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# Islamic Finance Toolkit

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# Acknowledgement

This Islamic Finance Toolkit (the Toolkit), has been prepared by IFAAS (Islamic Finance Advisory & Assurance Services – www.ifaas.com) for the benefit of FSD Africa (Financial Sector Deepening Africa – www.fsdafrica.org), and any other stakeholders that the latter deems suitable including the policy makers and authorities of African governments amongst others.

Islamic finance could be seen as a complex subject and may require in-depth awareness, capacity and professional advice for implementation.

The Toolkit, aimed at demystifying Islamic finance, is an initiative of FSD Africa. IFAAS hereby acknowledges the continued support of FSD Africa, in implementing and promoting Islamic finance across African markets.

IFAAS

ISLAMIC FINANCE ADVISORY & ASSURANCE SERVICES

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# Acronyms and Abbreviations

| | |
|---|---|
| **AAOIFI** | Accounting and Auditing Organisation for Islamic Financial Institutions |
| **Bursa Malaysia** | Malaysian Stock Exchange |
| **CPIFR** | Core Principles for Islamic Finance Regulation for Banking |
| **CSB** | Central Shariah Board |
| **DPS** | Deposits Protection Scheme |
| **ESG** | Environmental, Social and Governance |
| **FDI** | Foreign Direct Investment |
| **FinTech** | Financial Technology |
| **FSD Africa** | Financial Sector Deepening Africa |
| **GCC** | Gulf Corporation Council |
| **Gharar** | Ambiguity, uncertainty or risk |
| **ICMs** | Islamic Capital Markets |
| **IsDB** | Islamic Development Bank |
| **IFAAS** | Islamic Finance Advisory & Assurance Services |
| **IFSB** | Islamic Financial Services Board |
| **IFSPs** | Islamic Financial Services Providers |
| **IIFM** | International Islamic Financial Market |
| **Ijara** | Lease |
| **IMF** | International Monetary Fund |
| **ISD** | Internal Shariah Department |
| **Istisna** | Sale of an asset to be manufactured |
| **Kafala** | Guarantee |
| **LOLR** | Lender of Last Resort |
| **Maysir** | Speculation |
| **MENA** | Middle East and North Africa |
| **Mudaraba** | Business partnership where one party (or more) provides the funds and the other provides expertise |
| **Murabaha** | Profit-disclosed sale of an existing asset |
| **Musharaka** | Business partnership where two or more parties co-fund a specific Shariah compliant project/asset and share the profit and loss |
| **Qard** | Islamic interest-free loan |
| **Riba** | Interest |
| **Salam** | Sale of a commodity with full spot payment for future delivery |
| **SMEs** | Small and Medium-sized Enterprises |
| **SSB** | Shariah Supervisory Board |
| **Sukuk** | Islamic Bonds |
| **Takaful** | Islamic Insurance |
| **Wakala** | Agency |

# Executive summary

The Islamic finance industry has expanded rapidly over the past decade where its total assets reached over USD 2.1 trillion in 2018, spreading across dozens of countries and covering primarily Islamic banking, capital markets, and insurance sectors[1].

Islamic finance has also been integrated within the global financial system as a universal alternative financial proposition appealing to Muslims and Non-Muslims alike. In fact, many international financial hubs including London, Hong Kong, and Luxembourg, have created enabling environments for Islamic finance to thrive in their jurisdictions and issued sovereign Sukuk (Islamic bonds) to further support their Islamic finance infrastructure.

However, despite having great potential in the continent, the Islamic finance industry in Africa remains relatively underdeveloped where its share of the industry's total assets is around 1% in spite of Africa being home to 27% of the world's Muslim population[2]. Similarly, Africa accounted for only 2.2% of global Sukuk issuances between 2001 - 2017, showing the underdevelopment of Islamic capital markets in the continent and signifying the untapped potential of Sukuk in the region[3].

In an attempt to address the aforementioned challenge, this Islamic Finance Toolkit was developed by IFAAS (Islamic Finance Advisory & Assurance Services – **www.ifaas.com**) and sponsored by the FSD Africa (Financial Sector Deepening Africa – **www.fsdafrica.org**) for the benefit of the African policy makers and regulators to demystify the key founding principles, structures, and products of Islamic finance, shed light on the industry potential in Africa, and how Islamic finance could be used to achieve the key strategic development objectives of African governments.

## Definition of Islamic finance

**Islamic finance is a Shariah[4] compliant inclusive financial system that aims to create interest-free, asset-backed, ethical, sustainable, economically viable, environmentally and socially-responsible financial offering that promotes participation and risk sharing in commercial transactions and connects the financial sector with the real economy, emphasising on fairness, social welfare, and shared prosperity.**

## Islamic finance for Africa

The inclusion of Islamic finance into the mainstream national and regional development agendas can help the African governments in achieving many of their key strategic objectives including boosting financial inclusion and Foreign Direct Investments (FDI), mobilising domestic savings, deepening financial markets, reducing poverty, diversifying the sources of funds for the private sector including Small and Medium-sized Enterprises (SMEs), and funding the government's infrastructure, education, and agriculture projects, among others.

[1] Islamic Financial Services Industry Stability Report 2019, IFSB
[2] CFC Africa Insights – Islamic Finance in Africa Report – Thomson Reuters
[3] Sukuk Report, April 2018, International Islamic Financial Market
[4] Islamic Law

## Challenges in introducing Islamic finance in Africa

- Lack of awareness among the stakeholders
- Lack of governments' vision and political will to see the value of introducing Islamic finance in the financial system
- Inadequacy of the legal, taxation, regulatory, and supervisory frameworks to accommodate the unique requirements of Islamic Financials Services Providers (IFSPs)
- Absence of Shariah compliant instruments to be used by the financial regulators to duly protect the clients of IFSPs in cases of insolvency/liquidation
- Limited Islamic finance capabilities of human resources among the policy makers, regulators and market players
- Awareness issues and misconceptions about Islamic finance among the public including Muslims and non-Muslims
- Absence of enabling legal and taxation frameworks for issuance of Sukuk

## Key recommendations for successful introduction of Islamic finance in Africa

| | |
|---|---|
| 1 | Defining a clear government vision supported by a national Islamic finance policy that focuses on the economic rationale of the Islamic finance |
| 2 | Amending existing and/or issuing bespoke laws / regulations / supervisory frameworks for IFSPs to provide them with the required legal anchoring and create robust regulatory/supervisory basis for their operations and products |
| 3 | Enhancing the existing corporate governance frameworks with the additional requirements of compliance with Shariah for all IFSPs; |
| 4 | Changing tax laws to create a level playing field for IFSPs and their conventional counterparts |
| 5 | Developing bespoke legal/operational frameworks for introducing a range of Islamic Lender of Last Resort facilities and Islamic Deposit Protection Schemes to assist in boosting the financial stability and resilience of the financial system; |
| 6 | Developing robust Islamic finance capacity building programs for government agencies; |

| | |
|---|---|
| 7 | Launching government-sponsored sensitisation campaigns to explain the key messages from the national Islamic finance policy and its benefits to the public |
| 8 | Introducing regulatory requirements for IFSPs to allocate specific annual budgets for developing their human resources in the area of Islamic finance and raising Islamic finance awareness among the public |
| 9 | Establishing bespoke legal framework for Sukuk to create clear basis for the issuance of sovereign and corporate Sukuk |
| 10 | Issuing sovereign Sukuk by African governments to fund their development projects |
| 11 | Creating an enabling environment for Islamic fintech in Africa to accelerate the industry's outreach and impact |

**The overarching objective of the recommendations provided in this Toolkit is to enable Islamic finance to be a catalyst for Africa's economic development and a real force of change for the continent, providing inclusive financial alternative for all Africans, regardless of their faith or background.**

SECTION 1

# The Islamic Finance Toolkit

# 1 | The Islamic Finance Toolkit

## 1.1. Introduction

This Islamic Finance Toolkit (the Toolkit) has been developed by IFAAS (Islamic Finance Advisory & Assurance Services – **www.ifaas.com**) and sponsored by FSD Africa (Financial Sector Deepening Africa – **www.fsdafrica.org**) for the benefit of the African policy makers and regulators to facilitate the development of the Islamic finance ecosystem in the continent and its contribution to the economic growth, financial diversification and stability of the African countries.

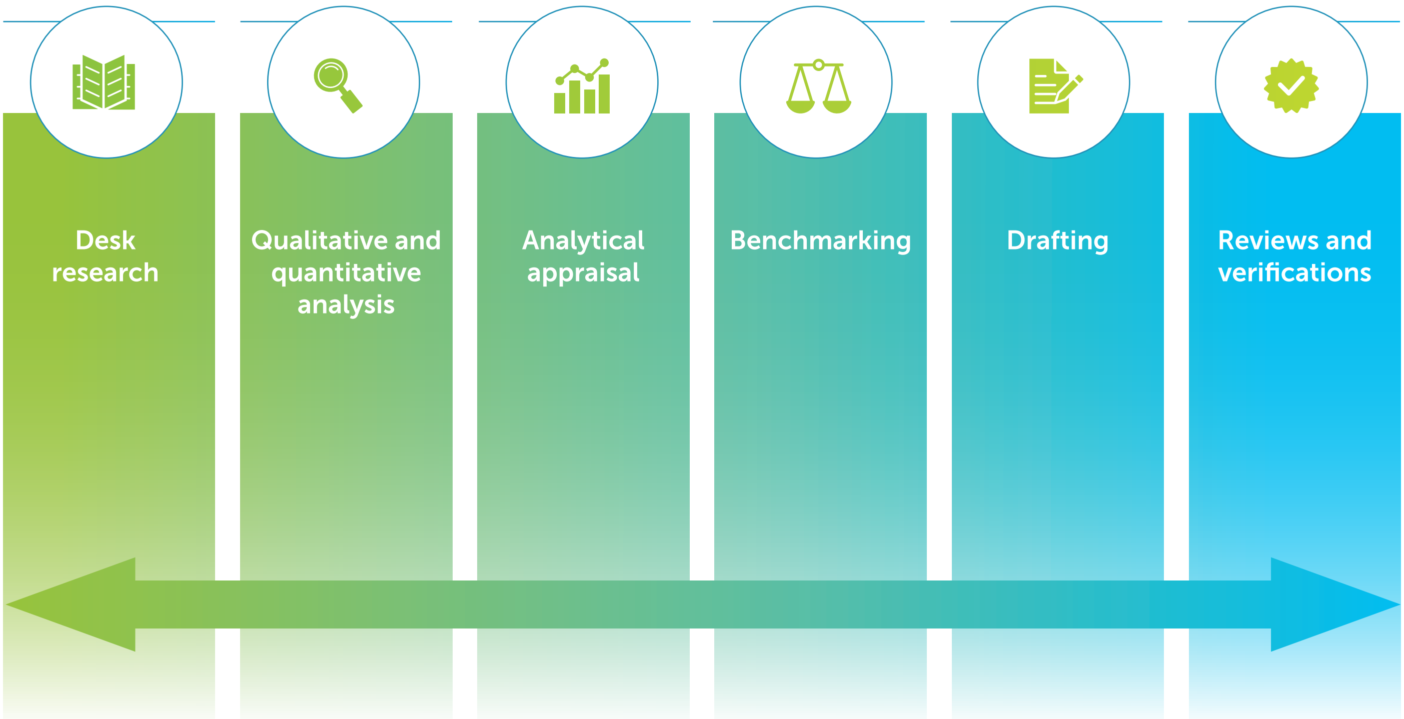
## 1.2. Purpose

The Toolkit aims at providing key information and insights on the main sectors of the Islamic finance industry including Islamic banking, capital markets, microfinance and insurance to demystify their working mechanisms, products and structures and help the readers to understand how they can benefit from Islamic finance. The Toolkit also highlights the main challenges in introducing Islamic finance in Africa with a set of proposed recommendations to overcome these challenges focusing on policy issues, laws and regulations, taxation and supervisory frameworks, governance, human capital, and awareness.

It is believed that the implementation of the proposed recommendations in the Toolkit, in a timely and structured manner, will assist the African governments in creating a conducive environment for Islamic finance industry, enabling it to positively contribute in building their economies and achieve their national development goals.

## 1.3. Methodology

The following bespoke methodology has been implemented for the development of the Toolkit:



SECTION 2

# Introduction to Islamic Finance

# 2 | Introduction to Islamic Finance

Islamic finance is an alternative financial system that is subject to a distinctive set of rules drawn from Shariah (Islamic law), that apply to financial institutions offering Islamic financial products, in addition to the standard industry rules and regulations.

## 2.1. Shariah

Since Islamic finance draws its founding principles from Shariah, it is important to briefly define Shariah and its objectives as follows:

**Definition**

Shariah provides a governing framework that covers all parts of Muslims' lives, including, among others, spiritual, social, intellectual, political and financial aspects. Shariah rules and principles are derived from the Holy Quran and the teachings of the Prophet Muhammad. Based on these two primary sources, Muslim scholars developed the tools of Islamic jurisprudence expressed through different processes including interpretation, analogical reasoning and general consensus to opine on contemporary issues including financial matters.

**Objectives**

Shariah scholars define the objectives of Shariah as being aimed at promoting the well-being of all mankind and greater justice in human society. Consequently, Islamic financial transactions have to comply with Shariah requirements, and the outcome of these transactions should contribute positively to achieving the objectives of Shariah.

There are five main elements that Shariah aims to protect, namely faith, life, intellect, lineage and wealth. Preservation of these five elements is seen as an absolute requirement for the survival and overall well-being of individuals and the society, because their absence would precipitate chaos and destruction of normal order in the society.

Preservation of wealth is one of the essential objectives, which can be achieved by Islamic finance through reinforcing positive means such as investing wealth in legitimate transactions permitted under Shariah and prohibiting negative means such as hoarding, interest, gambling and concentration of money in the hands of the few.

## 2.2. Key founding principles of Islamic finance

### 2.2.1. Prohibition of interest

Shariah considers money as a 'medium of exchange', not a 'commodity'. Money has no intrinsic utility because it cannot be used to directly fulfil human needs, but rather used to purchase or acquire items or services that do so. Based on that, money cannot be used as a subject matter of a trade, and definitely cannot be sold for higher, or less, than its face value[5].

When money is used to generate money, as in the case of extending credit for a certain period of time in return for additional amount of money, this increment is considered interest (Riba[6]), regardless of whether excessive or not.

The effects of the current interest-based financial system implemented worldwide suggest that implications of interest go beyond the individual level to affect the society at large. Transactions

[5] Except in currency exchange that is subject to certain conditions

[6] Riba is an Arabic word for interest, also used with the same meaning in some other languages, including Swahili

based on interest bring injustice to the borrower due to the unequal relationship favouring the lender, encourage concentration of wealth in the hands of the few and increase economic disparity between the rich and the poor. It can be argued that interest can even create social unrest among the people, contrary to Shariah's aim of creating peace and harmony for all in any society.

### 2.2.2. Prohibition of excessive uncertainty and speculation

Commercial arrangements and contracts that have excessive uncertainty, ambiguity, or risk (Gharar[7]) are prohibited in Islamic finance. Gharar is typically manifested when there are detectable, preventable and disputable high ambiguities, uncertainties and risks in the fundamental conditions of a commercial transaction at the time of executing the contract (e.g. subject matter, price, or date of delivery/performance are not clearly specified/defined in a sale contract). Therefore, Islamic financial transactions should be clear, transparent with full disclosures by all the contracting parties on the key terms and conditions of the underlying agreement.

Due to the prohibition of Gharar, several conventional finance products may not be acceptable in Islamic finance such as conventional insurance products because of the high uncertainty as to whether the insured event will occur or not under an indemnity sale contract.

Islamic finance also prohibits commercial transactions that are based on chance or speculation (Maysir[8]) or sometimes referred to as zero-sum transactions where one party's gain in a transaction must lead to the other's loss, rather than creating a mutually beneficial outcome. For example, conventional financial derivatives such as swaps and options that are entered for merely profit-speculative purposes are prohibited in Islamic finance.

### 2.2.3. Creation of asset-backed financial transactions

In Islamic finance, money is considered a lubricant to the engine of the real economy to facilitate the production and exchange of assets, goods and services. Therefore, money can only grow and generate a return if deployed into the real economic activities such as trading, leasing, investing and other Shariah compliant transactions that are backed, based, or linked to real assets, goods and services. Hence, Islamic finance is essentially an asset-backed form of finance that assists in connecting the financial sector with the real economy to create wealth and prosperity in a fair, equitable and sustainable manner.

### 2.2.4. Promotion of participation and risk sharing

The prohibition of interest does not necessarily create a cost-free Islamic financing system, but rather necessitates linking profitability in Islamic finance with involvement in asset-backed commercial transactions that may require sharing of the resulting rewards and risks related to such transactions and their underlying assets.

Thus, sharing risks and rewards is one of the key foundations of a fair and functional Islamic financial system. Moreover, Islamic finance encourages having prudent risk management measures in commercial transactions to duly mitigate any underlying risks and accordingly preserve the wealth in accordance with the objectives of Shariah.

### 2.2.5. Abiding by a comprehensive ethical framework

Islamic finance urges the creation and distribution of wealth in an ethical manner that is fair and equitable with the money under an incentive to remain in circulation, spinning the wheel of economic activities for the benefit of all members of the society. Islamic finance also promotes ethical financial transactions encouraging trade, labour, entrepreneurship, transparency, honesty, righteousness, integrity and fairness, which also inspires kindness, charitable donations, and social welfare among the participants of the Islamic finance industry, benefitting the society at large.

[7] Gharar is the Arabic word for ambiguity, uncertainty or risk
[8] Maysir or Qimar are Arabic words for gambling

Therefore, Islamic Financial Services Providers (IFSPs)[9] cannot offer interest-based or speculative financial products, have excessive uncertainty in their activities that may lead to disputes with their clients, omit or avoid necessary disclosures, present wrong declarations, provide misleading information, or engage in other types of unethical practices (e.g. misrepresentation, exploitation and unfairness in commercial transactions).

Moreover, IFSPs cannot undertake any transaction that is deemed unlawful in Shariah, for example, any transactions that are detrimental to society, environment, animals (e.g. funding businesses that trade in alcoholic beverages, tobacco, gambling, pornography, animal poaching or weaponry).

The overarching objective of the aforementioned ethical framework is creating peace and harmony in the society where everybody gets a fair share of the wealth and people support each other in a constructive way.

## 2.3. Main contracts in Islamic finance

As it is forbidden in Islamic finance to pay or receive interest, money should be used to create real economic value where it may earn a return by having it invested in permissible commercial transactions and activities.

Accordingly, there are different types of Shariah compliant contracts that can be used by IFSPs to structure Islamic financial products and services to meet various financial needs. The following contracts are most commonly used in Islamic finance[10]:

Table 1: Main contracts in Islamic Finance

| Category | Name | Description |
|---|---|---|
| Sale contracts | Murabaha | Profit-disclosed sale of an existing asset |
| | Salam | Sale of a commodity with full spot payment for future delivery |
| | Istisna | Sale of an asset to be manufactured |
| Lease contract | Ijara | Lease (could be structured as operational or financial lease) |
| Loan contract | Qard | Islamic interest-free loan |
| Participatory contracts | Mudaraba | Partnership where one party (or more) provides the funds and the other party provides expertise in deploying the funds in a Shariah compliant business activity for profit generation that will be shared between both partners in accordance with a pre-agreed ratio. Any loss will be borne by the fund provider unless the other partner is guilty of negligence, misconduct or failure in following the contractual conditions, in which case he will bear the loss |
| | Musharaka | Partnership where two or more parties co-fund a specific Shariah compliant project/asset and share the profit and loss |
| Services contracts | Wakala | Agency |
| | Kafala | Guarantee |

[9] In this Toolkit, IFSPs means any institution that offers Islamic financial products including banks, capital market participants, insurance companies etc. IFSPs may include fully-fledged Islamic financial institutions or Islamic window operations of conventional financial institutions.
[10] The following sections in the toolkit will provide further details on how such contracts can be used to structure Islamic banking products, microfinance, insurance, Sukuk etc.

SECTION 3

# International Landscape of Islamic Finance Industry

# 3 | International Landscape of Islamic Finance Industry

## 3.1.The industry – at a glance

The Islamic finance industry has emerged as an effective global tool for reducing poverty, improving access to finance, developing and diversifying the financial sector, boosting financial stability and resilience, and financing development worldwide, including in non-Muslim majority countries. In fact, Islamic finance has already been mainstreamed within the global financial system with many leading financial hubs such as London, Hong Kong, Luxembourg and Singapore, creating enabling legal and taxation environments for Islamic finance in their jurisdictions.

Moreover, the Islamic finance industry has become more sophisticated where standardisation is becoming mainstream, due to the adoption of Shariah and other industry standards issued by global independent standard-setting bodies such as the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB).

In terms of size, the Islamic finance industry has expanded rapidly over the past decade, growing at impressive rates. As of the end of 2018, the total assets of the Islamic finance industry are worth USD 2.19 trillion[11] spread across dozens of countries, covering primarily Islamic banking, capital markets, and insurance.

The industry's assets are expected to further reach USD 3.8 trillion by 2022[12], thanks to the continued adoption of Islamic finance in new jurisdictions around the world and the on-going effort to refine and standardise the existing Islamic finance markets.

## 3.2. Key sectors of the Islamic finance industry

Islamic banking is the backbone of Islamic finance and the largest sector in the industry with total assets worth around USD 1.6 trillion, contributing to approximately 72% of the industry's total assets as of 2018. The second largest sector is Islamic capital markets with 27%, followed by Takaful (Islamic insurance) with only 1% of the industry's total assets[13].

The following sections will provide further information and insights on the aforementioned key sectors of the Islamic finance industry namely Islamic banking, Islamic capital markets and Takaful.

## 3.3. Islamic banking

### 3.3.1. Overview

Islamic banking providers include fully-fledged Islamic banks and Islamic windows (banking operations that work in compliance with Shariah within conventional banks). Operations of Islamic banking providers differ from their conventional counterparts in several ways.

Unlike conventional banks that operate on the basis of borrowing and lending with interest-based loan contracts, Islamic banking providers operate using a set of Shariah compliant contracts.

[11] Islamic Financial Services Industry Stability Report 2019, IFSB
[12] Islamic finance development report 2018, Thomson Reuters
[13] The above-mentioned sectors are not the only sectors in the Islamic finance industry, but rather the largest in terms of size (total assets) as per the IFSB 2019 report

Islamic banking providers are licensed by central banks or other regulatory authorities and subject to the same regulatory requirements as their conventional counterparts. However, they operate in a distinctively different way due to the Shariah requirements that they need to comply with as an additional component to their governance and compliance frameworks.

Islamic banking providers rely mainly on their shareholders' capital and clients' deposits instead of interbank lending and borrowing due to the lack of Islamic money markets that are still under development. They do not lend money to their clients, instead, they buy and sell or lease assets. They also invest with their clients and share profit and loss with them.

Islamic banking providers do not pay interest to their depositors, instead they invest the deposits into different types of Shariah compliant assets/pools/projects and share the profit with their depositors. They also provide services to their clients and charge fees. The sources of income of Islamic banking providers include profit generated by their investments and trading activities, rent received on their leased assets and fees paid for their services. Islamic banking providers do not have any interest income. Any Interest made inadvertently needs to be immediately donated to a charity.

As the nature of their business is different from conventional banks, Islamic banking providers need to have different types of expertise in addition to traditional banking in order to manage their business more effectively. Risks involved in Islamic banking are also different from conventional banking hence a different type and more hands-on risk management is required for Islamic banking products.

Besides the statutory financial audit, Islamic banking providers also have additional layers of internal/external Shariah audits to ensure that they comply with Shariah throughout their operations and at all times[14].

In terms of numbers, there are around 520 Islamic banking providers operating globally in 72 countries as of 2018[15]. However, 45% of the Islamic banking assets have originated from the GCC[16] region followed by 34% from Asia while Sub-Saharan Africa had less than 1%.

### 3.3.2. Key Islamic banking products

The table below provides examples of key Islamic banking products[17]:

Table 2: Key Islamic banking products

| Contract name | Example of a banking product |
|---|---|
| Murabaha | Instead of giving a car loan, the bank will buy the car and sell it to the client at a fixed price including profit margin on the sale of the car, with deferred payments (physical storage of any purchased assets do not have to be at the bank's premises as long as the assets' ownership has been established with a valid contract that defines the ownership responsibilities). |
| Salam | Instead of giving an agricultural loan, the bank will purchase the future produce of a farmer and pay in advance, subject to conditions of delivery. The bank will sell the produce on to other buyers and earn profit. |

[14] A minimum of one Shariah audit per annum – more information on Shariah audit is provided in the Shariah Governance section of the toolkit
[15] ICD-Refinitiv Islamic Finance Development Report 2019
[16] Gulf Cooperation Council (Saudi Arabia, United Arab Emirates, Oman, Bahrain, Qatar and Kuwait)
[17] The examples of the products provided in this list are for illustrative purposes only, hence limited to high-level definitions of the underlying structures that may vary between products

| Contract name | Example of a banking product |
|---|---|
| Istisna | Instead of giving a loan to a property developer, the bank will purchase the property off-plan and agree the payment terms subject to conditions of delivery. Once the property is ready, the bank may sell it on to other buyers and earn profit or lease it out and earn rental income. |
| Ijara (operational lease) | Instead of providing a loan to an airline, the bank will purchase the aircraft and lease it to the airline for a rent. The bank will own the aircraft and the airline will operate it by way of an operational lease. |
| Ijara ending in ownership (financial lease) | Instead of providing a loan to a factory, the bank will purchase the equipment and lease it to the factory. The bank will own the equipment and promise to sell it to the factory at the end of the leasing term for an agreed price. The factory will operate the equipment on a financial lease with the right to buy it at the end. |
| Qard | Islamic banking providers typically use Qard to structure Shariah compliant current accounts where the clients deposit their funds as interest-free loans to the bank. The bank may use the funds in a Shariah compliant way at its own risk and must return the full amount to the depositor without any remuneration. |
| Mudaraba | Instead of giving a loan to an entrepreneur or a corporate, the bank will finance a specific project managed by the client and share the profit generated according to a pre-agreed ratio. The bank will bear any loss unless it is incurred due to the customer's negligence, misconduct or failure to comply with the contractual conditions, in which case he will bear the loss. This product could be structured as a financing arrangement and not as a direct equity position. |
| Musharaka | Instead of giving a home purchase loan, the bank will buy the property in co-ownership with the client and sell its share over time to the client for an agreed price that is paid in instalments over the term (it could be structured as a financing arrangement and not as a direct equity position). Meanwhile, the property will remain in co-ownership in proportion to the respective shares. The bank will lease its share in the property to the client who will pay a rent to the bank. This rent will decline over time as the client will purchase shares from the bank. |
| Wakala | Instead of taking a deposit from the client and paying interest, the bank will invest the client's deposit as their investment agent and pay the profit, if any. The bank will charge a fee for providing investment agency services. |
| Guarantee | The bank will provide the guarantee for an exporter of dispatching the order as agreed with the importers, the bank will charge a fee for this service subject to certain requirements. |

It is worth noting that different contracts may be used to structure similar types of Islamic banking products, each having different features and legal, operational and risk implications. For example, an Islamic property finance product may be structured using Murabaha, Ijara or Musharaka as the primary underlying contract. The choice of the contract will depend on the IFSP's preference, local legal and regulatory frameworks or market dynamics. This flexibility allows innovation in Islamic product development and helps the industry in offering bespoke solutions to satisfy various needs.

## 3.4. Islamic capital markets

### 3.4.1. Overview

Islamic Capital Markets (ICMs) refer to capital market activities and instruments that raise and invest funds in ways that comply with Shariah. The primary ICM activities include but not limited to the issuance and trading of Sukuk, Shariah compliant stocks, and Islamic funds. The growing awareness and demand for investing in accordance with Islamic principles on a global scale has created flourishing ICMs around the world.

ICMs play an important role in generating economic growth for any country. Hence, several Muslim-majority countries including Malaysia, Pakistan, Turkey, Indonesia, UAE, Bahrain and Saudi Arabia have well-established ICMs whilst an increasing number of Muslim-minority countries, for example, the UK, Ireland and Luxembourg, are developing ICM activities within their mature conventional capital markets. With the exception of Sudan and Iran, where the entire financial systems are Shariah compliant, ICMs in all other countries function in parallel to the conventional capital markets, playing a complementary role in broadening, deepening and diversifying the financial markets.

The operations of ICMs in most jurisdictions are regulated and supervised by the country's capital market regulators, in accordance with the standard regulatory framework in place for conventional capital market operations. However, additional requirements pertaining to compliance with Shariah are applicable to ICM operations.

The scope of the above-mentioned additional framework for Shariah compliance varies across different jurisdictions. The countries with more advanced ICMs have distinct and elaborate frameworks for Shariah compliance of the ICM operations whereas in other countries, the framework is not much sophisticated yet.

As of 2018, Islamic capital markets accounted for 27% (approximately USD 592 billion) of the total assets for the Islamic finance industry[18], split between Sukuk standing at 24.2% and 2.8% for Islamic funds. During the same year, there were around 1,700 Islamic funds dominated by Islamic equity funds, and 2,887 outstanding Sukuk including both corporate and sovereign[19].

### 3.4.2. Islamic equity market

The Islamic equity market operates in a similar way to conventional equity market with the standard regulatory requirements but with a few exceptions as they remain subject to Shariah requirements. The following are the key prohibited instruments/transactions/practices/activities in Islamic equity markets:

1. Investing in Shariah non-compliant companies including those creating any negative/adverse impact on the society, environment, and animals
2. Interest-based leveraging
3. Buying on margin
4. Short selling
5. Trading other conventional speculative financial derivatives (e.g. forward, futures, options, swaps etc.)
6. Sale of debt[20]
7. Conveying or acting on insider information.
8. Disseminating misleading statements
9. Market manipulations
10. Improper disclosures

The overarching objective of the aforementioned prohibitions is to promote prudent, ethical, just and fair-trading relationships that are beneficial to all the relevant parties without creating any harm to the society or the environment.

Islamic equity market includes but not limited to Shariah compliant/screened stocks, Islamic stock indices, Islamic funds[21], Islamic unit trusts, and IREITS[22]. The first Islamic equity index was

[18] Islamic Financial Services Industry Stability Report 2019, IFSB
[19] ICD-Refinitiv Islamic Finance Development Report 2019
[20] Malaysia is the only country where Shariah scholars allow the sale of debt based on their own interpretation of the Islamic law, however, such practice is strictly forbidden in all other Islamic finance markets
[21] Islamic funds invest in public and private stocks, using the same strategies of active and passive management as the conventional funds and have similar types of risk and return profiles. Islamic funds also include real estate funds, liquidity funds, Sukuk funds, venture capital funds, fund of funds and more recently, hedge funds
[22] Islamic Real Estate Investment Trust

developed in May 1996 in Malaysia. This was followed by the Dow Jones Islamic Market Index developed by the Dow Jones company in Bahrain in February 1999.

The Kuala Lumpur Shariah Index by Bursa Malaysia (Malaysian Stock Exchange) and the FTSE Global Islamic Index Series by the FTSE Group followed subsequently in April and October 1999. The Dow Jones and FTSE have introduced global Islamic indices, which track the performance of securities approved by the respective Shariah boards of both players.

Over the years, as the Islamic equity markets become more widespread, Islamic Indices and Islamic funds have been introduced in more than 25 jurisdictions worldwide. As of 2018, Saudi Arabia was leading with 35.52% of the total Islamic funds' assets, followed by Malaysia with 30.88%, while Africa is heavily underrepresented in the Islamic funds sphere with only South Africa from the continent having only around 2.3%.

#### 3.3.2.1. Shariah compliance screening

The common stocks listed on a stock exchange are deemed as Shariah compliant and suitable for investment if they pass the Shariah screening tests in accordance with the methodology applied by the relevant index provider or used by the fund manager. The rationale for the application of screening filters to companies before making investments in them is based on the fact that the investor in a stock becomes the equity shareholder in the business, hence carries responsibility for the company's actions.

Consequently, an overall methodology approved by renowned Shariah scholars and AAOIFI is used by index providers and Islamic asset management firms around the globe. The Shariah screening methodology includes a set of criteria based on two main filters as follows:

##### BUSINESS ACTIVITY (QUALITATIVE OR SECTORAL SCREENING)

The general rule is that any sector or business activity that is detrimental to the welfare of society and the environment is prohibited in Shariah. The rule includes business activities that may have some positive aspects, but, in cases where the inherent harm of these activities outweighs the good, these sectors are also banned.

Based on the foregoing, common stocks of companies whose primary business activity is any of the following do not qualify as Shariah compliant investments:

- Any activities related to alcohol and pork;
- Tobacco and any form of illegal drugs;
- Arms, ammunition and weapons;
- Gambling;
- Any form of pornography or other adult entertainment activities with adverse effects on morality;
- Interest-bearing financial services (i.e. banking, insurance and so on); and
- Biotechnology companies involved in human/animal genetic engineering.

The test a company must satisfy is that at least 95% of its gross revenues should be generated by activities other than those mentioned above. Shariah scholars have given an exception in form of a tolerance level of maximum up to 5% of revenues that may be coming from Shariah non-compliant sources or activities of a company. However, this non-compliant revenue of up to 5% will be considered as impure and will be subject to a cleansing mechanism as part of the screening methodology.

Any such income is accounted for, typically from the distribution of dividends, and it must be paid out to charity. Such payment will be for the purification of the income from the investment and will not be considered as a form of almsgiving or tax. The impure funds are usually paid to registered charities that are vetted/approved/recommended by the Shariah advisors of the relevant index provider or the fund[23].

### FINANCIAL RATIOS (QUANTITATIVE SCREENING)

Shariah does not allow participation in or benefit from a transaction that involves interest in any form or shape. Hence, the general rule is that common stocks of companies that give or take interest do not qualify for Shariah compliant investments. However, Shariah scholars have taken a view on the current business environment and agreed to give a certain level of tolerance to the companies that qualify through the first filter of business activity or sectoral screening. Hence, a set of financial ratios has been developed that will apply to assess the permissibility of a stock.

The primary purpose of the aforementioned financial ratios is to exclude companies that do not comply with the tolerated, level of interest-based leverage, receivables, cash available and interest income. It is worth noting that whilst the screening methodology is uniform across the Islamic financial industry worldwide i.e. same type of filters are applied, the financial ratios applied in this screen may vary between different players. For example, the financial ratios in the methodology approved by AAOIFI is different from the financial ratios applied by Dow Jones Islamic Markets or S&P Shariah index. The differences in the ratios are minor however they may have a consequence on the number of stocks that will qualify as Shariah compliant.

The diagram below lists the financial screening ratios as per AAOIFI's methodology[24]:

Diagram 1: AAOIFI screening methodology

**AAOIFI screening methodology**

| Interest-based debt/market capitalisation | Interest-bearing deposits/ market capitalisation | Shariah non-compliant revenue (interest and revenue from other non-compliant activities)/total revenue |
|---|---|---|
| <30% | <30% | ≤5% |

Source: 21st Shariah Standard of AAOIFI

### 3.3.2.2. Environmental, social, and governance screening

Environmental, Social and Governance (ESG) criteria are a set of standards that are used by socially conscious investors to screen potential investments. Environmental criteria consider how an entity performs as a steward of nature. Social criteria examine how a company manages its relationships with employees, suppliers, customers, and the communities where it operates. Governance criteria deal with a company's leadership, executive and employees pay, audits, internal controls, stakeholders rights etc.

[23] Sometimes the fund will notify the investors of their respective purification amounts and let them donate the impure money to their preferred charity

[24] Another financial ratio is required by AAOIFI to determine the tradability from a Shariah compliance standpoint to avoid sale of debt i.e. for a common stock to be tradable, a maximum of 50% of the company's underlying assets can be in the forms of cash, cash equivalents including Gold/Silver, and/or debts. Otherwise, the stock could be transferable at par value (no trading that generates a profit or a loss)

There can be immediate comparisons drawn between the nature of ESG and Shariah compliance screening. Both implement negative screening processes to create a universe of stocks that are attuned to the respective values of their investors. Moreover, there are many crossovers and commonalities among these values. For example, environmental criteria in ESG screening may dictate that investments that can cause harm to society or environment, such as arms manufacturing should be avoided as impermissible investments, and this is also forbidden in Shariah under the same principle. This analogy could be also extended to the tobacco and alcohol industries.

In terms of differences, one of the key differences between the two screening models is that ESG screening does not have a universally recognised/agreed filters and parameters. This means that ESG funds may have very different screens, and they may employ positive and/or negative screens or use parameters based on local market demand or specific requests made by their investors. This contrasts with Shariah compliance screening methodology, where there is a largely defined list of prohibited industries and financial ratios, though there are minor variations.

In terms of the usage of financial ratios, ESG screening may use financial ratios that are more focussed on companies' employing accurate and transparent accounting methods and formulas. Whilst Shariah also requires this, one of the fundamental objectives of using financial ratios in Shariah compliance screening is to assess if a company is overleveraged with interest-bearing facilities and ascertain whether it is a prudent Shariah compliant investment opportunity.

A number of market-driven initiatives are in progress to create convergence between ESG and Shariah screening to push the coverage of the latter to include negative and positive screens related to environmental, social, and governance issues.

### 3.4.3. Sukuk

#### 3.3.3.1. Overview

According to AAOIFI, Sukuk (sometimes referred to as 'Islamic bonds') are defined as:

**"Certificates of equal value representing undivided shares in ownership of tangible assets, usufructs and services or (in the ownership of) the assets of particular projects or special investment activity".**

Sukuk are Islamic investment certificates of equal value issued by sovereign, quasi-sovereign or corporate entities to raise funds against underlying assets or a pool of diversified assets of the Sukuk structure, which may be tangible assets (e.g. ownership of property or projects like infrastructure etc.) or intangible assets (e.g. usufruct of a property).

From a Shariah compliance perspective, the underlying asset is the foundation of a Sukuk structure where the asset shall be owned by the Sukuk holders for the duration of the Sukuk term to link the investment with the risk and reward of such asset.

Asset ownership is best achieved/secured by completing a full transfer of legal title of the underlying assets to the Sukuk holders[25] where the Sukuk holders will have direct recourse to the underlying asset that may be sold to recover their investment in case of default.

However, some Shariah scholars may also accept transferring only the beneficial ownership[26] of the underlying assets to the investors particularly in sovereign Sukuk issuances due to legal

[25] Through a Special Purpose Vehicle 'SPV' structure

[26] Beneficial ownership is established by providing certain contractual legal rights (usage, economic benefits, or other interests in the asset) to the Sukuk holders even though the legal title of the asset remains with the originator (originator is the original legal owner of the asset which is typically the entity seeking funding through Sukuk)

impediments related to ownership transfers of sovereign assets, though in the event of bankruptcy, the assets may revert back to the originator and the claim of the Sukuk holders for their investments could rank pari passu with other unsecured debtors.

The profitability of Sukuk shall be calculated according to the performance of the underlying asset (remuneration of the investors shall be directly linked to such performance) and Sukuk pricing shall be initially based on the buyer's and seller's views of the value of the underlying asset. However, in practice, the primary role of the asset in a Sukuk structure is to act as a security and pricing is based on creditworthiness, market conditions, and benchmark rates among other market-driven factors. In terms of tradability, in general, Sukuk are tradable in both the primary and secondary markets if the majority[27] of the Sukuk underlying assets do not represent cash, cash equivalents including Gold/Silver, and/or debts. Otherwise, Sukuk could be transferable at par value to avoid sale of debt.

Based on the foregoing, the key similarities and differences between Sukuk and bonds can be summarised as follows:

| SIMILARITIES | DIFFERENCES |
|---|---|
| Sukuk, like conventional bonds, are investment instruments that are usually marketable, transferable and tradable[28] in the secondary market. | Sukuk must be issued using Shariah compliant contracts and structures. |
| Sukuk may be rated by regional and international rating companies and agencies. | Sukuk should be structured to fund Shariah compliant projects / assets / services / activities. |
| Sukuk may be secured or their credit rating may be enhanced by using Shariah compliant collateral. | Conventional bonds represent pure debt obligation whereas most Sukuk represent ownership stakes in the underlying assets[29]. |
| The variety of Sukuk structures allows for structuring across different legal and fiscal environments to achieve the objective of the originator. | The sale of a bond is the sale of a debt, but the sale of Sukuk is a sale of undivided share in the underlying assets (where applicable). |
| Sukuk are subject to regulatory requirements as the conventional bonds. | Sukuk are secured by ownership rights in the underlying assets while conventional bonds are generally unsecured debt[30]. |
| | The principal and return in Sukuk are not always unconditionally and contractually guaranteed, but in conventional bonds, they are guaranteed by the originator at the outset. |

The aforementioned structural differences between Sukuk and bonds entail a number of legal, regulatory and tax implications that need to be duly addressed before issuance of sovereign or corporate Sukuk in any jurisdiction. The main challenges include moving the underlying assets from the originator's balance sheet and ring-fencing them in a legal entity that provides protection to the originator and the Sukuk holders without incurring any additional taxation that may be triggered due to the movement of assets.

[27] According to AAOIFI Shariah Standards, for Sukuk to be tradable, a maximum of 50% of the Sukuk underlying assets can be in the forms of cash, cash equivalents including Gold/Silver, and/or debt
[28] Subject to the Shariah compliance requirements of the Sukuk structure
[29] In case of default, the Sukuk holders may have the right to sell the underlying asset while the bondholders will be typically treated like creditors
[30] Except in cases like first mortgage bond, equipment trust certificates etc.

### 3.3.3.2. Sukuk market

#### Global market

The overall Sukuk issuance increased from USD 59 billion to USD 93.43 billion between 2015 - 2018, representing an average annualised growth rate of 16.55%. Contrastingly, the global bond issuance market fell at an annualised rate of 4.19% during the same period[31]. Although the conventional bond market is more mature and developed than the Sukuk market in terms of depth and breadth among other factors, such impressive growth trend for Sukuk highlights the significant demand and potential for such instrument.

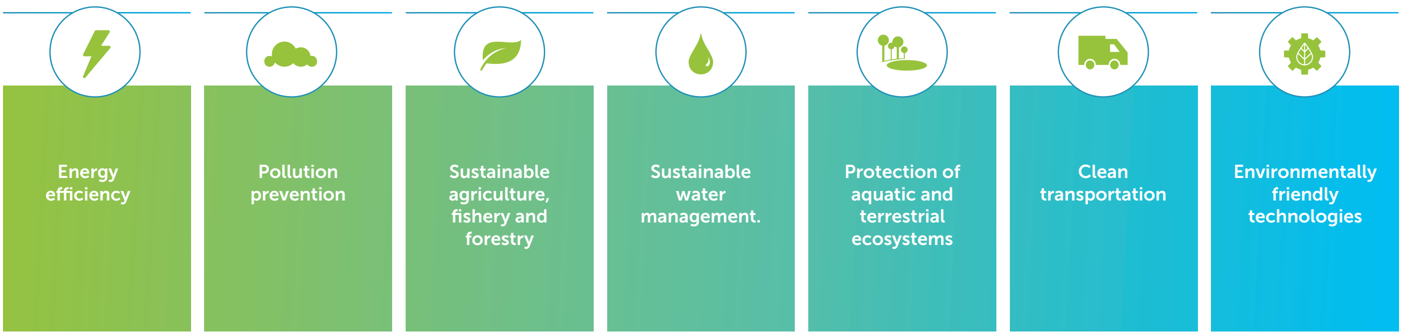
In terms of geographical presence, Malaysia was leading the way with 35.2% of the global Sukuk issuances in 2018, followed by Saudi Arabia, UAE, and Indonesia with 23.1%, 13.1%, and 11.2% respectively.

The sovereign Sukuk accounted for 74% of total Sukuk issuances during 2018, highlighting a strong presence of sovereign nations taking advantage of Sukuk to raise funds[32]. Saudi Arabia, Malaysia, and Indonesia were the top global sovereign Sukuk issuers in 2018 with 31.94%, 32.82%, and 13.38% respectively, while Africa was represented with a combined 0.69% of the global sovereign Sukuk issuance split between Nigeria, Morocco and Gambia.

It can be clearly concluded that Africa has a long way to go when it comes to Sukuk. In fact, around 27% of the world's Muslim population resides in Africa, while Africa accounted for only 2.2% of global Sukuk issuances between 2001 - 2017, signifying the untapped potential of Sukuk in the region[33].

#### Green Sukuk

Green Sukuk are designed to foster sustainability and support climate-related, or other types of special environmental projects in a Shariah compliant manner. Green Sukuk may fund projects in the following areas among others:




An increasing number of Green Sukuk issuances, both corporate and sovereign, have been observed in recent years as an effort to further achieve the objectives of Shariah for cutting waste, and protecting the environment through the use of Islamic financial structures and instruments.
In 2017, the government of Malaysia issued the first sovereign Green Sukuk under its Sustainable and Responsible Investment Sukuk Framework providing investors with reasonable financial returns and taxations incentives. The Indonesian government followed suit with its first sovereign Green Sukuk transaction, valued at USD 1.25 billion[34].

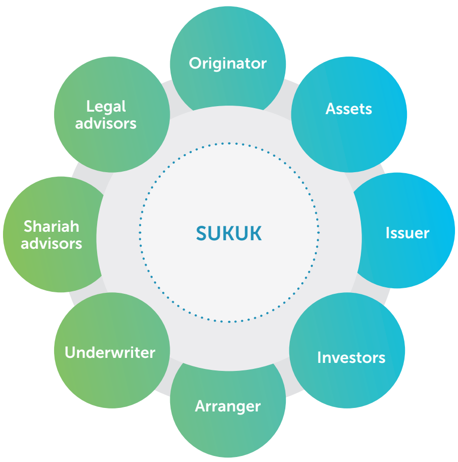
[31] Securities Industry and Financial Markets Association Fact Book 2019, SIFMA
[32] Sukuk Report, April 2018, International Islamic Financial Market
[33] Sukuk Report, April 2018, International Islamic Financial Market
[34] Environmental Finance – Green Bond of the Year 2019

In terms of corporate Green Sukuk issuances, the Tadau Energy, a Malaysian energy generation company, issued the first Green Corporate Sukuk in the world in 2017, raising around USD 59 million to finance a solar power plant in Sabah, Malaysia. Several corporate Sukuk issuances followed the aforementioned debut issuance in Asia until Majid Al Futtaim Group, the leading shopping malls and leisure centres group across the Middle East and Africa, issued the first Green Sukuk in the MENA region in 2019, valued at USD 600 million with a tenor of ten years. The Sukuk proceeds will be used by Majid Al Futtaim's existing and future green projects, including green buildings, renewable energy, sustainable water management, and energy efficiency[35].

In November 2019, the Islamic Development Bank (IsDB), the only full-fledged Islamic development and multilateral institution in the world, issued its first Green Sukuk. The Islamic supranational raised EUR 1 billion in 5-year Green Sukuk under IsDB's recently developed Sustainable Finance Framework[36]. Proceeds from the above-mentioned debut Green Sukuk issuance will be deployed by IsDB in a range of climate-change and green projects across its 57 member countries. These include projects for renewable energy, clean transportation, energy efficiency, pollution prevention and control, environmentally sustainable management of natural living resources and land use, and sustainable water and wastewater management[37].

### 3.3.3.3. Key components of Sukuk structuring

Diagram 2: Suruk structuring




**Originator**

A sovereign, quasi-sovereign or corporate entity seeking to raise funds through Sukuk (sometimes referred to as obligor).

**Assets**

The underlying assets / usufruct / services to be owned by the investors until maturity.

**Issuer**

The Special Purpose Vehicle (SPV) that issues the Sukuk to the investors.

**Investors**

Sukuk holders that receive Sukuk certificates from the SPV in return for their funds subscribed to Sukuk.

**Arranger**

The bank or the institution that has been mandated by the originator to arrange a Sukuk issue and accordingly manage the entire issuance process (e.g. bookrunning, subscriptions etc.).

**Underwriter**

Party committed to buy some/all unsubscribed Sukuk (if any).

**Shariah advisors**

The hariah scholars and technicians that review all the Sukuk legal documentation and its operational implementation to ensure Shariah compliance of the same and conduct periodic Shariah audits on the deployment of Sukuk funds (where applicable)[38].

**Legal advisors**

The legal specialists that draft the Sukuk legal documentation including prospectus and other relevant contracts and agreements.

[35] Moody's Green Bonds Report, and World Bank Data
[36] This framework was created in line with the IsDB President Five-Year Program to lay the foundation for the issuance of Green Sukuk
[37] IsDB's official website
[38] Further information on Shariah governance and audit will be provided in section 6 of the toolkit

### Role of Special Purpose Vehicle (SPVs) in Sukuk structuring

SPV is usually an orphan legal entity created by the originator typically in the form of a trust or a limited liability company registered in an onshore or offshore jurisdiction to facilitate a Sukuk issuance. Since the SPV is established as an orphan entity, it is unable to administer or enforce its rights under the Sukuk documents, hence, a professional trustee services company shall be appointed to act as its delegate to fulfil the obligations of the SPV.

Below are the key features of the SPV in a Sukuk structure:

- **Ownership of assets** – the SPV holds the ownership of the underlying assets of the Sukuk (ownership of legal title and/or beneficial ownership) on behalf of, and for the benefit of the Sukuk holders.
- **Sukuk issuance** – the SPV issues the Sukuk to the investors and collects proceeds.
- **Payment management** – the SPV receives the payments from the originator and pays returns in form of coupons to the Sukuk holders.
- **Trustee** – the SPV often acts as a trustee on behalf of the Sukuk holders.
- **Bankruptcy remoteness** – in the event of bankruptcy of the originator, the underlying assets of the Sukuk will remain ringfenced from the rest of the assets of the originator, preventing any creditors making a claim on the Sukuk assets or interfering with rights of the Sukuk holders with respect to the underlying assets.
- **Tax efficiency** - SPV is generally domiciled in a tax-efficient jurisdiction such as the Cayman Islands, Luxembourg, Jersey, Bahrain or Labuan etc. in order to minimise taxes and transfer fees/charges related to the assets.

## 3.3.3.4. Ijara Sukuk – prominent Sukuk structure

Sukuk can be structured using various Shariah compliant contracts and in different ways and forms depending on the nature of the underlying asset, applicable legal framework and the desired outcome. However, Ijara Sukuk, simply defined as a sale and leaseback arrangement, is regarded as the classical Sukuk structure in the industry since it has become the most commonly used by issuance volume since 2008, particularly for sovereign issuances[39]. This structure's popularity stems from the following factors:

- Ijara is simple and acceptable by all the Shariah schools of thought followed by different investors and adopted in various regions.
- It is legally acceptable and/or easily enforceable in many jurisdictions.
- Tradable at all times (no Shariah compliance restrictions).
- Enables the redemption price to be agreed at the outset without raising any Shariah concerns.
- Enables the return rates to be guaranteed at the outset which makes it less risky to investors.

Hence, Ijara Sukuk was selected as a case study for the Toolkit to provide further technical insights about Sukuk structuring in the Islamic finance industry.

### Ijara at a glance

Ijara is a lease contract where the usufruct of a certain asset is rented from the owner of the asset (or lessor), to the lessee against payment of rent. Ijara is defined by the following conditions:

- The underlying asset should be Shariah compliant and used according to Shariah principles.
- Ijara term must be specified with clear start/end dates.
- The underlying asset or its usufruct must be owned by the lessor and remain the property of the lessor throughout the Ijara term.
- Lessor is responsible for major maintenance and insurance[40] of the underlying asset. Ordinary maintenance (day-to-day) remains the lessee's responsibility.

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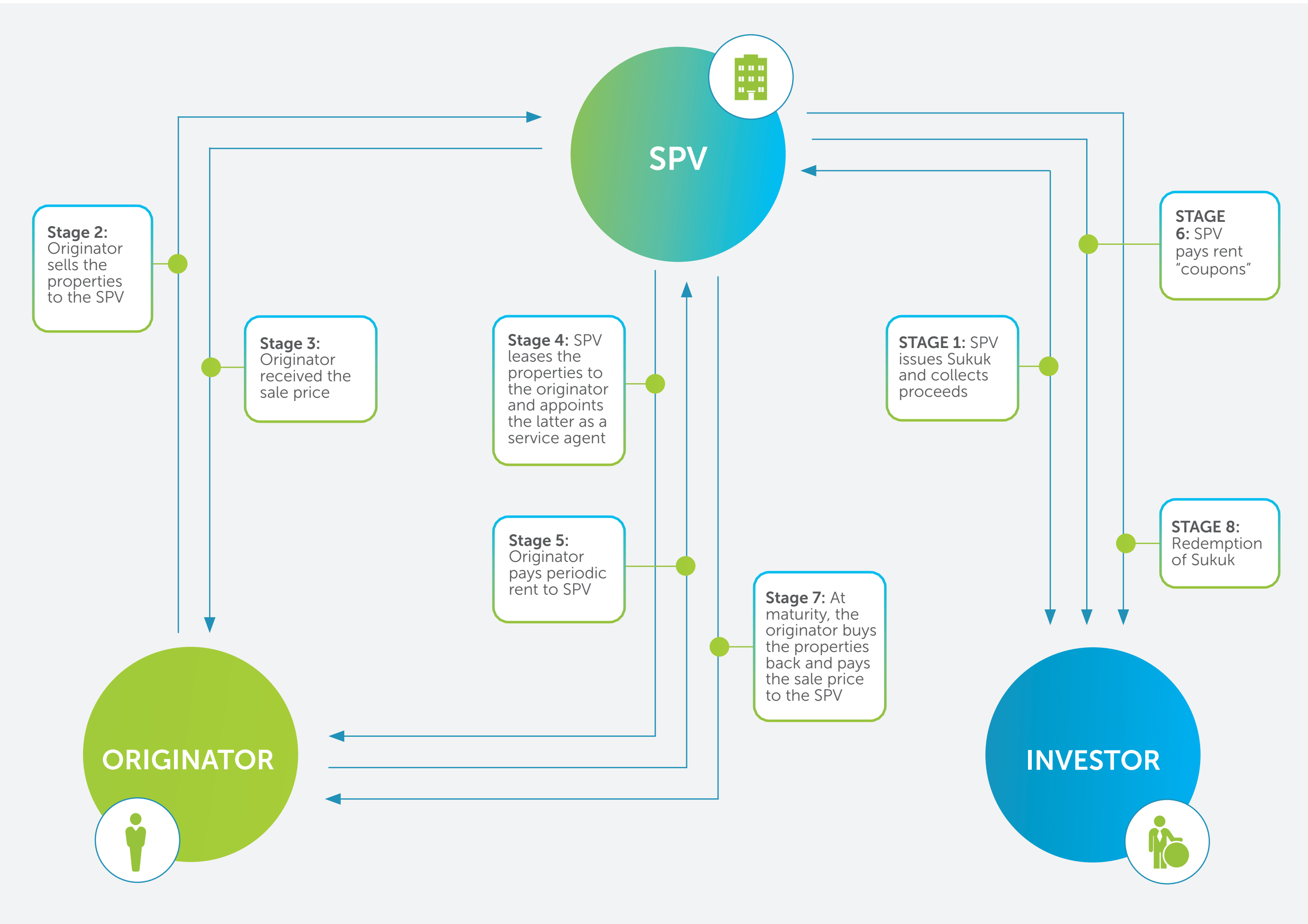
[39] The Sukuk Handbook – Second Edition – Latham & Watkins
[40] Takaful (Islamic insurance) cover shall be used but if not available in the local market, conventional insurance may be used

- The rent amount must be agreed upon in advance (it may be defined using a formula based on an acceptable and independent benchmark e.g. Libor rate).

### Ijara Sukuk process

- The originator uses a defined set of properties as the Sukuk's underlying assets.
- The originator sets up an SPV to act as the 'issuer' for the purpose of Sukuk issuance, as 'trustee' for the Sukuk holders and as 'lessor' of the properties.
- The SPV issues Sukuk and collects proceeds from the investors to pay the agreed amount of money to the originator as the purchase price of the properties.
- The originator sells the properties to the SPV for an agreed price and with a promise to buy back the properties at the maturity of the Sukuk.
- The SPV (which now owns the properties) leases the properties to the originator for an agreed amount of rent to be paid periodically (which will be the income for the SPV that will be distributed to the Sukuk holders as coupon payments).
- The properties continue to be used by the originator as usual (or could be sub-let by the originator to other entities, if allowed under the Sukuk structure) but the originator, as 'lessee', pays the agreed rent to SPV.
- The SPV also appoints the originator as its agent for the servicing (major maintenance, insurance and payment of taxes, if any) of the properties.
- At maturity, the originator buys back the properties from the SPV and pays the purchase price. This amount is used to pay the Sukuk holders for redemption of Sukuk. The ownership of the properties is transferred back to the originator.

### Diagram 3: Ijara Sukuk process flow



## 3.5. Takaful

### 3.5.1. Overview

Takaful is a Shariah compliant alternative to insurance where participants (policyholders) contribute to a common pool of funds with the intention of jointly guaranteeing each other. Therefore, the risk is not shifted from the insured to the insurer, instead it is jointly borne and shared by all participants in the Takaful pool. A licensed company with insurance management capabilities is appointed to manage the Takaful pool on behalf of the Takaful participants.

In fact, there is no insured or insurer as the Takaful participants mutually share the risk and help each other in case of need. Hence, there is no premium, but a 'contribution' defined as a 'conditional donation' to the Takaful pool by each participant. Takaful pool is used for paying all claims made by the participants and the costs of the pool management. On the investment side, the funds in the Takaful pool can be deployed only in Shariah compliant investment instruments and activities including Sukuk.

In terms of products, similar to conventional insurance, Takaful has two distinct lines of business namely general and family (life). However, general Takaful schemes are "risk-only" contracts of joint-guarantee whereas family Takaful schemes are typically structured as Shariah compliant investment plans.

According to the Islamic Financial Services Stability Report of the IFSB 2019, the global Takaful market is estimated to have around USD 27.7 billion in total gross contributions. While this is significant, it only represents approximately 1.3% of the total assets of the Islamic finance industry. It is also important to note that the Takaful industry is growing at impressive rates with gross contributions growing by 13.1% in 2017-2018, while global insurance premiums increased by only 3.8% during the same period[41].

In terms of operators and geographical presence, there is an estimated number of 335 Takaful providers including windows of conventional insurers, operating in 47 countries as of 2018 with several jurisdictions taking a clear lead in terms of the products offered and best practices[42]. As a result, Takaful (like other Islamic finance offerings) has attracted customers from all backgrounds and faiths to benefit from its unique and inclusive value proposition providing real financial alternatives in a number of countries including the UK.

As of 2018, the largest proportion of Takaful gross contributions is originated from the GCC region with 45% of the global gross contributions, followed by 39% from the MENA region (excluding GCC), and the remaining 16% from Asia. Similar to what have been observed in Islamic banking market shares, Sub-Saharan Africa has negligible share of the global gross Takaful contributions which highlights the highly untapped potential of the region.

### 3.5.2. The hybrid operational model of Takaful

Takaful has a few models operating in the world, including mainly Mudaraba, Wakala and the most popular, Hybrid model. Under the Hybrid Model, the Takaful operator, a licensed and regulated insurance company, will have two different Shariah compliant contractual relationships with the Takaful pool as follows:

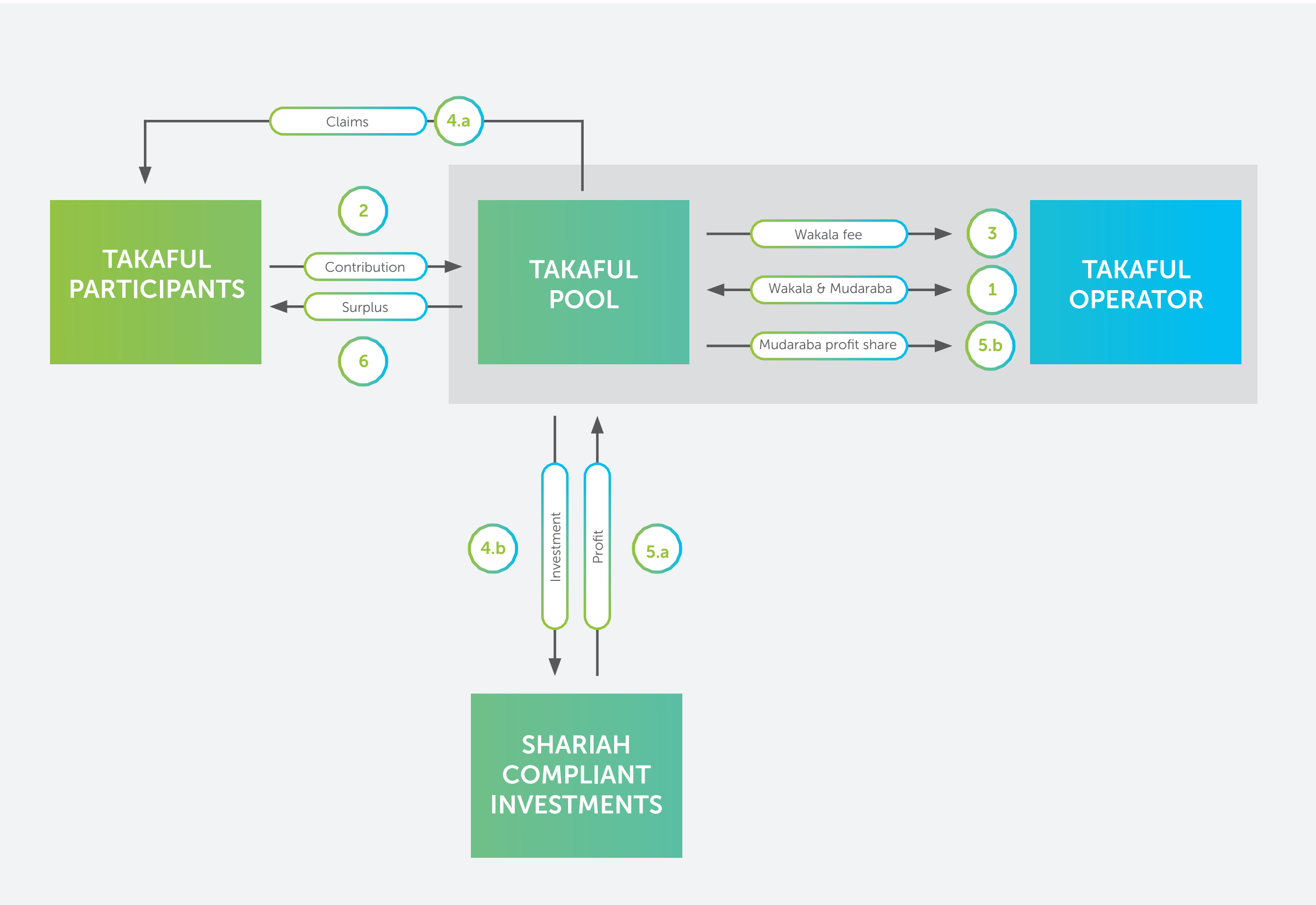
[41] Islamic Financial Services Industry Stability Report 2019, IFSB
[42] ICD-Refinitiv Islamic Finance Development Report 2019

| WAKALA | MUDARABA |
| --- | --- |
| The Takaful operator will manage the Takaful business as an agent on behalf of the participants (i.e. provision of technical insurance services and management of operations) against the payment of an agreed Wakala fee (typically a fixed percentage deducted from the paid gross contributions by the participants) | The Takaful operator will act as an investment manager to invest the Takaful funds in Shariah compliant instruments for an agreed share in any profit generated on the investments of the Takaful pool. |

By implementing the Hybrid Model, an agency fee can be charged upfront from the contributions whilst also having a share of the returns on the investment of the Takaful pool. Any surplus in the Takaful pool after paying all the claims and retaining reserves could be distributed to the Takaful participants[43].

The Hybrid Model, currently the most common Takaful model in the global Islamic finance industry and being mandatory in many countries, is illustrated in the diagram below providing a high-level process flow:

Diagram 4: Takaful hybrid model process flow




[43] The surplus is typically paid to participants after making adequate reserves to ensure the sustainability of the Takaful operations

SECTION 4

# Islamic Fintech

# 4 | Islamic Fintech

FinTech (abbreviation of 'Financial Technology') refers to the technological innovation in the financial sector. It encompasses all innovations that affect trading, payments, services, processes, contracting and even regulations. FinTech is rapidly growing due to its disruptive nature as it works fast on reshaping the markets and the industry it affects and helps in bringing the required change to the economy much faster than other traditional methods. Hence, all financial regulators, investors and financial institutions are expecting a future dominated by FinTech.

There is a growing interest in Islamic FinTech solutions since IFSPs see this as a unique opportunity to bridge the gap between them and the conventional financial institutions. While there is an increasing number of Islamic FinTech firms being established in a number of countries including Indonesia, UK, UAE, Bahrain and Malaysia, the number of initiatives in the Islamic finance domain is still far less than that in the conventional sphere.

## FinTech in Africa

While FinTech including Islamic FinTech have caught the attention of many financial institutions and investors in recent years across the world, Africa and particularly Sub-Saharan Africa still lags behind. Africa is a continent of opportunity for FinTech investments due to its unique economic and demographic environment. The continent is characterized by relatively less-developed financial infrastructure, and an unbanked population of about 57%[44].

By ensuring access to financial services to this population, FinTech providers including Islamic FinTech have the potential to profoundly change the financial services landscape and play a pivotal role in improving financial inclusion. The continent has already shown good indicators about its readiness for FinTech with one of the highest mobile phone penetration levels in the world and is currently experiencing a boom in mobile financial services and payment technologies[45]. Kenya's M-Pesa and M-Akiba have proven great success to date in conventional sphere.

Currently, the FinTech revolution in Africa is primarily fuelled by the continent's three main hubs of South Africa, Kenya and Nigeria. These countries boast relatively more advanced FinTech ecosystems compared to the rest of the continent. With local and global players, the FinTech landscape in Africa has grown at an annual rate of approximately 24% over the last 10 years[46].

**Therefore, it could be concluded that the FinTech landscape in Africa exhibits promising signs of impressive growth with ample investment and business opportunities and Islamic FinTech may be used as one of the accelerators of such phenomenal growth taking into account the substantial Muslim population in the African continent.**

[44] Global Findex Database, World Bank
[45] FinTechs in Sub-Saharan Africa - An overview of market developments and investment opportunities - EY
[46] FinTechs in Sub-Saharan Africa - An overview of market developments and investment opportunities - EY

SECTION 5

# Standardization

# 5 | Standardization

Islamic finance has been mainstreamed within the global financial system with over 1,400 IFSPs operating in tens of countries and across leading financial centres such as London, Johannesburg and Hong Kong. Therefore, over the years, the industry has developed its offering and products in many legal and taxation systems across diverse societies and communities with different cultural fabrics, and various religious practices.

As a result of such globalisation and phenomenal growth an urgent need for harmonisation and standardisation has emerged in the industry to achieve the following key benefits and objectives:

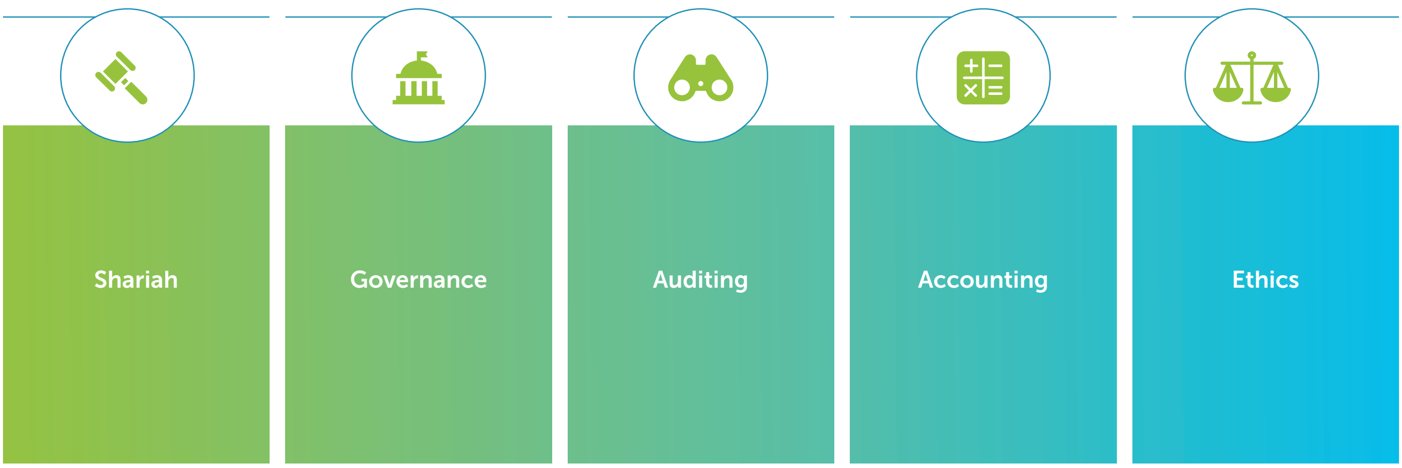
- Maintain the integrity of the Islamic finance industry and protect its reputation from any controversial practices.
- Boost stability of the Islamic finance industry.
- Providing internationally recognised benchmarks, standards and best practices for the stakeholders of the industry.
- Create uniformity and consistency in the operations of IFSPs focusing on structures of products, processes and procedures, Shariah governance and compliance requirements, accounting and auditing, risk management, liquidity management etc.
- Boost cross-border investment transactions and international cooperation in the Islamic finance field.
- Reduce the overall operational costs, streamline the day-to-day business activities and improve efficiency of IFSPs, particularly where capacity of the stakeholders, including but not limited to the regulators and market players, is very limited due to Islamic finance being newly introduced in the country.

Hence, the following leading standard-setting bodies have been established by the industry stakeholders to take it to the next level:

### 5.1. Accounting and auditing organisation for Islamic financial institutions

AAOIFI was established in 1991 in Bahrain as an international, autonomous and not-for-profit industry standard-setting body. AAOIFI's primary objective is to ensure consistency and uniformity of practices across all sectors of the Islamic finance industry.

Till the date, AAOIFI has issued more than 100 standards in the following technical areas:



The standards of AAOIFI are mandatory regulatory requirements in dozens of jurisdictions and are also partially adopted or used for guidance in many others. The Shariah standards of AAOIFI are the unanimous opinion of Shariah scholars representing different schools of Islamic jurisprudence and regions of the world about Islamic finance.

Apart from governments and regulatory bodies, the Shariah standards of AAOIFI are voluntarily implemented and followed by the IsDB and numerous well-known Islamic finance consultancies, auditing firms, Islamic banks, Takaful companies, non-banking credit institutions, capital market firms, educational/training institutions, Shariah scholars and professionals around the globe.

### 5.2. Islamic Financial Services Board

IFSB was formed in 2002 in Malaysia as an international standard-setting organisation for regulatory and supervisory agencies, multilateral organisations and market players that have a vested interest in developing a sound and stable Islamic financial industry.

IFSB promotes the development of a prudent and transparent Islamic finance industry by introducing new bespoke standards or adapting existing international standards consistent with Shariah principles and recommending them for Islamic banking providers, capital markets participants and insurance providers. To date, IFSB has issued 30 standards, guiding principles and technical notes primarily focused on prudential and regulatory areas including risk management, capital adequacy, solvency requirements, supervisory review process, liquidity management, corporate governance etc.

As of 2019, there are 179 institutional members of IFSB including 78 regulatory and supervisory authorities, intergovernmental organisations, and stock exchanges spread in 48 jurisdictions including Bank of England (United Kingdom), Bank Negara Malaysia, Dubai Financial Services Authority (UAE), Indonesia Financial Services Authority, Banque Centrale du Luxembourg, Capital Markets Authority (Kenya), World Bank, and the International Monetary Fund (IMF).

IFSB is working closely with the aforementioned authorities and organisations and accordingly providing them with technical support and capacity building interventions for the adoption of IFSB standards, and promotion of Islamic finance.

In May 2018, the IMF Executive Board formally adopted the use of the IFSB's Core Principles for Islamic Finance Regulation for Banking (CPIFR)[47] in its financial sector assessments methodology. The CPIFR will be applied by the IMF in its financial sector assessments undertaken in fully Islamic banking systems and, as a supplement to the Basel Core Principles for Effective Banking Supervision, in dual banking systems where Islamic banking is systemically significant. Such decision has assisted in complementing the international Islamic financial architecture for financial stability, whilst also providing incentives for regulators across many jurisdictions to improve their prudential frameworks for the Islamic banking industry.

### 5.3. International Islamic Financial Market

IIFM was formed in 2002 in Bahrain as non-profit standard setting body for the capital and money markets of the Islamic finance industry. IIFM's mandate is to develop standardized Shariah compliant documentation, product templates, Shariah pronouncements, jurisdiction-specific legal opinions, and operational guidelines for the Islamic capital and money markets' products. The founding members of IIFM are the Central Bank of Bahrain, Bank Negara Malaysia, Bank Indonesia, Ministry of Finance Brunei Darussalam, the Central Bank of Sudan and the IsDB.

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[47] The CPIFR are intended to provide a set of core principles for the regulation and supervision of the Islamic banking providers taking into consideration their specificities and unique requirements

As of 2019, IIFM has issued 12 standards for the following Islamic capital and money markets' products structured for facilitating hedging, liquidity management, and trade finance:

| | |
|---|---|
| Islamic Treasury Placement | Shariah Compliant Hedging Master Framework |
| Islamic Profit Rate Swap | Interbank Unrestricted Investment Placement |
| Shariah Compliant Alternative to Conventional Repo | Islamic Cross-Currency Swap |
| Islamic Foreign Exchange Forward | Credit Support Product for Cash Collateral |
| Unfunded Participation Product for Trade Finance | Funded Participation Product for Trade Finance |

According to the IIFM Standards Implementation Survey 2019, the above-listed products and standards have been used by hundreds of IFSPs across 17 jurisdictions in 2019.

SECTION 6

# Shariah Governance

# 6 | Shariah Governance

IFSPs have a unique value proposition that is deeply rooted in a set of ethical principles. Such ethical principles and universal values help them to offer an inclusive and collaborative financial system that aims to boost financial inclusion, support entrepreneurship, encourage transparency and promote fairness.

To achieve the aforementioned objectives and duly mitigate the Shariah non-compliance risk, the Islamic finance industry in any country should have the Shariah governance framework and supporting infrastructure that ensure a proper conduct of business for IFSPs based upon strong conviction, ethical principles and practices in line with the legal, regulatory and Shariah requirements.

## 6.1. Shariah non-compliance risk

Shariah non-compliance risk is defined as the risk of reduction in earnings or value, through financial or reputational loss resulting from IFSPs being Shariah non-compliant. Hence, Shariah non-compliance risk arises from failure to comply with Shariah rules, principles and requirements, as set out by the respective authorities/bodies nominated for such purpose on both national and/or institutional levels (where applicable)[48].

Such non-compliance may arise from breach of regulations, policies, processes, procedures, contracts and any other documentation, arrangements and activities that are related to IFSPs and their products and services.

The probability and the impact of this unique risk can be both high and significant, so it needs to be carefully managed and mitigated as it may have severe consequences as follows:

| FINANCIAL IMPACT | NON-FINANCIAL IMPACT |
| --- | --- |
| Non-compliant transactions are considered void by Shariah thus any income generated from the same would not be acceptable to IFSPs and will be subject to purification (i.e. to be donated to charity and accounted as an expense instead of income). | Shariah non-compliance issues can heavily tarnish the reputation of the Islamic finance industry and may create impairment in the confidence of the stakeholders in any Islamic financial proposition. |

Therefore, Shariah non-compliance risk is a systemic risk in Islamic finance and mitigating such risk at all levels (global, national and institutional) is essential for building a functional and competent Islamic financial ecosystem.

## 6.2. Shariah governance framework

Shariah governance framework is a comprehensive system that defines a set of appropriate national and/or institutional measures (as applicable), arrangements, requirements, organs and policies for Shariah compliance in the Islamic finance industry. The overall objective is establishing

[48] The appointed authorities/bodies responsible for issuing rules on Shariah compliance for IFSPs on national and/or institutional levels will depend largely on the jurisdiction

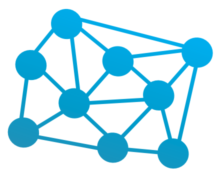
an effective and independent oversight of Shariah compliance over IFSPs' activities to duly mitigate their exposure to Shariah non-compliance risk.

It is critical to emphasise that the requirements of Shariah governance framework should go hand in hand with, and in addition to other relevant statutory requirements that apply to financial institutions in any market. Accordingly, IFSPs have a dual governance model to satisfy both Shariah and statutory requirements.

Policy makers and regulators in different jurisdictions have adopted different models of Shariah governance to ensure that IFSPs are functioning in line with Shariah principles. Such varied regulatory perspectives on Shariah governance are due to the diverse nature of legal systems, cultures and religious fabrics in different countries where IFSPs operate and offer their products and services.

Under the current practices of the Islamic finance industry, there are broadly two prevalent models of Shariah governance frameworks as follows:

Diagram 5: Different model of Shariah governance

| CENTRALISED MODEL | DECENTRALISED MODEL |
|---|---|
| **Presence of national/central Shariah body(s) and institutional Shariah boards*** | **Only institutional Shariah boards are required/encouraged** |
|  |  |

*However, institutinal shariah boards might not be required in some jurisdictions and only national/central Shariah body(s) would exist

### 6.3. Key components of shariah governance framework

Key components of the Shariah governance framework are as follows[49]:

| NATIONAL-LEVEL | INSTITUTIONAL-LEVEL |
|---|---|
| • Central Shariah Board(s) (CSB), where applicable. | • Shariah Supervisory Board (SSB).<br>• Internal Shariah Department (ISD).<br>• Shariah audit (internal[50] and external). |

[49] The names/terms used to describe these components can vary among different jurisdictions, but the functions remain largely similar

[50] Internal Shariah audit may be part of IFSP's internal audit function (subject to capability)

Diagram 6: Key components of the Shariah governance framework

## CENTRAL SHARIAH BOARD (CSB)

CSB is a national-level independent body of a specific country/regulator, appointed by the relevant authority, to act as the highest Shariah authority in the country's Islamic finance industry (or any of its sectors). The overall objective of the CSB is ensuring Shariah compliance at all times by working closely with the industry stakeholders including the institutional SSBs to duly manage the Shariah non-compliance risk in a systematic manner, and accordingly provide the industry with the required financial stability.

## SHARIAH SUPERVISORY BOARD (SSB)

An independent institutional committee comprised of qualified Shariah scholars and other technical Islamic finance experts who provide Shariah compliance guidance, supervision, and certification for IFSPs' products and activities to assure the stakeholders on their Shariah compliance status.

## INTERNAL SHARIAH DEPARTMENT (ISD)

ISD is an independent function/department in an IFSP established to provide day-to-day advice on Shariah related matters to ensure that the SSB's directives and decisions are being correctly and accurately implemented within the relevant activities and operations of the IFSP.

## SHARIAH AUDIT

Shariah audit is a systematic, independent, and regular examination/verification of the products, operations, activities, procedures, internal controls and records relating to an IFSP in order to express an opinion, based on a reasonable level of assurance, on the compliance of the IFSP with Shariah requirements as defined by the SSB and the CSB (if any).


SECTION 7

# Why Islamic Finance for Africa?

# 7 | Why Islamic Finance for Africa?

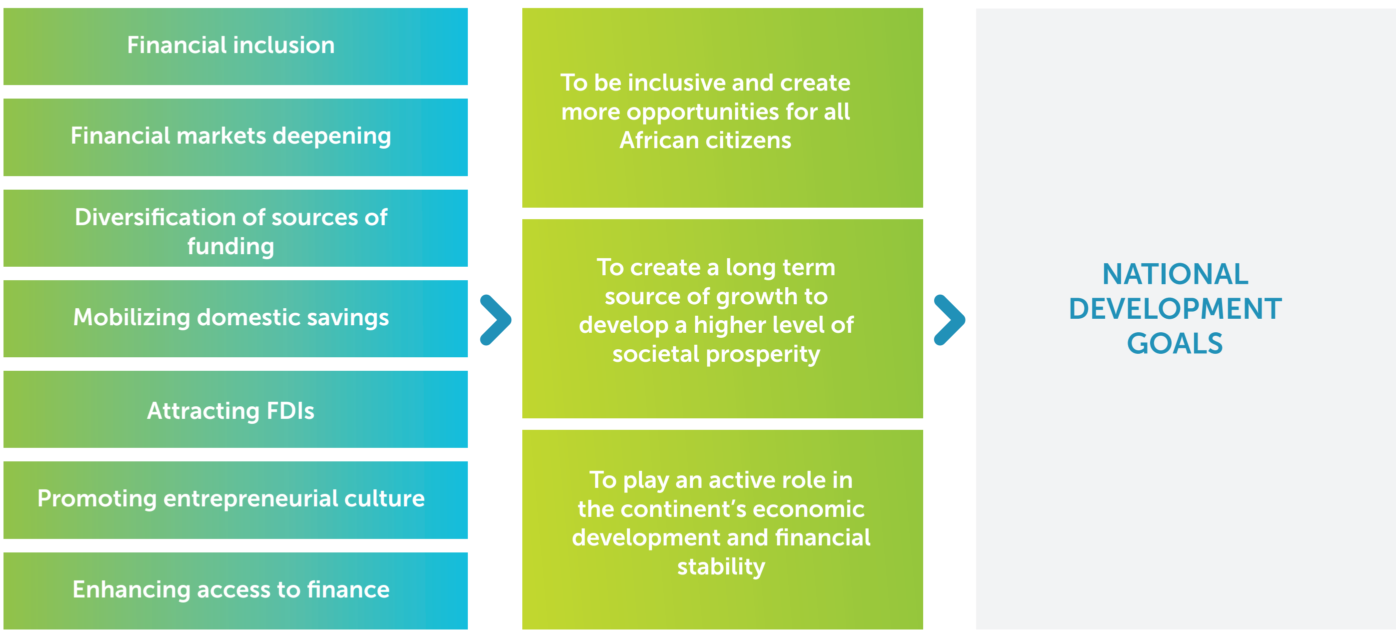
Islamic finance has the inherent power of playing an important role in the empowerment of individuals and communities, promoting entrepreneurial culture, investing in a real and sustainable economy, hence benefitting the wider society and the African economies as whole. In fact, the inclusion of Islamic finance into the mainstream national and regional development agendas can help the African nations in achieving many of their key strategic objectives.

A continent of 1.2 billion people with around 40% being Muslim[51], can use Islamic finance to boost financial inclusion where Africa lags behind the global average of 69% with only 43% of the African population having access to formal financial services as of 2017[52]. African governments can also utilise Islamic finance to leverage the continent's position as an attractive emerging destination of Foreign Direct Investments (FDI) and accordingly bolster FDI and create a sustainable level of inward flows into their economies to support vital development projects.

Moreover, Islamic finance can be used to promote further economic goals including mobilising domestic savings, diversifying the sources of funds for the private sector including Small and Medium-sized Enterprises ("SMEs"), and fund the government's infrastructure, education, and agriculture projects among others. Ultimately, the proper introduction and implementation of Islamic finance has the potential to enhance the level of sophistication of the entire financial services industry by encouraging healthy and fair competition between conventional financial services providers and IFSPs.

Based on the foregoing, the recommendations provided in the following section of this Toolkit focus on making Islamic finance being a real force of change for Africa by capitalising on its economic dynamics, and not merely on its religious foundations.

Diagram 7: Role of Islamic finance in achieving national development goals




[51] CFC Africa Insights – Islamic Finance in Africa Report – Thomson Reuters
[52] Global Findex Database, World Bank

SECTION 8

# Main Challenges and Recommendations for Successful Integration of Islamic Finance in Africa

# 8 | Main Challenges and Recommendations for Successful Integration of Islamic Finance in Africa

| | Challenge | Recommendations |
|---|---|---|
| 1 Government's vision and political will | Lack of government's vision and political will to see the value of introducing Islamic finance in the financial system. | • Setting a clear vision supported by a bespoke Islamic finance policy that is shared among the stakeholders and a national champion[53] to oversee the development of the Islamic finance ecosystem against clearly defined targets[54]. Such policy shall have a strategic view on Islamic finance and focus primarily on the economic rationale of the Islamic financial proposition.<br>• Establishing detailed plans and strategies in accordance with the aforementioned policy for the development of the Islamic finance industry where objectives, milestones, resources, actions and timelines are clearly identified and may be used to measure the effectiveness of the Islamic finance ecosystem as it develops over the years. |
| 2 Enabling legal, regulatory, and supervispory frameworks | Absence or inadequacy of the financial legal, regulatory, and supervisory frameworks to accommodate the unique requirements of IFSPs. | • Amending existing laws and regulations and/or issuing bespoke ones for IFSPs to provide them with the required legal anchoring and create robust regulatory basis for their operations and products taking into account the current legal and regulatory frameworks applied in the relevant country and the standards and guidelines set by the IFSB and AAOIFI (where applicable)[55].<br>• Developing the required supervisory frameworks and tools for IFSPs to ensure proper risk-based supervision that will cover licensing procedures, risk management guidelines, on-site examination procedures, off-site surveillance procedures, treatment of Islamic deposits' special reserves, formats for reporting to regulatory authorities and any other relevant supervisory tools to ensure adequate monitoring and supervision of IFSPs. |
| 3 Taxation | Islamic financial products and services being more expensive than conventional equivalents from a taxation standpoint. | • Amending existing tax laws/acts or issue bespoke tax circulars/guidelines to achieve taxation neutrality for IFSPs and their products by creating a level playing field with their conventional counterparts[56]. |

[53] E.g. inter-regulatory steering committee or technical group
[54] Key examples of this recommended 'National Leadership Approach' are Malaysia and the UK. Both countries have successfully managed to unlock the potential of Islamic finance in serving their national economies and accordingly positioned themselves as global leading hubs for Islamic finance with the support of their respective governments
[55] The new/modified regulations should define the following requirements among others capital adequacy, credit classification and provisioning, liquidity requirements, corporate and Shariah governance, ownership structure and any other relevant regulatory requirements to facilitate the efficient operation of IFSPs for both full-fledged and windows
[56] As explained in section 3.2.2, Islamic financial products are structurally different from their conventional counterparts as they are based on contracts of sale, lease, profit-sharing etc. instead of the standard interest-based lending and borrowing in conventional finance. This structural difference implies that Islamic financial products are likely to incur additional taxes that may make them more expensive compared to similar conventional financial products. This issue has been addressed in many jurisdictions (such as UK, Luxembourg, France, Kenya, South Africa etc.) by amending the relevant tax laws to provide taxation neutrality to Islamic financial products, putting them on the same footing as their conventional peers. Some jurisdictions even provided IFSPs with a favourable taxation treatment to accelerate the growth of the industry like Malaysia

4

**Financial safety net**

### Challenge

Lack of Shariah compliant instruments to be used by the financial regulators to duly protect the clients of IFSPs in cases of insolvency and liquidation[57].

### Recommendations

Developing bespoke legal and operational frameworks for introducing:

- A range of Islamic LOLR facilities to enable the relevant regulators to act as the lender of last resort to IFSPs in a Shariah compliant manner and assist in boosting the financial stability and resilience of the financial system in Africa.
- Shariah compliant Deposit Protection Scheme dedicated to protecting Islamic financial deposits.

5

**Human capital**

### Challenge

Islamic finance capabilities of human resources are very limited and basic among the policy makers, regulators and market players.

### Recommendations

- Developing a comprehensive Islamic finance capacity building program for the key stakeholders among the government agencies. The overarching learning objectives of this bespoke capacity building program shall be as follows:
    - Creating a solid knowledge base about Islamic finance principles, structures, processes and practicalities.
    - Understanding Islamic financial products, their legal and Shariah compliance features, technical characteristics, operational applications and specific risks.
    - Equipping the stakeholders with the needed knowledge, skills and comprehension of the various regulatory and supervisory tools to build the required internal capacity to prudently supervise the emerging local Islamic finance industry in Africa.
- Introducing a regulatory requirement as part of the licensing/authorisation procedures for IFSPs to allocate a specific annual budget to develop their human resources in the area of Islamic finance. Such budget to be spent within the relevant calendar year and any breach of this requirement shall be subject to disciplinary actions by the financial regulators including fines.

6

**Awareness**

### Challenge

Lack of awareness about Islamic finance among the public including Muslims and Non-Muslims. Misconceptions about Islamic finance in the African market.

### Recommendations

- Launching a government-sponsored sensitisation campaign using a full mix of communication channels, including national TV, newspapers, social media etc. to deliver the following key messages to the African public on the government's Islamic finance policy:
    - Islamic finance is a financial alternative to conventional finance that has a unique set of universal ethical values. Hence, Islamic finance is not a mere religious offering limited to Muslims.
    - Islamic finance has the potential to play a key role in the national economic development by way of attracting foreign direct investments, boosting financial inclusion, deepening financial markets, promoting entrepreneurial culture, and providing new financial alternatives for all Africans.
- Introducing a regulatory requirement for IFSPs to allocate a specific annual budget to raise Islamic finance awareness among the public. Such budget to be spent within the relevant calendar year and any breach of this requirement shall be subject to disciplinary actions by the financial regulators including fines.

[57] Crisis management in the financial sector involves the use of an array of instruments, including structured early intervention and resolution, Lender of Last Resort (LOLR), Deposits Protection Scheme (DPS), government bailout and bank insolvency proceedings

7

Sukuk

### Challenge

Lack of enabling legal and taxation frameworks for issuance of Sukuk.

### Recommendations

- Establishing a bespoke legal framework for Sukuk to create clear basis for the issuance of sovereign and corporate Sukuk[58]. This legal framework should clarify Sukuk legal status and treatment for purposes of public debt and cash management. Moreover, it should clarify at the minimum, Shariah governance requirements for Sukuk issuance, Sukuk taxation treatment, the requirements for the establishment, management, and accounting of SPVs underpinning the issuance of Sukuk, how proceeds of sovereign/corporate Sukuk should be accounted for, where the raised funds will be spent and what liabilities there might be for the issuers, including African governments and corporates, in the event of a default by the SPV.

- Issuing sovereign Sukuk linked to government's specific infrastructure, renewably energy, agriculture, education, health and industrial projects, among others. Sovereign Sukuk will complement the Islamic financial ecosystem in Africa and assist the IFSPs to manage their liquidity in a Shariah compliant manner and meet any relevant statutory requirements[59].

8

Islamic fintech

### Challenge

Lack of an enabling ecosystem for Islamic FinTech to develop and serve the African nations.

### Recommendations

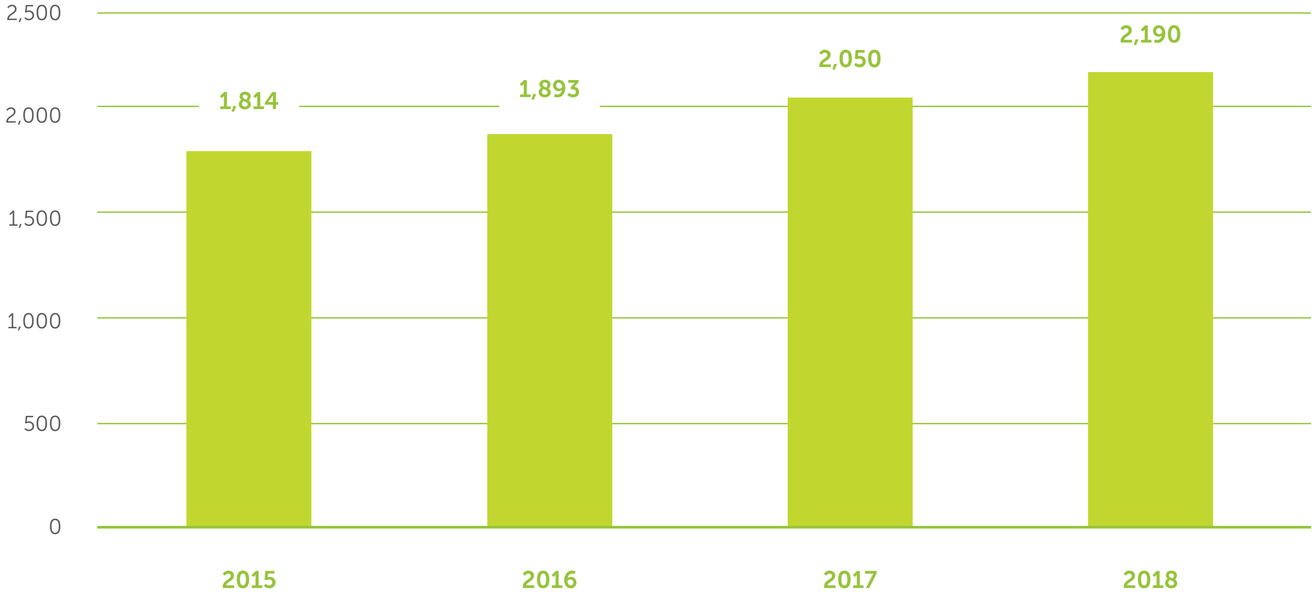
- Developing and integrating the specific regulatory and supervisory requirements for Islamic FinTech solutions into the overall FinTech legal and regulatory frameworks (where applicable). Such approach will streamline the development process of the overall FinTech legal and regulatory infrastructure in Africa.

- Creating Islamic Fintech Hubs with comprehensive infrastructure that may include but not limited to the following:
    - Creating ideas development lab[60];
    - Making regulatory sandboxes to assess, approve and provide permit, through an easy process, to all ideas, that have been developed with workable IT solutions, to operate locally;
    - Guaranteed funding from local IFSPs for successful applicants; and
    - Successful applicants that complete the regulatory sandbox and obtain a licence will be offered the chance to present their ideas to a dedicated fund to be set up by African governments specifically to invest in Islamic FinTech.

[58] Following the examples of UK, Luxembourg, Turkey, Kenya, and South Africa, among others
[59] Sovereign Sukuk may also be beneficial in funding the government's general budgetary needs, diversifying the sources and instruments of the government funding, establishing a benchmark for corporate Sukuk issuances in Africa as an alternative funding source for the private sector, deepening the African financial sector, mobilising the domestic savings to fund the national projects etc.
[60] Anyone with an idea can apply to this lab, and if successful, an invitation will be sent to join the program where the idea will be developed with the support of specialised mentors (covering business, finance, Shariah and IT etc.)

# Appendix
## Graphs

Graph 1: Total assets of the Islamic finance industry (2015-2018)
**USD billion**




Source: Islamic Financial Services Industry Stability Report 2019, IFSB

Graph 2: Sectoral composition of the Islamic finance industry by assets 2018


Source: Islamic Financial Services Industry Stability Report 2019, IFSB

Graph 3: Composition of Islamic banking assets by region 2018

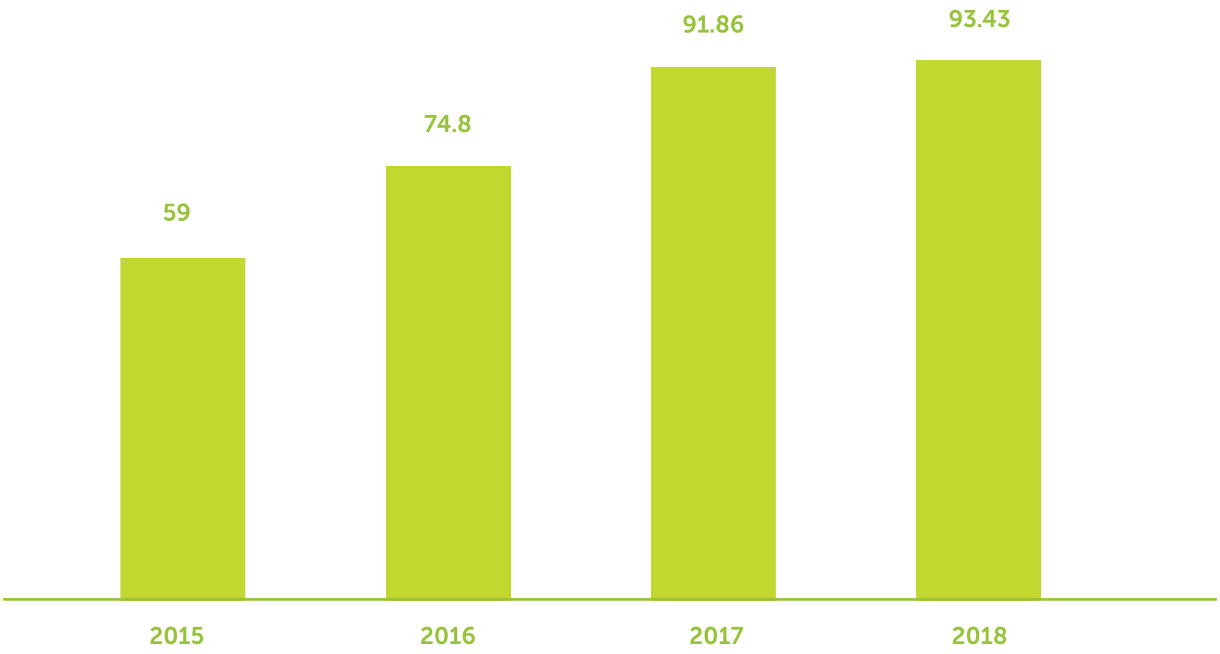

Source: Islamic Financial Services Industry Stability Report 2019, IFSB

Graph 4: Islamic funds' assets by domicile 2018


Source: Islamic Financial Services Industry Stability Report 2019, IFSB

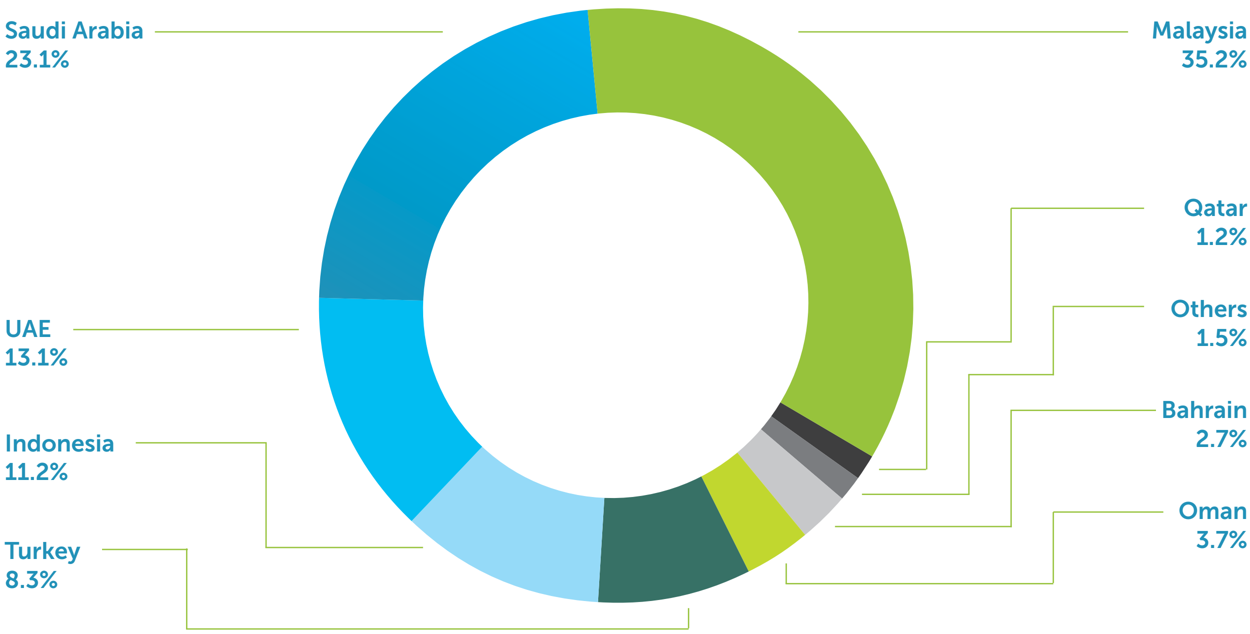
Graph 5: Global Sukuk issuance (2015 – 2018)

USD billion



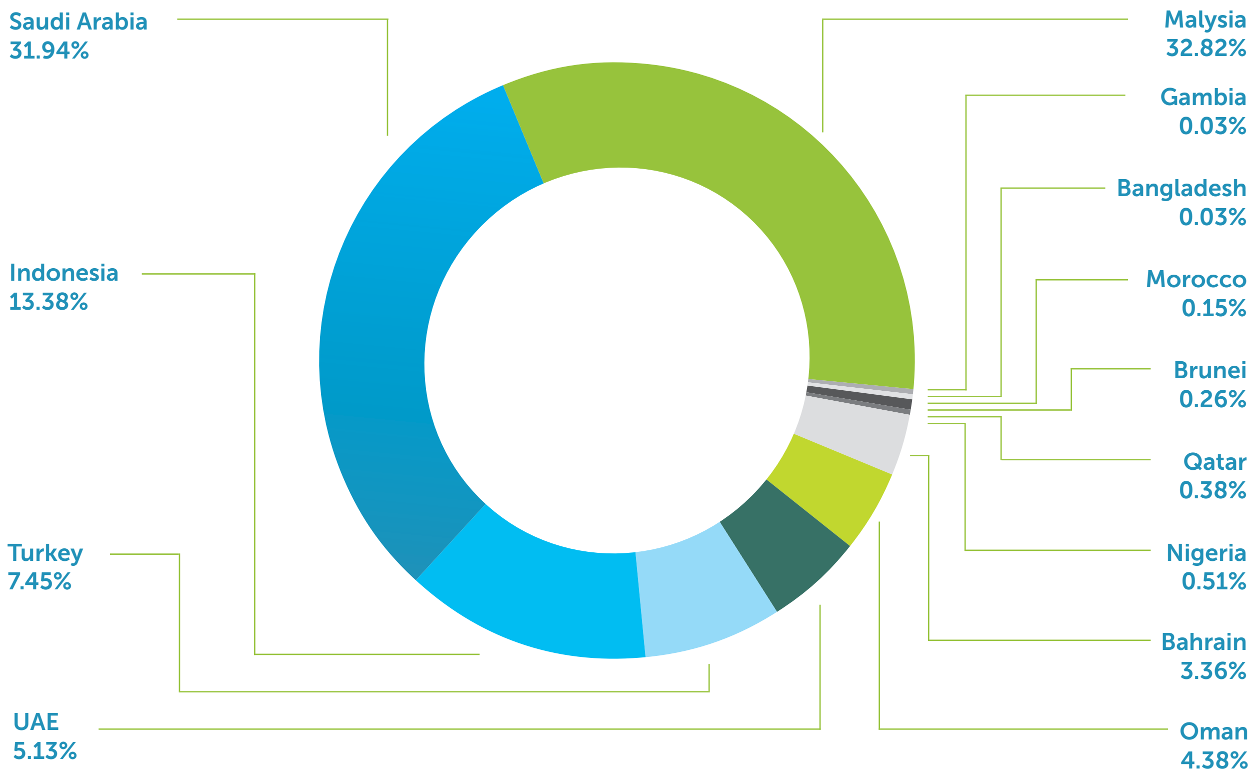

Source: Islamic Financial Services Industry Stability Report 2019, IFSB

Graph 6: Overall Sukuk issuance by jurisdiction 2018




Source: Islamic Financial Services Industry Stability Report 2019, IFSB

## Graph 7: Sovereign Sukuk issuance by jurisdiction 2018




Source: Islamic Financial Services Industry Stability Report 2019, IFSB

## Graph 8: Composition of Takaful gross contributions by region 2017


Source: Islamic Financial Services Industry Stability Report 2019, IFSB

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