID-19 pandemic have hit the market space; South Africa is looking for avenues to stabilize its economy and allow it to have some space to breathe in terms of its regional Shariah compliant financial center ambition.

South Africa's unemployment rate stood at 34.4% in the second quarter of 2021 (http://www.statssa.gov.za/?p=12689).

In the wake of the July 2021 mass unrest after the imprisonment of Jacob Zuma, a former president, in KwaZulu-Natal and Gauteng, another unprecedented crisis hit the country and its economy. This unrest has affected the unemployed, especially those affected the most by the global pandemic crisis.

Unrest has affected all the country's business sectors; supply chain infrastructure was under stress and insurance and Takaful sectors were also under massive pressure as they experienced an unprecedented wave of claims following the looting that took place during the unrest.

The bigger picture suggests that the country's economy has suffered from slow growth, general weak economic conditions, political instability and inflation.

Nevertheless, Islamic financial institutions see an opportunity in times of darkness; while consumers opt for competitive financial products with lower risk and stable returns, consumers have more trust in socially responsible and ethical products, thus it bodes well for Shariah compliant financial products. Therefore, local Islamic financial institutions and Islamic windows have been undeniably busy launching new products one after another.

## Preview of 2022

As we look to 2022, one cannot avoid speaking about the disruptive implications of the COVID-19 pandemic on businesses, and Islamic financial institutions were not immune to this either.

Looking at the financial sector, as more and more jobs are being cut by the large banks in South Africa, which are often the most significant Islamic financial windows, secular challenges will eventually open the way for innovative retraining of the laid-off staff, as more and more people are finding employment in non-traditional layouts, like hybrid work, freelancing work and working from home (remote).
The annual inflation rate in South Africa has forced the pace for a second consecutive month to 5% in September 2021 from 4.9% in the previous month; as targeted by the South African Reserve Bank, the rate remains above 4.5% midpoint.

## Conclusion

The good news is that the economic slowdown is not expected to last, as many of the negative factors that have been pulling down growth are starting to fade; the government is pushing on with massive vaccination programs that are expected to slow down the pandemic crisis. Businesses are bouncing back as they receive their insurance payoffs, post-July unrest.

In addition to the brighter outlook for the investment market, the regulatory environment is belatedly coming on board which will allow more creativity and diversity in the financial market.

# Sri Lanka an ideal hub to grow Islamic banking and finance in the South Asian region

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**Sri Lanka, despite being a Muslim-minority country with a population share of less than 10%, has made very strong progress in Islamic banking and finance with growing acceptance among customers not limited by their faith. Promoting the universal value proposition of the Islamic banking and finance model has been the core driver of such acceptance.**

Having boldly commenced Islamic finance operations as a means to showcase the demand and viability of the model, the Islamic banking and finance industry in Sri Lanka was blessed with the necessary legislative enactments, leading to the birth of Amana Bank in 2011, which is the flag bearer for the industry in Sri Lanka.

Today, Sri Lanka's Islamic banking and finance industry comprises one fully-fledged Islamic bank — Amana Bank — two windows operated by state banks, 14 windows operated by private banks and financial institutions, four Takaful providers and four Shariah compliant unit trusts serving over 500,000 customers. Further, the Islamic finance ecosystem also comprises dedicated educational institutes and advisory firms.

As a result of Sri Lanka's Islamic banking and finance growth in terms of quantitative development, knowledge, awareness, governance and corporate social responsibility, it is humbling to note that Sri Lanka was ranked 14th out of 135 countries in the Islamic Finance Development Index 2020 presented by Refinitiv (Reuters) and the Islamic Corporation for the Development of the Private Sector.

Accordingly, Sri Lanka is the highest-ranked non-Muslim-majority nation, compared with other larger and advanced economies, and is also looked upon as an example for establishing and growing Islamic banking and finance in a Muslim-minority country.

## Review of 2021

2021 started with a glimmer of hope, after Sri Lanka's economic performance suffered a setback due to consecutive economic shocks which occurred during the past three years, namely the 2018 political crisis of two prime ministers, the 2019 Easter Sunday attacks and since 2020 the COVID-19 pandemic which has affected even the strongest of economies.

However, the resurgence of COVID-19 variants in the country resulted in multiple lockdowns and travel restrictions which caused the economy to encounter renewed challenges. By the end of the second quarter of 2021, a modest economic growth of 4.1% was recorded but the rapid escalation of the third wave of COVID-19 stalled the momentum in the second half of 2021.

In order to control the resultant rupee depreciation and its consequent economic impacts, the government continued its import restrictions which had a notable impact on the SME sector. Further, sovereign rating revisions made access to overseas funds more challenging.

However, the financial sector was found to be resilient in the face of these challenges through various government and regulatory policy measures. Policies to promote exports, enhance domestic production and reduce import expenditure helped maintain the momentum of market purchases of foreign exchange by the central bank, thereby supporting the external sector stability. Concessional credit and refinancing schemes were introduced to fulfill the needs of SMEs,


alongside debt moratoria offered for businesses and individuals affected by the pandemic.

The Islamic banking and finance industry, through its constituents, supported various government efforts in piloting pandemic-related economic and financial challenges, for which the Islamic banking and finance model was ideally positioned and duly acknowledged by customers for the inherent benefits it rolled out.

The industry, based on the performance of its flag bearer Amana Bank, approximately grew by 10% during the first half of the year, demonstrating strong resilience amid widespread challenges.

## Preview of 2022

Economic resurgence in 2022 is largely expected to depend on the country's vaccination drive, which currently stands at approximately 60%, and moving fast toward being a fully vaccinated country, which Sri Lanka is well poised to become, will help minimize further economic impacts.

For economic revival, the government is focusing on stabilizing exchange and interest rates to attract foreign investors and fuel GDP growth. This, along with measures for improved sovereign ratings, is expected to bring back foreign participation to capital and debt markets.

The spillover effects from the expected recovery of the global economy would positively impact external demand, resurgence in tourism, inflows of worker remittances, foreign direct investments (FDIs) and reinstatement of country limits for lines of credit.

The government's efforts toward strengthening the production economy will support domestic industries, and improve the overall productivity of the economy. While the export-oriented manufacturing sectors are expected to be strengthened with the establishment of dedicated industrial zones, the opening up of the Colombo Port City for foreign and local investment would bolster the country's services sector in particular.

Accordingly, the real GDP is expected to grow by 5.2% in 2022 while the trade gap is estimated to recover up to -5.5% from the forecasted -6.2% by the end of 2021.

The easing of import controls in 2022 will help the revival of the MSME sector which is considered to be the backbone of the Islamic banking and finance industry in Sri Lanka. Such measures will help Islamic financial institutions to further penetrate the unbanked and the underbanked segments of society.

Realizing the value and importance, the regulators are promoting green/sustainable finance initiatives. The government's drive toward renewable energy for power generation will provide more project financing opportunities for banks, which the Islamic banking and finance industry is ideally positioned to support, through Sukuk, for which the government is exploring suitable legislation to facilitate the same.

Plenty of emphasis is being given for the digitalization of financial services, driven by the regulators' initiative to create a 'cashless' society in the future, and 2022 will see greater transformation and acceptance for digital services.

## Conclusion

With the much-awaited post-COVID-19 economic resurgence, and the anticipated FDIs mainly targeting the Port City project, there would be ample opportunities for Islamic banking and financial institutions to act as key catalysts. Sukuk and syndication prospects are something to be on the lookout for, with due facilitation from the country's regulatory front, in order to support public and private sector projects.

Having acknowledged the people-friendly benefits and the universal value proposition of the Islamic banking and finance model, especially how it helped to overcome pandemic-related challenges, customers have taken it upon themselves to advocate Islamic banking and finance to the larger community, which will help position Sri Lanka as an ideal hub to grow Islamic banking and finance in the South Asian region.

# Evolution or revolution

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**Before 1991, the concept of Islamic finance was a virtual 'terra incognita' in the former Soviet Union. Several decades of Communist Party rule had literally done away with the religious beliefs of generations of Soviet people.**

In 1992, Tajikistan joined the OIC with a view to developing closer relationships with Muslim countries outside of the scope of Moscow's influence. The efforts to promote Islamic finance in the region were headed by the IsDB which faced unpredictable and volatile politics, as well as the lack of knowledge about the basic principles of Islam.

The newly elected presidents of the Central Asian country often faced conflicting political currents — on one hand, the adoption of Islamic finance principles had brought promises of investment from the rich MENA countries, but on the other hand, many of the newly minted leaders remained suspicious that Islamic finance was a mere outlet for opposition religious insurgents.

The Law of the Republic of Tajikistan titled 'On Islamic Banking activities' was approved on the 26th July 2014. This law determined the legal and organizational basis of Islamic banking in the Republic of Tajikistan and was supposed to provide favorable conditions for conducting Islamic banking activities. And so, the seven years went by...

Many of surveys conducted in Tajikistan have shown overwhelming support for Islamic finance and banking. Unfortunately, a great majority of Tajikistan's 9.5 million-strong population still know little about the principles of Islamic finance. It is not uncommon that a client comes to an Islamic finance institution and seeks 'free' rather than 'interest-free' loans.

## Review of 2021

Currently, there are two banks in Tajikistan that operate in a Shariah compliant way: Tawhid Bank and Alif Bank. Tawhid Bank, a former conventional bank, was transformed into an Islamic bank in 2019. Among the products offered are Murabahah, Mudarabah deposits, debit cards and Ijarah. In 2021, Tawhid Bank received a Shariah compliant certificate for its Tawhid Pay banking app from AlHuda CIBE.

With the introduction of Tawhid Pay, a mobile application, the bank effectively launched the Islamic finance sector of Tajikistan into a new era of digital banking. This service is absolutely essential since one in four families in Tajikistan has members working abroad, mainly in the Russian Federation.

In October 2021, Tawhid Bank was awarded with a certificate as the 'Best Islamic Bank' in the Commonwealth of Independent States. Tawhid Bank has declared its international expansion ambitions but so far there have been no concrete details.

Alif Bank was founded in 2014 as a microfinance institution, and by 2021 had become a leading fintech entity in Central Asia. Now, Alif Bank is in possession of a full banking license. Despite the fact that the bank is not considered an Islamic bank from the legal standpoint, it largely acts as a Shariah compliant financial institution.


Supported by its formidable information technology department, Alif provides alif.mobi, the most widely used finance app in the country. Its business-to-consumer platform, alif.shop, is a leader in point-of-sale financing. The remittances are very important for the migrant population of Tajikistan, and Alif Bank offers the most competitive solution in the country.

Aside from remittance services, Alif Bank also promotes Alif Jummah, a Murabahah-based program of consumer goods sale. The bank is committed to leadership in Islamic finance and established its own technology academy that grows cadres for the bank and for the fintech industry in Tajikistan. In 2021, Alif Bank declared its ambitions to set up operations in the UK.

## Preview of 2022

Unlike many established Islamic banks, both Tawhid Bank and Alif Bank do not have an issue with the so-called 'legacy Islamic assets' that come as a result of years of evolutionary development. This "asset-light" model makes them more agile and technologically advanced.

The following developments are forecasted for 2022:

1. International expansion: Tajikistan's market is fairly small and underdeveloped. Both banks are thus looking north to Uzbekistan and the Russian Federation for expansion. The UK-based shareholders of Alif Bank are keen on bringing its high-tech expertise to the UK, and perhaps, the UAE.
2. New cash products: The Shariah compliant population requires cash loans to serve their immediate financial needs. So, it is very likely that either one or both banks will launch a Tawarruq product within months.
3. The changes in tax law, although highly expected, are not likely to be passed in 2022.
4. It is also unlikely that the dominance of the two banks will be challenged in 2022.

## Conclusion

It is difficult to operate an Islamic finance institution in Tajikistan. The key problems include the lack of suitable legislation, the imposed double taxation (the thorny value-added tax issue) and also the fact that Islamic finance operations are still not treated as banking operations by the authorities. Thus, the traditional conventional banks have tremendous tax advantages over the institutions working in Shariah compliant ways.

But the development of Islamic finance in Tajikistan is fueled by the financial openness of the country's population, the unhindered enthusiasm of the banks' top management, as well as the Islamic banks' technological advantages. In a country where until very recently loans were issued to 'friends' and the 'friends of the friends', the aforementioned advantages are essential.

# Islamic finance in Tanzania: The future looks promising

***Salum Awadh*** *is CEO of SSC Capital. He can be contacted at sawadh@ssc.co.tz.*

**The growth of Islamic finance in Tanzania continues to be slow, but offers huge prospects in the near future. Despite the growth challenges that we see from banks offering Islamic banking, a few developments have also happened in the past few months.**

We hope 2022 will be a turning point in many aspects, if all players in the ecosystem invest more, and the government provides the necessary environment for the industry to flourish.

## Review of 2021

*Banking industry*
We did not see much in terms of balance sheet growth from banks offering Islamic banking services, but the announcement of CRDB Bank to enter into the industry was one of the promising industry news. CRDB Bank, a publicly listed bank, and one of the two largest banks in Tanzania by all measures, will soon launch its Islamic banking services. We hope this will catalyze the growth of the industry, given CRDB Bank's sheer size in terms of balance sheet, branch network and strong market brand.

*Capital market*
We saw for the first time the issuance of maiden Sukuk in the market. Imaan Finance, a Shariah compliant microfinance company, issued a corporate Sukuk facility, which was oversubscribed by 37%. This indicated that there is an appetite in the market for not only alternative investment asset classes in the market, but also for Islamic financial assets.

*Takaful*
The wait for Takaful services in Tanzania is still on; the government is yet to sign and officially issue Takaful regulations, which will allow players to launch Takaful services in Tanzania. Various meetings and exchanges were conducted for the most part of 2021 between the government and CIFCA (the Islamic finance industry body); we hope the regulations will soon be finalized.

*Education and awareness*
We also saw a number of activities around education and awareness in the country, all aimed at promoting knowledge and awareness of the industry. Massive work was done by many industry players including CIFCA, AlHuda CIBE, Abraar Consult, Islamic Foundation and others.

## Preview of 2022

We are optimistic for 2022, and look forward to many initiatives to start bearing fruit. The intensive work that has been going on for the past 10 years should soon start showing results for the industry.

We hope to see the following happening in 2022, God willing:

*Takaful*
The government should finally issue Takaful regulations to allow players to launch and start offering services. Some Takaful companies have already made the investments and are only waiting for some positive action from the government.

*Sukuk*
We anticipate more Sukuk issuances in 2022, and hopefully for the government to initiate a formal process for a sovereign Sukuk issuance. The government needs more than TZS100 trillion (US$43.29 billion) to implement its five-year development plan. Sukuk offer one of the options to bridge this funding gap.

*CRDB*
We are positive that CRDB Bank will launch its Islamic banking services by 2022; this is an important development for the industry. With its current customer base, the conversion of its customers to Islamic banking will lower its customer acquisition cost, and will effectively increase the uptake of Islamic banking services in the country.

*Capital market*
Shirkah was launched in 2021 with its Halal stock index to support Muslims to easily invest in Shariah compliant stock trading at the Dar es Salaam stock exchange. Shirkah is finalizing its web platform and robo-advisory app that will go into the market by 2022.

*Awareness*
We will continue to see further efforts in increasing awareness and promoting Islamic finance. The recently signed partnership agrrement between CIFCA and AlHuda CIBE in Dubai will surely increase more education and awareness activities in Tanzania, and this will also be complemented by other partnerships CIFCA has signed with other local players to hold a series of Islamic finance seminars.

## Conclusion

The growth of Islamic finance in Tanzania requires ecosystem efforts, instead of players working in silos. We hope to see CIFCA playing its role as an industry body to continue bringing industry players together, and to ensure that all these efforts remain Shariah compliant.

We also hope the government will understand that growing an industry with an established legal and regulatory framework is possible but very challenging and it will take more time to unlock the industry. This calls for the government to finally issue the Takaful regulations and initiate its formal processes for the enactment of an Islamic finance legal framework.

# Islamic finance in Tunisia remains under pressure

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**During the last two years, the failure to form a national unity government, exacerbated by wrangling among political parties amid the deadliest wave of COVID-19 of the last summer, led to a constitutional crisis provoked by the president of the Republic by dismissing the head of government and suspending parliament on the 25th July 2021. Even after the president designed a new government and with improvement in the pandemic situation as the vaccination rate increased and death cases reached very low levels, economic recovery is far from being achieved. This is a warning of the risk of a default if significant funding is not secured, in the context of the delay in negotiations with the IMF and the downgrade of Tunisia's sovereign credit rating by Fitch Ratings and Moody's Investors Service.**

Consequently, Moody's decision to lower Tunisia's macro profile score to 'Very Weak' from 'Very Weak+' reflected the increasingly difficult operating environment for banks in Tunisia and resulted in a downgrade of banks which received a rating uplift for government support. Also, Fitch mentioned that "the improved profitability in H121 [first half of 2021] hides several impending risks". Even more, S&P Global Ratings conducted a hypothetical sovereign default to calculate these risks which could cost banks 55–102% of their total equity.

Likewise, the resilience of the three Islamic banks, with a market share of total banking assets below 6%, remains under pressure: despite the increasing positive performance of Zitouna Bank, the performance of Al Baraka Bank remains acceptable while Wifack International Bank (WIB) is still suffering from losses but showing recovery signs in 2021.

## Review of 2021

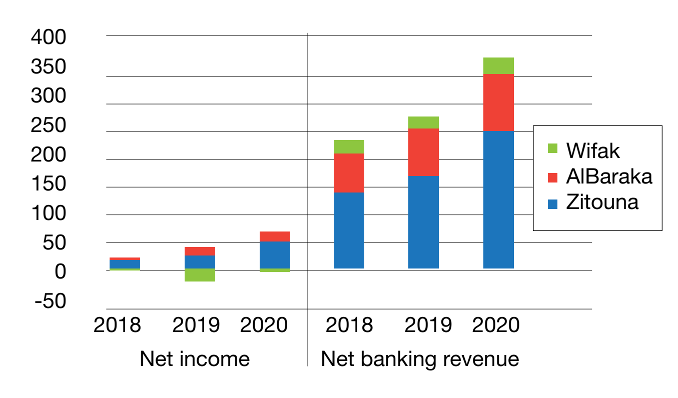
At the end of the 2020 financial year, Zitouna Bank's net profit more than doubled to TND51.4 million (US$17.84 million) against an increase of 55.6% realized in 2019, following the increase of its share capital from TND175.4 million (US$60.87 million) to TND265 million (US$91.96 million) and the bank's net banking revenue grew by half to TND252.4 million (US$87.59 million), mainly thanks to its revenues from leasing activities.

Al Baraka Bank's net profit, which was one-third that of Zitouna Bank's net profit, was at TND16 million (US$5.55 million) compared with TND15 million (US$5.21 million) generated in 2019 and against TND4.2 million (US$1.46 million) in 2018, but net banking revenue rose by 18.1% reaching TND99.7 million (US$34.6 million).

Last but not the least, WIB's net loss was reduced to TND5.9 million (US$2.05 million) against its huge loss of TND23 million (US$7.98 million) incurred in 2019 due to continued investment in opening branches and recruiting but remained higher than the loss of TND3.8 million (US$1.32 million) in 2018 and was mainly driven by its risk cost despite the increase in its net banking revenue by 41.5% which stood at TND31.7 million (US$11 million). As a signal of recovery, its loss was close to zero in the first half of 2021 due to a much better increase in its net banking revenue, with TND23.6 million (US$8.19 million) against TND13.2 million (US$4.58 million) a year earlier.

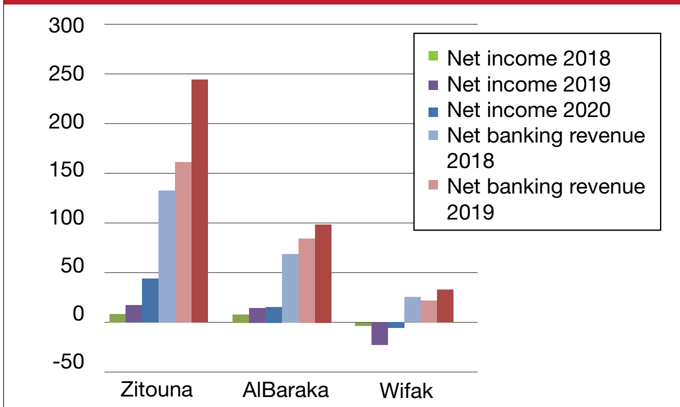
In the money market context, the central bank increased its refinancing operations to refinance two maturities during the summer, as the government resorted to turning to domestic banks

Chart 1: Tunisia's Islamic banking sector performance




*Source: Financial Market Council*

Chart 2: Tunisia's Islamic banks' individual performance




*Source: Financial Market Council*

and in slight part to Islamic banks by providing six-month Wakalah securities, at a time when there are no sovereign Sukuk likely to be admitted as underlying assets.

With regard to this lack of a Sukuk market, WIB launched, on the 23rd July, a third Sukuk issuance and succeeded in raising another TND10 million (US$3.47 million) similar to 2020 but which was less than the amount of TND15.2 million (US$5.27 million) raised in 2019, which was the first successful Sukuk issuance, through a public offering using a portfolio of Ijarah financing as the underlying asset. On another note, two other components of the Islamic financial landscape have embarked on developing new areas of expertise with the opening of new subsidiaries, namely Zitouna Capital (Zitouna Bank Group) in 2019 which is the only management company dedicated to Islamic mutual funds specializing in private equity (three mutual funds: Zitouna Moucharaka I in 2019, Mourafik in 2020 for the financing of SMEs impacted by COVID-19 and Zitouna Moucharaka II in 2021) and United Gulf Sukuk Services (UGFS Group) in December 2020 which is the only management company dedicated to managing Sukuk funds.

In the development context, another US$1.5 billion framework agreement covering 2021 to 2023, similar to the 2018–2020 one, between the International Islamic Trade Finance Corporation, a member of the IsDB, and the government of Tunisia was signed to support Tunisian state-owned companies to finance the importation of essential commodities such as energy and industrial products, among others.

## Preview of 2022

The establishment of United Gulf Sukuk Services as a management company to manage Sukuk funds will raise the opportunity of creating a nascent Sukuk market that will overcome the failure to issue an inaugural sovereign Sukuk facility and explore other avenues for the sovereign borrower and companies to diversify their sources of funding.

Particularly, the efforts made by the Financial Market Council (FMC) in 2020 to standardize the regulation related to management companies and the prospectus scheme (standard prospectus) in the event of a public offering of Sukuk will finally lead the sovereign and institutions to make further steps toward a successful implementation of a Sukuk market by fixing the technical characteristics relating to the types of Sukuk and easing the regulations governing the public offering Sukuk and reducing the complexity of the Shariah component.

These efforts should remain to complete the regulatory framework, by defining the Sukuk types according to the contracts attached to them.

## Conclusion

It is essential for the Islamic finance ecosystem to generate new products and mechanisms that should consider the following aspects and measures:

- Transposition of the leasing system and Ijarah
- Equity investments in concession projects
- Tax advantages and new regulations for these types of instruments compared to the traditional instruments to encourage investors, and
- Support from public funds and/or through international donors specializing in the matter, which should make the product less risky for the investor.

*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.*

# Turkey is ready and equipped to face the new era

***Fatma Cinar*** *is the head of international relations at the Participation Banks Association of Turkey. She can be contacted at fatmacinar@tkbb.org.tr.*

**The world economy has entered into the process of drawing a roadmap after the COVID-19 pandemic. What 2020 and 2021 taught us should guide authorities, economic players and individuals in determining the plans and goals of the future. Although there are difficulties, the effect of many factors limiting economic activity will decrease, and Turkey will continue to progress by using its driving forces. The participation banking sector, which adopts the mission of supporting the real sector, will continue its healthy progress while contributing to economic activities with its philosophical approach and discipline that prioritize inclusive and social impact.**

## Review of 2021

The financial performance of the participation banking sector is gradually increasing and keeping its succesful momentum. The asset size of the sector reached TRY504.3 billion (US$36.74 billion) by June 2021, which corresponds to a 7.5% share in the total banking sector.

The development of participation banking in Turkey has gained significant momentum in the last 10 years. The entry of public capital into the sector, the establishment of a central advisory board structure and the diversification of banking products and capital market instruments and regulations in all these areas have contributed significantly to the development of the sector.

The total funds provided by participation banks amounted to TRY280 billion (US$20.4 billion), with TRY77 billion (US$5.61 billion) provided to SMEs, representing 31% of the total funds which is over the banking sector rate of 23.1%.

The collected funds of participation banks amounted to TRY373.4 billion (US$27.2 billion) as of June 2021. The market share of funds collected by participation banks stood at 9.7% which explicitly reflects the trust of society for Islamic banking services especially during times of crises.

The total equity of the participation sector reached TRY32 billion (US$2.33 billion). The number of branches was 1,296 and the number of employees was 17,273, contributing to the labor market of the economy.

The target of reaching a 15% market share in 2025, which was published in the 10-year strategy report prepared for the Turkish participation banking sector in 2015, was also repeated in the updated Turkish Participation Banking Strategy Document (2021–2025). Notably, the role and investments undertaken to develop the interest-free financial system as a state policy and the project of making Istanbul a financial center are factors of great importance in achieving this goal. The updated strategy report determined 10 strategies under six primary strategic objectives: communication; ecosystem; product diversity; standards and governance; digital; and competency-building. All the mentioned strategic objectives are strictly followed by the Project Management Office Team in the the Participation Banks Association of Turkey (TKBB).

## Sukuk

In terms of sovereign and corporate Sukuk issuances, Turkey plays a very active and pioneering role in the global Islamic finance industry. During the last quarter of 2021, the Turkish Islamic capital markets experienced innovative Sukuk transactions. Kuveyt Turk issued the world's first Tier 2 sustainable Sukuk facility, which is a global landmark transaction. The Development and Investment Bank of Turkey issued Turkey's first social Sukuk worth TRY50 million (US$3.64 million) to be utilized in the agricultural sector. Structured Sukuk models with income referenced to the participation pool and Sukuk based on partnership through the private fund pool issued by Emlak Katilim, one of the youngest members of the participation banking sector, are important as they are the first in the world and make a valuable contribution to Turkey being a Sukuk innovation center.

Since 2010, total funds collected through Sukuk issuances by participation banks have reached TRY196.7 billion (US$14.33 billion), US$4.1 billion and RM2 billion (US$472.53 million). The total volume of Sukuk issued by participation banks from January to August 2021 was around TRY67 billion (US$4.88 billion). The diversity in the fundraising tools of participation banks also attracted the attention of their customers.

## Preview of 2022

In 2022, digitalization and sustainability will be on the agenda of participation banking in Turkey, as in the rest of the world. With the Paris Climate Agreement ratified by the parliament on the 7th October 2021, activities in both public and private sectors have gained momentum.

Within the scope of the Green Reconciliation Action Plan, it is expected that the Sustainable Banking Strategy Document will be published by the Banking Regulation and Supervision Authority (BRSA) by the end of 2021, and a roadmap will be determined for the banking sector's compliance with green reconciliation.

The Draft Regulation on Operation Principles of Digital Banks and Service Model Banking (Draft Regulation) was published for public opinion on the 19th August 2021. The Draft Regulation is planned to enter into force as of the 1st January 2022.

In order to encourage financial innovation in the banking sector, increase financial inclusion and facilitate access to banking services, the Draft Regulation prepared by the BRSA is organized separately under two main subjects, namely digital banks and the service model banking business model.

Participation banks, which prioritize innovation and product diversity in their financial solutions, will gain momentum in such activities in the coming period with the contribution of the regulatory authority ecosystem.

In addition, the digital roadmap report prepared by the TKBB and expected to be published by the end of 2021 is intended to shed light on the digitalization efforts of the participation banking industry.

## Conclusion

Considering that the actions related to participation finance in the Economic Reform Package are dated the 31st December 2021, regulations and studies such as the National Participation Finance Strategy and the Participation Finance Law will make strategic contributions to complement Turkey's participation finance architecture.

In addition, the Participation Banking Strategy Report activities carried out by the TKBB will also enhance Turkey's effectiveness in local and international platforms by displaying its achievements.

Participation finance, which stands out in the 'Istanbul Finance Center' vision, will be host to essential experiences to make Turkey an Islamic finance center when its financial and architectural activities are completed in 2022 with public and private institutions.

# Promoting standardization through regulation

***Anita Yadav*** *is CEO of Global Credit Advisory. She can be contacted at anitay@globalcreditadvisory.com.*

**Against the backdrop of improving economic growth, Islamic finance in the UAE maintained its gradual growth which outpaced the growth in conventional finance assets in 2021. Although Sukuk issuance slowed, the overall momentum in Islamic finance continued unabated particularly with the ongoing growth in the Takaful sector as well as in Shariah compliant fund management.**

## Review of 2021

Some of the key developments during the year 2021 were a) introduction of new Shariah compliance rules and b) increased focus on environmental, social and governance (ESG) within the Islamic finance framework.

In early 2021, the Higher Sharia Authority (HSA), housed under the Central Bank of the UAE, introduced regulatory changes that required Islamic banks and Islamic windows of the conventional banks to comply with AAOIFI Shariah standards.

Although these changes affected various aspects of Islamic banks' daily operations, the biggest impact was seen on issuing, arranging and investing in Sukuk. According to Fitch Ratings, the new regulatory requirements for Sukuk included stricter tangibility ratio requirements with new dissolution triggers such as tangibility and delisting events and associated put options, as well as partial-loss events.

Under the new standard, issuers are required to maintain the tangibility ratio above 50% throughout the Sukuk's life, rather than just at issuance. If the tangibility ratio falls below 33%, it could trigger the exercise of put options by investors.

Such events, in turn, could reduce issuers' liquidity and potentially affect their credit ratings, according to Fitch. That said, the changes have so far been seen in Sukuk issued by corporates and financial institutions, and less so in sovereign Sukuk, largely because sovereign Sukuk structures do not contain Murabahah (deferred sale payments), which are considered intangible assets.

The HSA also issued guidance on the London Interbank Offered Rate (or LIBOR) transition. Given the prohibition on speculation under the Shariah guidelines, the current lack of forward looking rates under the new Secured Overnight Funding Rate (or SOFR) mechanism has presented a few challenges which are currently being addressed.

During the year, the UAE Ministry of Climate Change and Environment launched the UAE Sustainable Finance Framework 2021–2031. We note that sustainable finance has several parallels with Islamic finance as the goal to uphold one's ethical values and promote social welfare through investment has some origins in Shariah law. The year 2021 saw increased focus on ESG financings and most Islamic banks increased their ESG-related lending.

In the Islamic capital markets, Sukuk issuance in the UAE and in the wider GCC region slowed in 2021 compared with 2020 as the rise in oil prices reduced the government's budget deficit and consequently the government's need for funding from the capital markets.

Nevertheless, NASDAQ Dubai remained the most active listing exchange for Sukuk in the region. Recently, it listed a US$500 million


Sukuk facility from Emirates Islamic after registering a US$1.7 billion Sukuk facility by the IsDB.

On the banking front, in 2021, UAE Islamic banks' operations suffered from low profitability, modest financing growth and elevated financing impairment charges amid subdued economic conditions.

The real impact on asset quality became a bit harder to estimate as the true impact was masked in the short term by financing deferral programs and regulatory flexibility for banks in recognizing impairments amid the COVID-19 pandemic.

Although Islamic insurance still represents less than 30% of the total insurance market in the UAE, Takaful premiums recorded an annualized growth of circa 6.8% between 2017 and 2020.

Much of the boost in the later years was fueled by the government making health insurance mandatory in the country. The recent adoption of risk-based capital regulation and the continued embracing of digitalization are further positive developments in the Takaful sector.

However, on the negative front, the profitability of the Takaful sector was hit hard by COVID-19-related claims. As per Moody's Investors Service's estimate, Takaful players' profitability in the first half of 2021 was down by more than 35% from 2020 levels.

On the Islamic asset management front, several new avenues have opened up within Islamic investment, such as charitable trusts, private equity, exchange-traded Sukuk funds, Shariah compliant mortgage investment funds, Halal mutual funds, etc. Such wide offerings are likely to appeal to a broader consumer base, thus improving demand prospects for Islamic instruments in the UAE.

## Preview of 2022

We expect 2022 to bring more of the same things that hallmarked 2021. Looking at the ambitious energy targets announced by the government under the UAE Energy Strategy 2050, there will be plenty of new projects in sustainable energy generation, all of which will require significant investment and capital.

Green and sustainable Sukuk, which will appeal to both the core Islamic investors in the region and the wider pool of international ESG investors, may offer a unique source of diversified capital for issuers and therefore we may see heightened activity in this space.

## Conclusion

The UAE government's goal of making the country a hub for Islamic finance is being well executed with a continued focus on launching new Shariah compliant products and the adoption of newer technologies.

# UK: Interesting times indeed

***Dr Scott Levy** is CEO of Bedford Row Capital. He can be contacted at slevy@bedfordrowcapital.com.*

**How to summarize Islamic finance in the UK in 2021? "May you live in interesting times" — this oft-repeated phrase is actually a curse not a blessing although to be fair no one wants to be bored. 2021 was certainly not boring but will the interest generated actually be a blessing (just to prove the supposedly Chinese-derived phrase wrong)?**

Looking back over some of the major themes which have emerged throughout the year in roadshows, conferences, seminars and in the media, the UK does indeed sit in a unique position in the market. For a non-Islamic country, the depth of knowledge, support and advice which comes from the Islamic finance industry and is exported around the world is impressive.

There are a number of 'household' names which bring this expertise to the market, from International Islamic Financial Market (IIFM) and AAOIFI involvement through advising emerging Islamic economies down to opening offices in a diverse market to build out the breadth of solutions open to Islamic institutions and investors around the world.

## Review of 2021

To evaluate the activities in the UK in 2021 and to look forward, some convenient categories have been considered which look at different aspects of the deep and varied Islamic finance landscape in the UK.

*The government*

At the very top, in other words Her Majesty's Government, the sophomore Sukuk and the announcement of the Bank of England Alternative Liquidity Facility were both much applauded announcements. That being said, we are still waiting for guidance on the liquidity facility and how it will operate. My personal concern is that the lack of available instruments in the market will not really help the UK banks unless the facility is extended down to unrated instruments which is highly unlikely given the limitations on the rules for conventional banks. The government's Sukuk could have done better; with COP26 [2021 United Nations Climate Change Conference] in Glasgow, it would have been nice if the sophomore Sukuk had a more environmental, social and governance (ESG) flavor to it rather than just cheap financing.

*The start of ESG crossover*

The trend for ESG considerations in conventional investors has been grabbed by the entire Islamic finance industry from the IIFM down. TheCityUK has done an excellent job in promoting the synergies between conventional and Shariah compliant structures. This drive to educate the industry players and bring the discussions around to align the more conventional investors with what is happening in Islamic finance could provide for more conventional investors to access what are inherently ethical structures (and totally aligned with Shariah compliance).

*Consumer shortcoming remains*

From a retail perspective, the Islamic finance industry has a long way to go. Not good news with the potential closure of a student finance facility and no real solution on the horizon for the pensions market (currently dominated by HSBC Amanah Global Equity tracker). Savers in the UK need a broader range of options for their ISA portfolios as well as a broader range of funds to achieve the lifestyle which is mandated by the Financial Conduct Authority for proper financial advice.

*Innovation and investment*
The pace of innovation certainly increased with the UK taking a global lead in fintech solutions (thank you IFN Fintech landscape). The market opening of a range of new businesses including permissions for neobanks, expansion into the UK market, new offerings for Shariah compliant non-bank investment platforms and the efforts to raise the awareness of Islamic finance issues are all positive steps driven from the ground up. To give a shout out to all the entrepreneurs behind these initiatives runs the risk of ignoring a few.

## Preview of 2022

Following the same thematic review for 2021, what might 2022 bring across these important areas of consideration?

Government initiatives
Extensive effort will be laid down to create the framework to deliver the recently announced government green Sukuk. This will take far too long to appear (based on the recent track record) but much discussion and work and money will be spent working out how to deliver on this promise.

In light of COP26, it is nice to see forward-looking efforts by the government; the priority should be resolving the workings of the liquidity facility so that the Islamic banks in the UK can do more to compete for retail clients. 2022 should also see clarification of the innovative finance ISA rules, encouraging more Shariah compliant pension or tax efficient savings options.

This will most likely be led by one or two entrepreneurs who will test the waters in this regard leading to further equalization (and clarification) of the meaning of alternative finance instruments (how Shariah compliant products are defined in the Finance Acts).

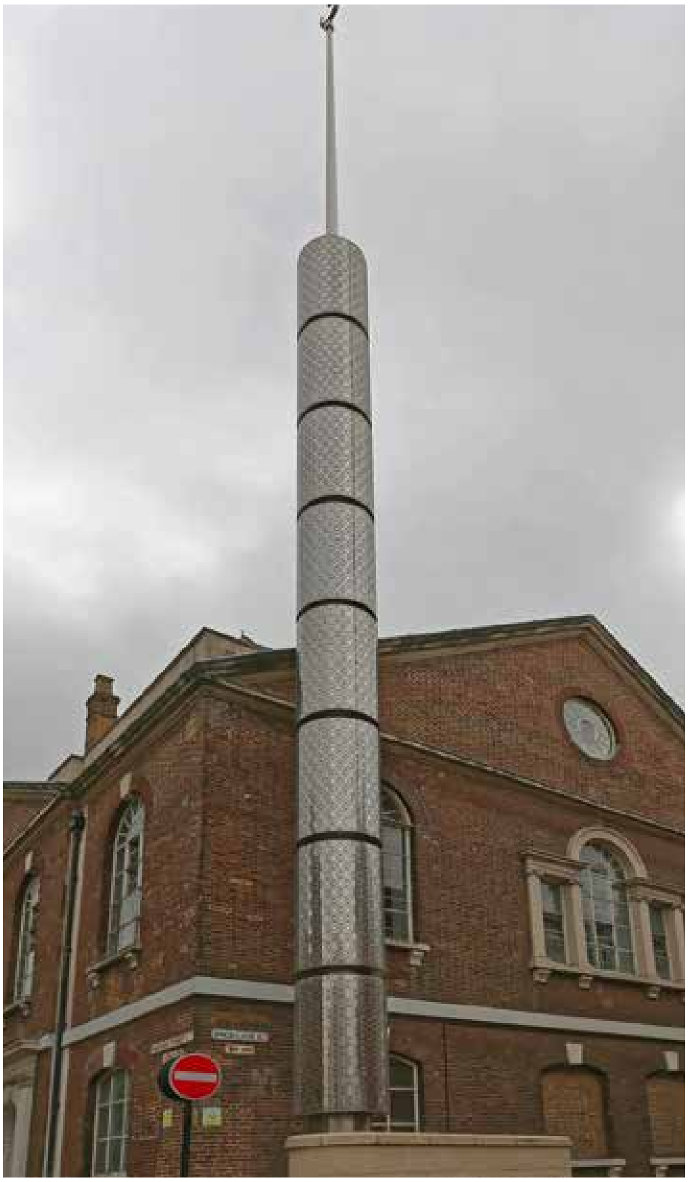
*Narrowing the ESG gap*
2022 may show more of a focus on GSE (rather than just ESG) as it will be easier to identify opportunities which are driven by good governance and ethical practices to create sustainable businesses rather than just 'green-led'. The principles of "do no harm" embedded within Islamic finance and the increasing focus on the future of the planet could potentially mean that in 2022 we will see more 'crossover' investors.

The industry should recognize this and the work done in the UK around 'delabelization' to align the discussion is a very important consideration for the industry as a whole. 2022 will see more conventional investors coming into the Sukuk market as long as there are issuers to absorb the amount of capital who are looking for ethical and sustainable solutions.

*Consumer choice remains limited*
The problem is there are just not enough options and although there will be one new entrant in the actively managed equity space in early 2022, there is no Sukuk fund (to achieve the equivalent conventional bond/equity fund mix which is the backbone of all portfolio allocation decisions).

The market is not small; currently with over US$2 billion invested in the HSBC fund but with no effective workplace pension solution, opening this market to retail investors will take some heavy investments in both education as well as technology.

*Innovation and investment*
The general buzz in the market certainly sets an example for the rest of the world in terms of actual, client-facing and retail offerings to, hopefully, change the local market. Which ones will succeed in 2022 and survive beyond that into later-stage funding rounds supported by venture capital and private equity firms remain to be seen.



Again this is good news with some conventional funders looking at the UK as a benchmark for potentially attracting business into Europe and beyond. The recently announced UK green Sukuk initiative, although some way off, may start to focus investors on finding early opportunities to invest in green corporate Sukuk in UK businesses.

## Conclusion

The UK market continues to cement its position as one of the leading countries for Islamic finance. From the initiatives of the government and industry participants actively engaging with the global Islamic finance industry to entrepreneurial activity to address challenges for the consumer, the UK market has demonstrated a remarkable spectrum of initiatives.

Much work needs to be done to create the environment for changing the domestic landscape but this is a distinct improvement over the situation in 2019 or 2020 despite the disruptions caused by COVID-19.

Among the crop of innovators and entrepreneurs who have featured in 2021, will there be an Islamic unicorn to emerge out of the UK by 2023? That would be interesting.

# Looking forward to 2022 and beyond with a sense of optimism, initiative and growth

***Khurram Agha*** *is the founder and CEO of Aghaz Investments, an online goals-based, US registered investment advisor. He can be reached at khurram@aghazinvest.com.*

**2021 has been a remarkable year for Islamic fintechs in the US. In fact, the Islamic fintech industry progressed further in this one year than it arguably did in the last decade. Let's review how the landscape evolved from the dawn of the 1st January to the dusk of the 31st December.**

## Review of 2021

January 2021 actually did not look much different from any of the previous few Januarys. There were still no Islamic neobanks in the US. Other than Wahed, there were no other robo-advisors. There were no goals-based investment advisors. No Islamic crowdfunding solutions. No automated Takaful-based insurance products. Zoya and Islamicly provided individual stock screening data. The traditional asset management firms and mutual funds were holding on in the absence of any credible alternatives.

By December, though, as the country fought its way out of the coronavirus pandemic, the landscape had shifted dramatically. Saturna Capital's Amanah mutual funds exceeded US$5 billion in assets under management (AuM). Azzad's AuM, too, exceeded US$1 billion. ShariaPortfolio launched new Shariah compliant exchange-traded funds (ETFs) including SPRE (Global REIT ETF).

Not one but two new Halal-certified digital banks were announced in 2021. Fair Bank announced the first Islamic digital bank in the US, along with plans for an investment robo-advisor. Fardows also announced its plans for an all-in-one Islamic app to serve customers' needs from digital banking to investments to money transfers.

In the investment management space, Wahed's AuM (including HLAL ETF) swelled to US$147 million with more than 15,000 customers. Aghaz, the first goal-based investment advisor in the US, was a new entrant that quickly acquired more than US$1 million in assets in a few months since public availability. Also, in the Shariah compliant crowdfunding space, Fursa Capital became the first to acquire a FINRA broker license.

Building communities and providing data remained a focus. Zoya expanded its offerings to include ETF screening as well as providing screening data to companies in addition to retail customers. AmanaTrade announced plans for stock screening, a Halal trading platform and a community forum for investors. HalalInvestors launched services to provide a differentiated recommendation of Shariah compliance and values-based (environmental, social and governance (ESG)) data.

## Preview of 2022

Recent progress and traction in Islamic fintechs in 2021 have been impressive. However, continued innovation will require a concerted effort on financial literacy in general and Islamic finance literacy in particular. Islamic finance knowledge is simply lacking; an average customer is mostly unaware of the implications of traditional financial instruments and the availability of corresponding Shariah compliant alternatives and, this is key, the superior returns potentially offered by the latter. Islamic fintech must focus on literacy in the shape of

content, educational videos, blogs and articles in mainstream media to address this gap.

Islamic finance will see accelerated innovation and automation in 2022. One can peek at the UK and specifically, how the fintech industry has scaled across the pond in the last five years to realize the trajectory the local Islamic fintechs are on.

There will be new Takaful-based insurance providers. More neobanks providing Shariah compliant services will spring forward. Cryptocurrencies will be adopted by asset management as an alternative and untapped asset class.

Further, increasingly more entrepreneurs, Muslim or otherwise, are realizing the significant overlap between socially responsible (SRI) and values-based (ESG) portfolios with Shariah compliant investing. Islamic asset management has been inching toward ESG and SRI portfolios but in 2022, we should see significant leaps with innovative products and investment alternatives.

The regulatory framework in the US needs to keep up with the recent progress in Islamic fintech. Unlike the UK, with multiple Islamic financing services and a supportive regulatory infrastructure, the US lacks the support for Islamic finance products. That will begin to change in 2022, with the US following the UK's lead toward a regulatory framework for a growing and increasingly significant Islamic fintech industry.

To support all of the aforementioned, Islamic fintech start-ups in the US will require capital. Today, most start-ups look toward the Middle East or Southeast Asia to secure venture capital. That must change. Local syndicates, angel investor groups and venture capitalists should explore untapped opportunities in this industry. Muslims, especially accredited investors and high-net-worth angels, should step up and support this growing industry. With the industry at this early stage, potential for superior returns in this asset class is high.

## Conclusion

Islamic fintech in the US appears to be at an important inflection point. Having long trailed their peers in the UK, US-based initiatives solving core financial problems through Islamic fintech are accelerating. There has been significant progress in this industry and promising new entrants have introduced themselves. It is critical to seize the momentum and continue to innovate and scale. Here's looking forward to 2022 and beyond, with a sense of optimism, initiative and growth.

# No longer phantom, no longer alien

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**2021 started with the hope of a recovery from the COVID-19 pandemic. Many have changed their approach to life and business. In Uzbekistan, the main areas of business development are digitalization, e-commerce and Islamic finance. The country's leadership has realized the obvious reality — there is a considerable stratum of population willing to invest their idle money or to finance their businesses on the principles of Islamic finance as their faith dictates. However, up until now, it is one of the biggest challenges that stand between them and lack of ethical financing.**

The good news is that 2021 manifested the seriousness of the government of Uzbekistan in making real steps toward establishing a solid basis for Islamic finance and deepening social and economic reforms. 2022 is expected to be the year of legislative developments and the creation of an enabling environment for Islamic banking, microfinance, leasing, Takaful and Sukuk.

## Review of 2021

In December 2020, the president of the Republic of Uzbekistan, Shavkat Mirziyoev, in his speech in parliament said that the time has come to develop Islamic finance and it is necessary to involve international experts. We see how these words have transformed into real developments that took place in 2021.

Namely, in 2021, the government of Uzbekistan received technical and financial support from IsDB-selected international consultants to develop a regulatory framework for Islamic banking in the Republic of Uzbekistan.

Also, with the IsDB's support, the Ministry of Finance, in collaboration with the United Nations Development Programme, is working on a legal and regulatory framework for the issuance and circulation of Sukuk.

Further, in March 2021, insurance company Apex Insurance opened its Islamic insurance window through which it offers a Takaful product, which was approved as Shariah compliant within the framework of the current legislation.

Another symbolic development of 2021 was the establishment in May 2021 of the Association of Islamic Finance and Takaful of Uzbekistan. The association is a non-governmental and non-profit organization whose mandate is to work with and unite all Islamic finance stakeholders with the aim of developing the Islamic finance industry.

On the banking side, nine Uzbek banks, with the support of the Islamic Corporation for the Development of the Private Sector (ICD — an IsDB Group member), continued working on creating a holistic infrastructure for the activities of Islamic windows. This work also included hiring IsDB Institute and the ICD to conduct practical training on Islamic banking for employees of five Uzbek banks.

Noticeably, September 2021 witnessed a truly historic and symbolic event. For the first time in the history of cooperation between Uzbekistan and the IsDB Group, the IsDB held its 46th annual meeting in Tashkent. During this forum, it was announced that a number of financial agreements have been signed between the IsDB and the Republic of Uzbekistan for over US$300 million.

Also, within the framework of the annual meeting, a memorandum of cooperation was signed between the government of Uzbekistan, Saudi Arabia and the IsDB to create the Economic Empowerment Fund of Uzbekistan with an initial capital of US$100 million which shall be increased to US$500 million. This fund shall provide equity, debt and Ijarah-based financing to medium-sized businesses as well as funding for start-up projects.

All of these developments and initiatives manifest the seriousness, commitment and interest of the country's leadership to address the social and economic concerns of the people and enhance financial inclusiveness by introducing Islamic finance and banking in the country; 97% of Uzbekistan's 35 million population are ethnic Muslims.

## Preview of 2022

Mirziyoev was reelected in October 2021 and he is keen and firm in continuing economic reforms, liberalizing the banking sector and enhancing the investment climate. The Islamic banking and capital markets shall be among the key ingredients of these reforms in the coming years.

The work on creating an enabling regulatory environment for the Islamic banking and capital markets has already started and insha Allah we shall see its first fruits in 2022. It is expected and hoped that the legislation will become effective, Islamic windows will be operationalized, the first Sukuk will be issued and we may even witness the first Islamic banking license as well as an array of private Islamic finance and Islamic fintech initiatives in 2022.

Raising Islamic finance knowledge and awareness by introducing Islamic finance and banking in the higher education curriculums as well as through other educational channels shall bridge the knowledge gap and clear widespread misconceptions about the new industry as well as stimulate the penetration of Islamic finance in the country.

## Conclusion

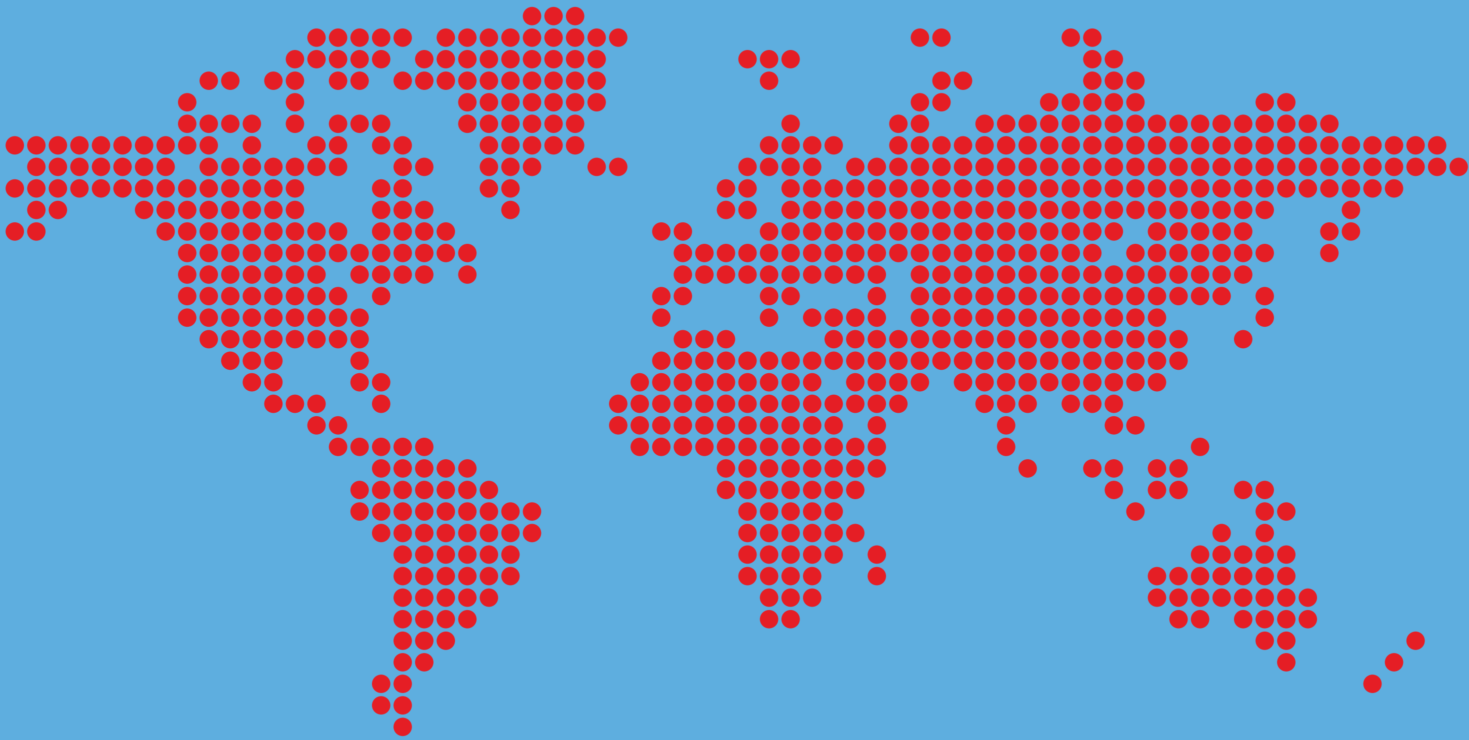
Uzbekistan enjoys political stability, good relations with its neighbors, a strategic location and the largest population in the Central Asian region. Moreover, 70–80% of the country's GDP is contributed by small- and medium-sized businesses. These are expected to become the major customers of Islamic financial institutions.

All of these factors could potentially turn Uzbekistan into a Central Asian Islamic banking and capital market regional hub in terms of its size, scalability and positive impact.

Turning the potentiality into reality requires certain key milestones and enablers to be achieved as follows:

- Political will and commitment to introduce Islamic finance
- Creation of an enabling regulatory environment and supervision over the industry
- Enabling a level playing field for both conventional and Islamic financial institutions
- Creating attractive investment opportunities for international Islamic banking and capital market players to enter the Uzbek market with their innovations, technologies, expertise and wide financing capabilities, and
- Wide Islamic finance awareness and literacy at the levels of Islamic financial institutions, the population and entrepreneurs.

2021's developments and initiatives as well as a healthy fervor and eagerness to 'land' Islamic finance on Uzbek soil make us hopeful and optimistic that 2022 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.



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