#IFDI2020

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Islamic Finance Development Report 2020

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Islamic Corporation for the Development of the Private Sector

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ISLAMIC FINANCE DEVELOPMENT INDICATOR

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ICD Refinitiv Islamic Finance Development Indicator (IFDI) is a composite weighted index that measures the overall development of the Islamic finance industry by assessing the performance of all its parts in line with its inherent faith-based objectives.

The information is comprehensively gathered from a universe of 135 countries and measured across more than 10 key metrics including Knowledge, Governance, CSR and Awareness.

THE DATABASE WILL PROVIDE ISLAMIC FINANCE MARKET STAKEHOLDERS WITH

+8 years
Islamic finance industry financial data

+520
Islamic banks financial data across 72 countries

+330
Takaful Operators data across 47 countries

+12,000
Sukuk issuances data from over 24 countries and in more than 12 structures

+1,700
Islamic funds data from 28 jurisdictions

+1,100
Shariah scholars data and their board representation

+960
Islamic finance education providers data

+430
Islamic finance events information

We offer exclusive access to the complete Islamic finance database to Refinitiv Eikon users through the IFDI and Islamic Finance Overview pages.

To learn more
Please contact the Islamic finance team on
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CONTENTS

04 **FOREWORD**

06 **EXECUTIVE SUMMARY**
Global Islamic Finance Industry Landscape

11 **GLOBAL ISLAMIC FINANCE DEVELOPMENT INDICATOR**
Top IFDI Markets and Global Average IFDI Values for 2020

21 **ISLAMIC FINANCE OVERVIEW**
Global Islamic Finance Landscape
Islamic Banking
Takaful
Other Islamic Financial Institutions
Sukuk
Islamic Funds

49 **ISLAMIC FINANCE ECOSYSTEM**
Islamic Finance Governance
Islamic Finance Corporate Social Responsibility
Islamic Finance Knowledge
Islamic Finance Awareness

69 **METHODOLOGY AND APPENDIX**
Concept and Background
Key Objectives
Country List

71 **CONTRIBUTORS**

EXECUTIVE INSIGHTS

18 **Interview with**
Ayman Amin Sejiny
Chief Executive Office
Islamic Corporation for the Development of the Private Sector (ICD), part of the Islamic Development Bank

46 **Interview with**
Ahsan Ali
Managing Director and Head of Islamic Origination
Standard Chartered Saadiq

54 **Women in Islamic Finance**
Prof. Dr. Engku Rabiah Adawiah
The International Islamic University Malaysia

FOREWORD

The Islamic Corporation for the Development of Private Sector, the private sector development arm of the Islamic Development Bank (IsDB) Group, and Refinitiv, the world's largest provider of financial markets data and infrastructure, are proud to present the eighth edition of the Islamic Finance Development Report.

The report derives its analysis from the Islamic Finance Development Indicator (IFDI) based on statistics from 135 countries around the world. The database is not just limited to financial data for different Islamic finance sectors and asset classes, but also looks at the knowledge and awareness of the industry, as well as its governance and corporate social responsibility.

Among the main findings of the 2020 report is that global assets for the industry returned to double-digit growth in 2019, rising 14% to US$2.88 trillion, thus demonstrating its resilience even as sustained low oil prices weighed on the main Islamic finance economies.

The report also serves as an up-to-the-minute guide on the impact that Covid-19 has had and continues to have on Islamic financial markets. Governments and multilateral organizations have introduced a stream of wide-ranging measures to defend their economies and societies. These include some extremely large government stimulus packages that have stretched fiscal deficits to the limit. Central banks are turning to debt to shore up their fiscal positions and sukuk are proving an increasingly popular choice of instrument. Meanwhile, Islamic financial institutions have been responding to the crisis by stepping up their digital services and using Islamic social finance instruments to support those who are struggling financially as a result of the crisis.

The impact of the coronavirus on Islamic finance is analysed in the report not just in terms of the different sectors of the industry but also covers the disruption to the industry's supporting ecosystem such as education.

We believe that the analyses and information provided in this report will serve as a vital reference point for the state of the Islamic finance industry during this difficult time and we remain convinced that Islamic finance can play a major role in alleviating the social and economic consequences of the Covid-19 pandemic.

Ayman Sejiny
Chief Executive Officer,
Islamic Corporation
for the Development
of the Private Sector

Mustafa Adil
Head of Islamic Finance,
Refinitiv

EXECUTIVE SUMMARY

According to the **Islamic Finance Development Report 2020**, the Islamic finance industry saw double-digit growth of 14% in 2019 to a total US$2.88 trillion in assets. This happened despite the uncertainty felt across the largest Islamic finance markets over the past few years due to sustained low oil prices and subdued industry growth in 2018.

The report provides a detailed look at the current state of the industry based on the Islamic Finance Development Indicator (IFDI) which considers five key indicators in the development of Islamic finance: Quantitative Development; Knowledge; Governance; Corporate Social Responsibility; and Awareness. Our analysis of these five areas of the industry across 135 countries around the world showed that the overall global indicator value remained constant at 10.8, with improvements in the Knowledge and Corporate Social Responsibility indicators offset by declines in the other three.

Islamic capital markets, funds and banking were main drivers of assets growth

The 14% growth in global Islamic finance industry assets was due in part to elevated levels of sukuk issuance in the traditional markets in the GCC and Southeast Asia. Green and SRI (socially responsible investment) sukuk grew in prominence in the UAE and Southeast Asia and have continued to grow in popularity in 2020 with the entrance of new issuers such as Saudi Electricity Co.

Authorities in Kazakhstan and Uzbekistan are also preparing regulations that will allow green sukuk to be issued there too. Other industry firsts include Egypt entering the sukuk market for the first time in 2020 and the issuance by Qatar Islamic Bank of the first-ever Formosa sukuk in Taiwan.

Islamic funds also made a significant contribution to the industry's growth. The asset class rose 30% in 2019, mainly in the GCC, with new launches of Islamic exchange traded funds (ETFs) in a number of countries and of ESG-related investment assets made available through digital media that appeal in particular to millennials.

The strong growth in industry assets was also driven by continued growth in Islamic banking assets, which account for most of the industry's assets. The fastest expansion was seen in the non-core markets such as Morocco, where 'participatory banking' was introduced in 2017. Other markets likely to see further expansion in Islamic banking include Turkey and the Philippines. A new Islamic banking law passed in the Philippines in 2019 will allow domestic and foreign banks alike to establish Shariah-compliant banking windows.

Islamic finance assets remain concentrated in the three leading markets of Iran, Saudi Arabia and Malaysia, however, which between them accounted for 66% of global assets in 2019.

Indonesia jumps to second in IFDI rankings backed by government Islamic finance masterplan

Indonesia showed one of the most notable improvements in the IFDI country rankings, moving into second spot for the first time as its Knowledge and Awareness indicators were boosted by the country's large number of Islamic finance education providers and high numbers of research papers produced and Islamic finance-related events hosted. This reflects the ongoing implementation of the Islamic Economic Masterplan 2019–2024 introduced by the government's National Sharia Economy and Finance Committee (KNEKS).

Other notable improvers in the IFDI country rankings were Syria, the United States, South Africa and Thailand.

Outlook uncertain while COVID-19 pandemic remains

Despite the strong expansion seen in 2019, industry growth is forecast to slow to the single digits, reaching US$3.69 trillion by 2024, as the world attempts to deal with the Coronavirus pandemic that erupted on a global scale in the first quarter of 2020. While the total impact of the pandemic on the industry cannot be measured quantitively before the end of 2020, at the time of writing several Islamic financial institutions including Islamic banks had reported losses or a drop in profits caused by a Covid-related increase in loan impairments.

The pandemic has, however, led to growth in some areas of the industry. Some regulators have turned to Islamic finance to mitigate the economic impact, such as Algeria, which plans to use it to attract local savers. Sovereign sukuk are also being used to aid financial recovery in the GCC and Southeast Asia. Corporate sukuk issuance has also picked up after a cautious halt in the first quarter of 2020, as companies seek to take advantage of low borrowing costs to shore up their finances while the pandemic continues to batter trade and economies. Quasi-sovereigns such as Islamic multilateral organizations have also stepped in to support countries reeling from the pandemic. Sustainability has also become a more important consideration during the pandemic, and new product launches reflect this, such as ESG-based Islamic investments targeting social issues such as mass unemployment.

Pandemic leading rapid growth in digital solutions

The pandemic has also been a game changer in that several Islamic financial institutions have moved to offer their products via digital platforms so as to better serve their locked-down customers, thereby speeding the advance of technology within Islamic finance. Although Islamic FinTech had already been making headlines in recent years, digital-based financial institutions have become much more popular during the pandemic, just as digital solutions have leapt ahead in other economic sectors around the world.

For example, Islamic challenger or digital-only banks are emerging in non-core markets such as the UK, Malaysia, Kenya and Australia. Demonstrating both technology and the rise in social finance, a new insurance technology, or InsurTech, development in Malaysia uses blockchain to channel waqf funds towards making takaful more affordable to lower income consumers.

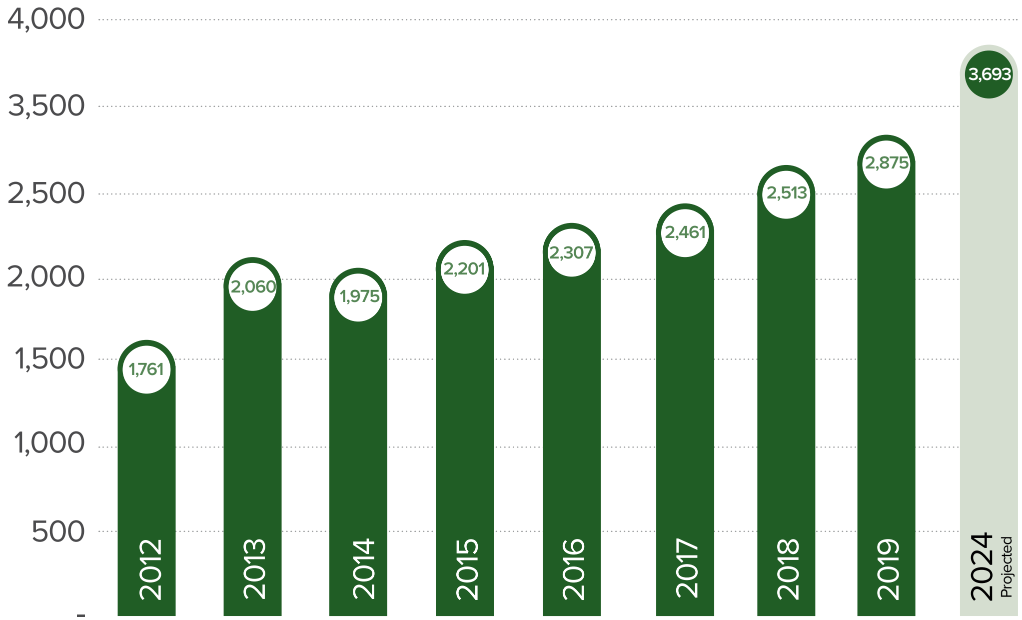
Sovereigns such as Malaysia also issued first digital sukuk though online channels such as mobile platforms while Indonesia also issued retail sukuk that can be subscribed through online channels to appeal to the young generation.

Digital-based Islamic financial institutions other than banks and takaful operators are also accelerating the evolution of the industry in Africa and Southeast Asia, including Islamic wealth management services targeting the millennial investor.

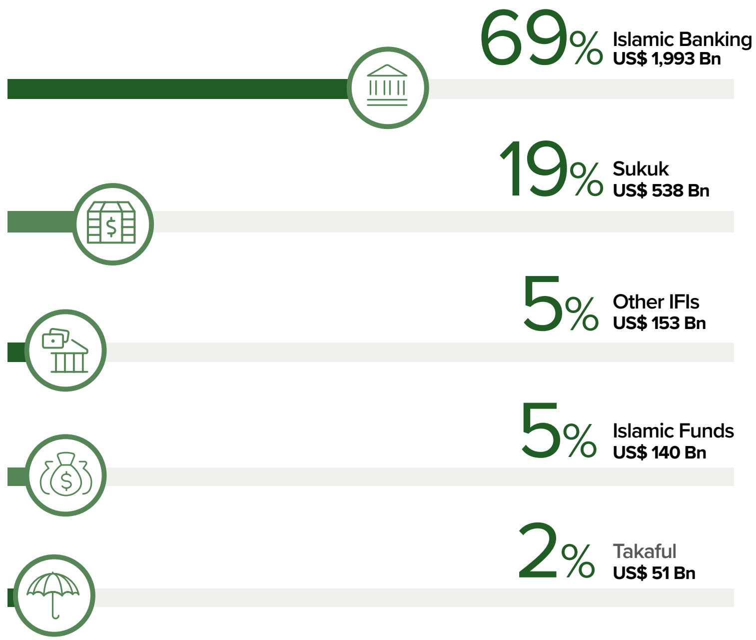
The online transformation of the industry is not limited to its institutions, but to its surrounding ecosystem as well. Islamic finance education is being increasingly offered online or through distance learning as the Covid pandemic makes it harder for students to attend classes, while events such as conferences and seminars are also being hosted increasingly online. These developments also make it easier for students or industry stakeholders from other countries to take online courses or attend Islamic finance events, which will help the industry to grow further and wider in the future.

GLOBAL ISLAMIC FINANCE INDUSTRY LANDSCAPE

Islamic Finance Assets Growth 2012 - 2019
(US$ Billion)



Global Islamic Finance Asset Distribution 2019



What helped in shaping the Islamic finance industry during 2019?

1,526 Islamic Financial Institutions

46 Countries with Islamic Finance Regulations

1,170 Shariah Scholars Representing Islamic Financial Institutions

US$ **1.16** Billion CSR Funds Disbursed by Islamic Financial Institutions

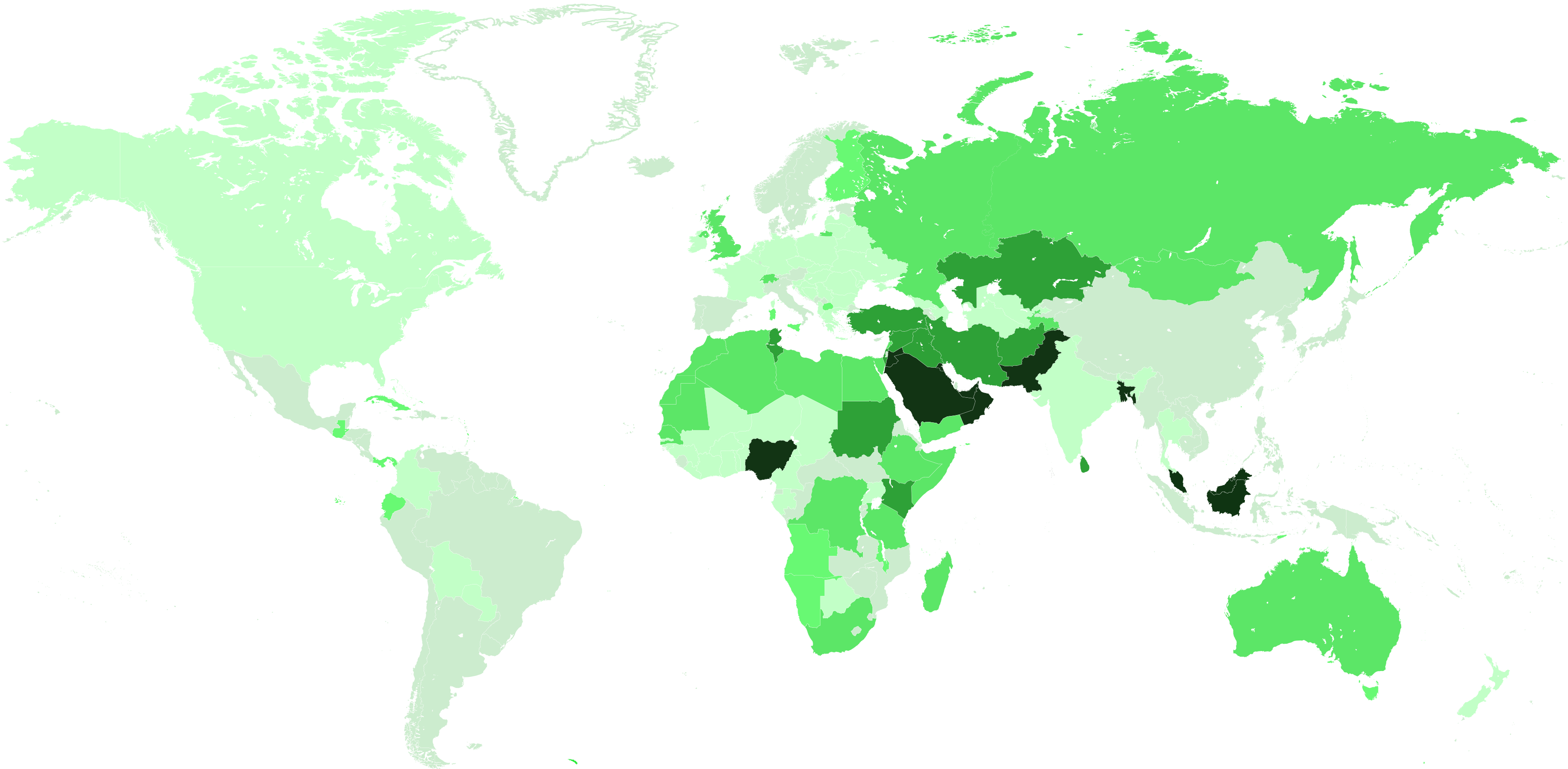
972 Islamic Finance Education Providers

2,566 Islamic Finance Research Papers

463 Islamic Finance Events

12,181 News on Islamic Finance

ISLAMIC FINANCE DEVELOPMENT INDICATOR 2020



Low IFDI Value — High IFDI Value

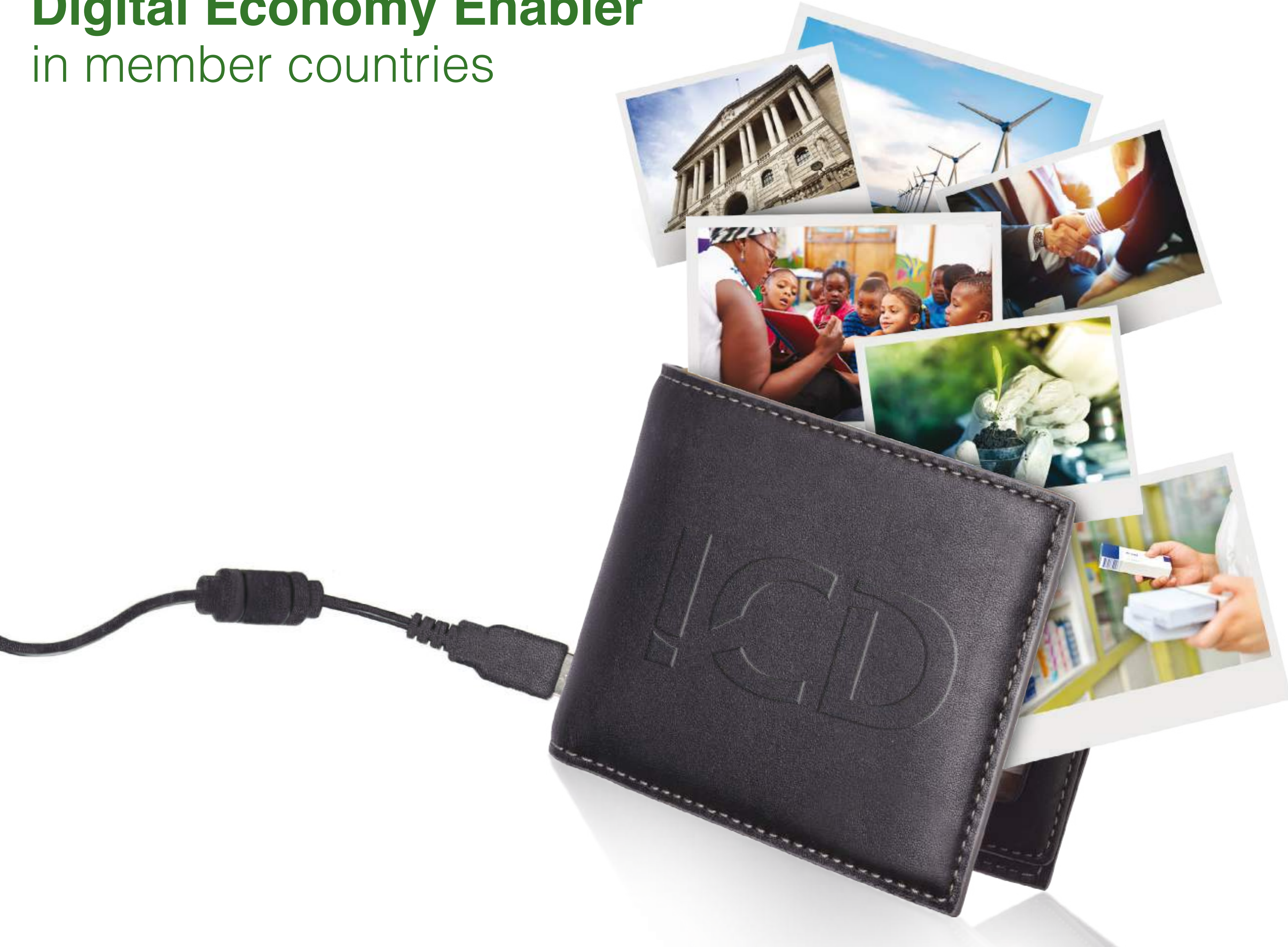
MOST DEVELOPED COUNTRIES IN ISLAMIC FINANCE

1. Malaysia
2. Indonesia
3. Bahrain
4. UAE
5. Saudi Arabia

Digital Economy Enabler
in member countries

Islamic Corporation for the Development of the Private Sector

Member of the Islamic Development Bank Group



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GLOBAL ISLAMIC FINANCE DEVELOPMENT INDICATOR

The global **Islamic Finance Development Indicator (IFDI)** provides the industry's various stakeholders with a detailed analysis of the key factors driving growth in the Islamic finance industry. It is the definitive barometer of the state of the Islamic finance industry in 2020, with rankings provided for 135 countries around the world.

It draws on five indicators considered to be the main drivers of development in the industry. By measuring changes in these indicators over time and across countries, the IFDI provides a vital tool in guiding policy within the industry. The IFDI evaluates the strength of the ecosystem behind the industry's overall development as well as the size and growth of the different Islamic finance sectors within the many countries where it has a presence.

The five main indicators for the IFDI are: Quantitative Development, Knowledge, Governance, Corporate Social Responsibility, and Awareness. This chapter summarizes the current state of the global Islamic finance industry through these indicators and highlights its top-ranking countries according to the IFDI.

The full methodology is detailed in the appendix. The database on Refinitv's Eikon offers a wealth of additional information on the indicator and its rankings.

TOP IFDI MARKETS AND GLOBAL AVERAGE IFDI VALUES FOR 2020

Indicator Value

Country	Ranking	IFDI 2020	Quantitative Development	Knowledge	Governance	Awareness	CSR
Malaysia	1	111	94	185	86	149	41
Indonesia	2	72	27	181	67	60	23
Bahrain	3	67	38	68	88	103	38
United Arab Emirates	4	66	31	67	79	91	60
Saudi Arabia	5	64	59	52	41	50	119
Jordan	6	53	14	75	51	29	99
Pakistan	7	51	18	80	74	53	31
Oman	8	45	14	46	66	73	25
Kuwait	9	43	48	13	63	48	42
Qatar	10	38	28	19	63	52	29
Brunei	11	36	13	44	51	61	9
Maldives	12	34	22	21	70	22	34
Nigeria	13	32	5	26	60	17	51
Sri Lanka	14	30	11	36	42	11	48
Syria	15	28	31	15	45	14	36
Global Average		**11**	**6**	**11**	**14**	**17**	**7**

Global Development: Overall IFDI constant despite movement in its components

The global IFDI value for 2020 remained constant at 10.8 after averaging the Islamic finance development indicators across the 135 countries examined. However, there were movements in each of its five main indicators as Knowledge and Corporate Social Responsibility moved higher from the year before, while Quantitative Development, Awareness, and Governance each declined. The same was also the case by country, some of which improved while others fell in value.

Indonesia jumps to second rank, supported by Knowledge and Awareness

Indonesia has risen into the top three of the IFDI country rankings for the first time since the series was introduced in 2012, since when there had never been a change to the three leading positions. Indonesia has risen to number two spot behind Malaysia, pushing Bahrain and the UAE down to third and fourth, respectively, due to the country's growing strength in the Knowledge indicator value.

Indonesia is ranked first in the Islamic finance Education sub-indicator and second in Research, supported by a large number of education providers and a prolific output of Islamic finance research papers and peer-reviewed journal articles. Also, the country's Awareness sub-indicator almost doubled in value as a result of a threefold increase in the number of Islamic finance events hosted as part of the government's National Sharia Economy and Finance Committee's (KNEKS) implementation of the Islamic Economic Masterplan 2019–2024. Indonesia is also strong in terms of the Governance indicator, with a full set of regulations covering all aspects of the Islamic finance industry covered by the IFDI definitions.

Qatar enters top ten rankings

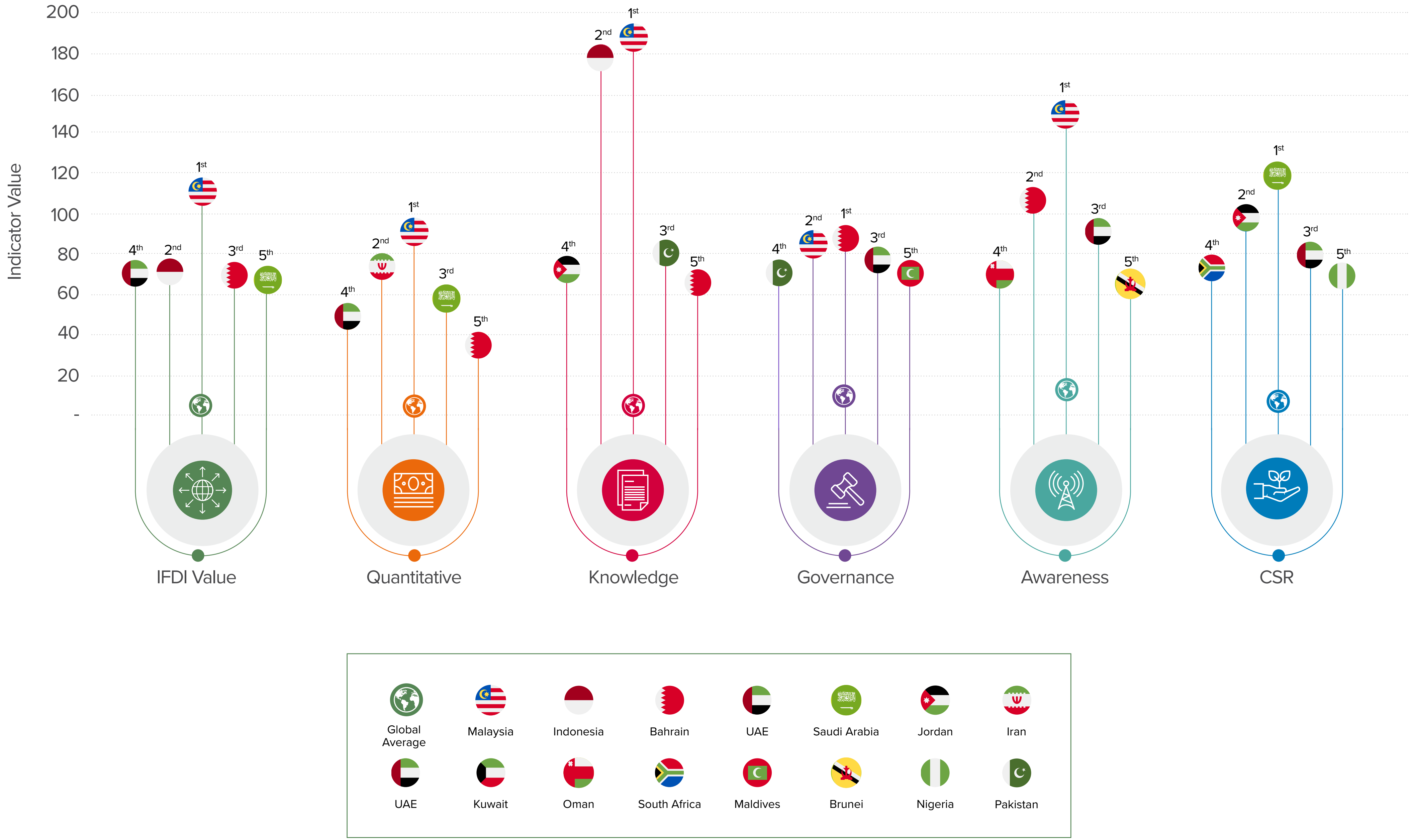
The top ten rankings were little changed other than Indonesia's improvement and the replacement of Brunei in the list by Qatar. This was due to Qatar's improvements in both Governance and Quantitative Development, particularly within the Islamic Funds, Sukuk, and Corporate Governance sub-indicators. The launch of an Islamic ETF and higher sukuk issuance enhanced the country's Islamic capital markets presence and thus its Quantitative Development indicator value.

Malaysia retains its commanding lead but others are capable of rising in rankings

There remains a wide gap between Malaysia and other countries with a presence in Islamic finance in terms of IFDI value. This is reflected in the country holding first place in three of the five main indicators (Quantitative Development, Knowledge, and Awareness) and being second in Governance. There are also wide gaps between Malaysia and the second-ranked countries in individual indicators, suggesting it could take years for others to catch up.

There are much smaller gaps between the other countries in the top five, however, meaning some are capable of improving their rankings if they can show improvement in their lagging indicators. Saudi Arabia has the biggest opportunity to improve on its ranking, currently number 5, if it attends to the areas where it falls behind such as Governance.
Outside the top ten, the most notable improvers in rankings included Syria, the United States, South Africa and Thailand.

ISLAMIC FINANCE DEVELOPMENT INDICATORS 2020



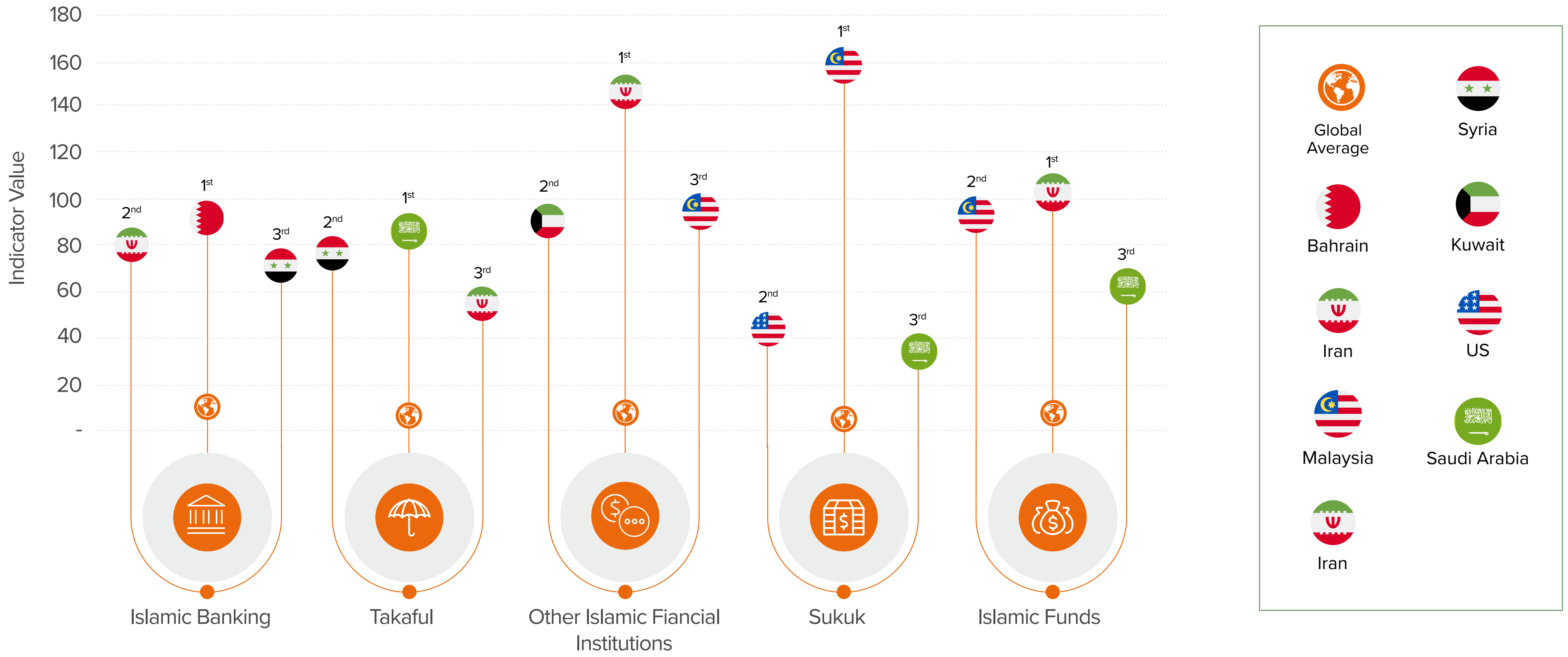
Sukuk sub-indicator declines due to lack of new entrants and exit of non-conventional players during 2019

Despite the growth in global Islamic finance assets to US$2.88 trillion in 2019, the Quantitative Development indicator declined in value over the year. This was largely due to a fall in the Sukuk sub-indicator value, despite sukuk issuance and outstanding values exceeding those of previous years. Issuers such as Luxembourg and Singapore dropped to a sub-indicator value of zero as there was no new issuance to replace the sukuk that matured during 2019. New issuances in 2019 were concentrated in the traditional markets, so with no increase in values in new markets the global average was forced lower. Malaysia remains by far the biggest contributor to development in the field.

Spread of Islamic banking in Central Asia sees biggest gainers in Quantitative Development

The biggest increase in Quantitative Development indicator values were recorded by the Central Asian nations Uzbekistan and Tajikistan after they each introduced Islamic banking. This follows the earlier development of Islamic finance in the region by their neighbors Azerbaijan, Kazakhstan and the Kyrgyz Republic.

QUANTITATIVE DEVELOPMENT SUB-INDICATORS 2020



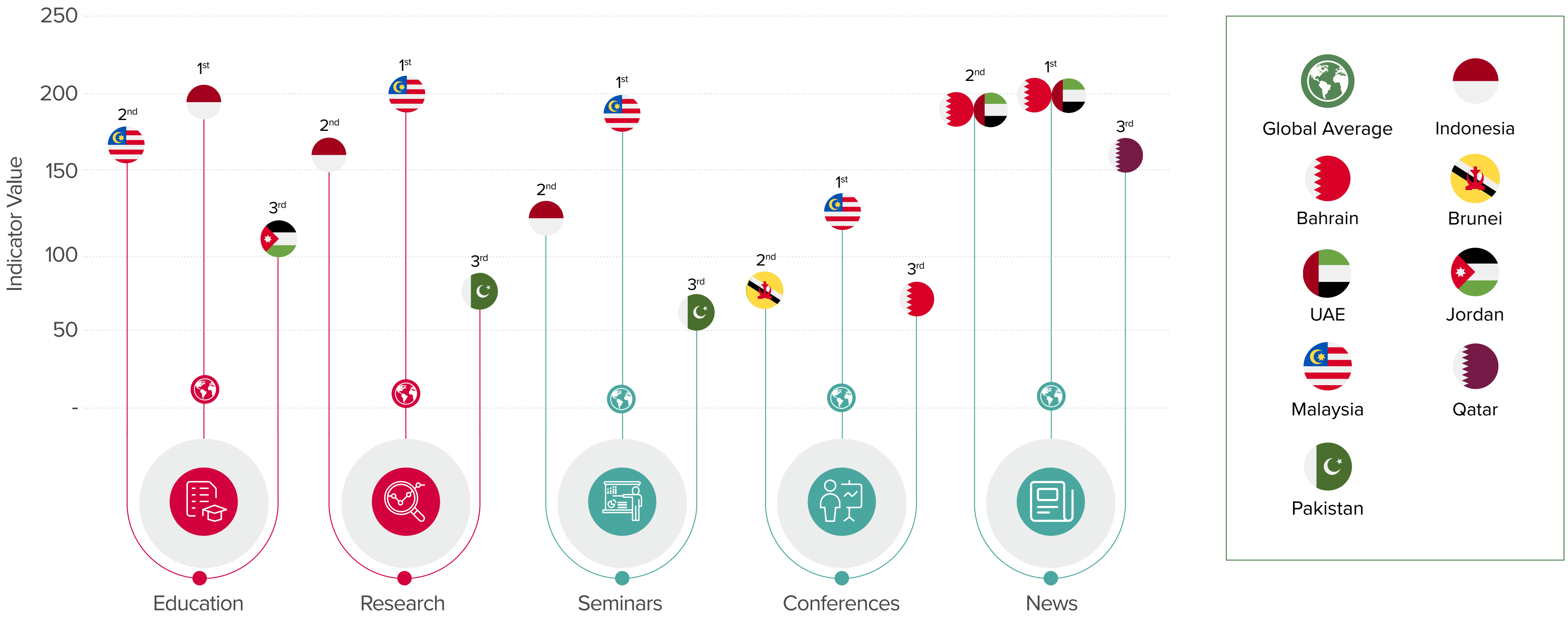
Islamic finance education meeting growing African demand

Each sub-indicator in the Knowledge category – Research and Education – achieved a maximum indicator value of 200. The Education sub-indicator was boosted by new educators in mainly African nations including Tanzania, Kenya, Gambia, Tunisia and Libya. Research remained constant in value despite the renewed interest in the industry through research as shown in markets such as Uganda, Yemen and Iraq, as in some other countries the sub-indicator valued fell back. Still, some countries have failed to publish any new research papers over the past three years and so have dropped out of the sub-indicator rankings.

Indonesia and other countries rise in Awareness rankings after staging more events

Awareness sub-indicator's News rose again in value as several countries recorded notably high scores, particularly Malaysia, Pakistan and the nations of the GCC. The Seminars and Conferences sub-indicators remained constant. Indonesia rose to second place in the Seminars rankings, contributing to its rise to second spot in the overall IFDI table. Oman also saw a large increase in its Seminars sub-indicator value and in Conferences, reflecting growing interest in developing the industry there. Other notable gainers in Awareness included South Africa, Morocco, Japan, and the Kyrgyz Republic.

KNOWLEDGE AND AWARENESS SUB-INDICATORS 2020



Regulation increases contribution to Islamic finance development

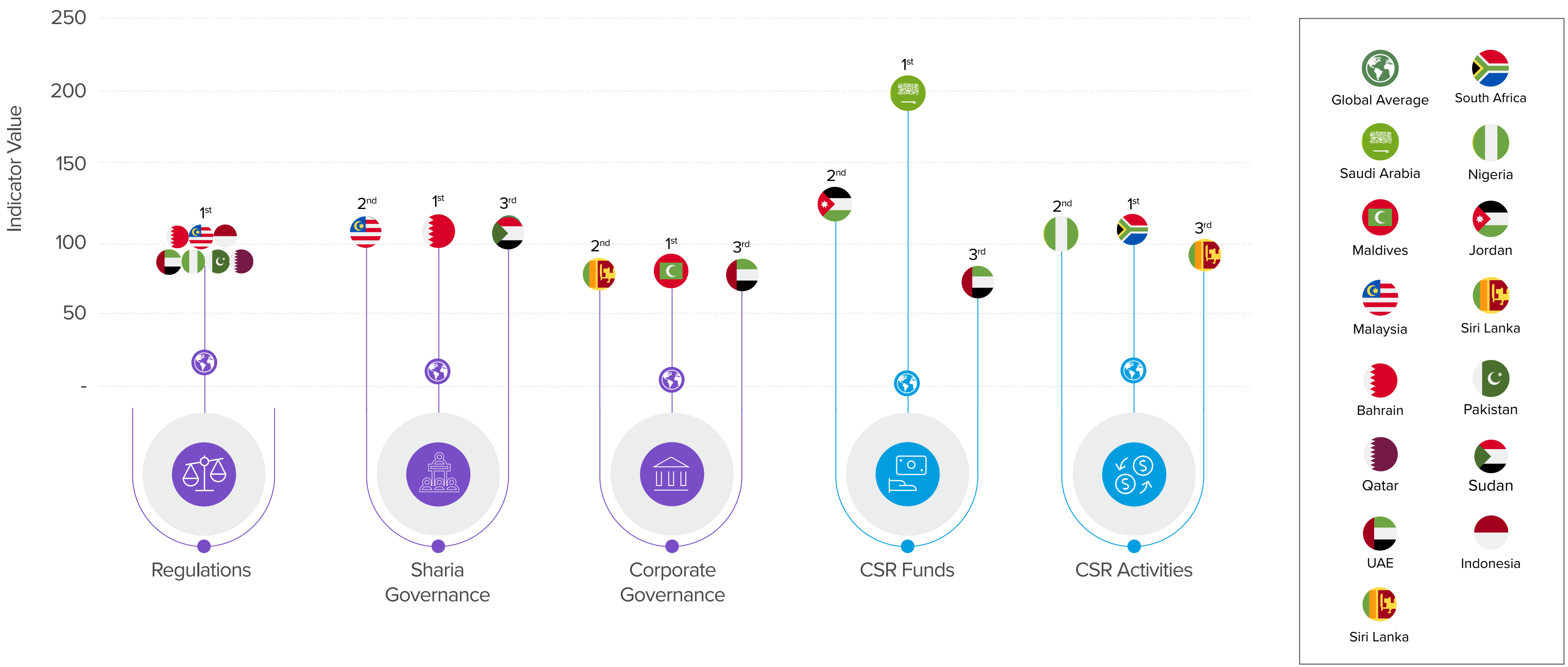
Reguation remains the highest sub-indictor in the Governance group, with 46 countries now having at least one type of Islamic finance regulation, up from 44 the previous year. Seven countries have a full set of Islamic finance regulations as determined by IFDI.

The Shariah Governance sub-indicator was slightly improved in value, as was Corporate Governance.

Higher settlement of zakah claims in Saudi Arabia places kingdom at top of CSR indicator

The CSR Funds sub-indicator remained low in value because there are few countries contributing to it. By far the biggest contributor was Saudi Arabia as the settlement of outstanding zakah claims by Islamic banks resulted in a higher dispersion of zakah funds over 2019. While CSR Activities decreased slightly in value as some countries disclosed fewer CSR items, other countries improved on their scores, notably Syria and Egypt.

GOVERNANCE AND CSR SUB-INDICATORS 2020



INTERVIEW

Ayman Amin Sejiny

Chief Executive Officer
Islamic Corporation for the Development
of the Private Sector (ICD),
part of the Islamic Development Bank

Mr. Ayman Amin Sejiny is the CEO of the Islamic Corporation for the Development of the private sector (ICD), the private sector arm of Islamic Development bank Group. Mr Ayman is highly accomplished financial industry leader.

He served as Chief Executive Officer of Ibdar Bank BSC, Bank Alkhair, Barclays Capital Saudi Arabia and as the Chairman of Open-Silicon, Inc and Bahrain Financing Company Group as well as a Board member of Unicorn Bahrain.

Mr. Sejiny has in-depth knowledge and more than 24 years' experience in investment and corporate banking in the local, regional and international markets. He held a senior role in a number of regional and international financial institutions, including Citi Bank and ABN AMRO affiliate in Saudi Arabia (Saudi American Bank "SAMBA" and Saudi Hollandi Bank).

Mr. Sejiny is Board and C-Level performer with vast experience in innovating financial processes and products. Mr Ayman holds a BA in Finance from Eastern Michigan University, United States.

COVID-19 has impacted many sectors including Islamic finance in many countries around the world. How do you see Islamic finance having performed in the face of the pandemic, and has it shown any signs of resilience?

The COVID-19 pandemic will have a more severe and deeper impact on Islamic finance, as the current crisis is affecting aggregate demand, small and medium enterprises (SMEs), and low-income individuals particularly hard. Compared to conventional banking, Islamic finance has a larger exposure to SMEs, microfinance and retail lending, especially in Asia. With SMEs facing multiple issues (lower revenues, cash flow issues, high levels of leverage, short-term financing obligations, etc.), this will increase the quantum of non-performing financings and vulnerability of Islamic banks' portfolios.

On the bright side, banks entered the pandemic crisis with much stronger liquidity than in 2007-08, and because of this, as well as substantial external liquidity support from central banks and robust government incentives, it is unexpected that there will be broad confidence issues in banking systems.

Extraordinary measures including a range of regulatory and supervisory responses have been rolled out by Islamic finance jurisdictions to preserve resilience of relevant financial systems and the continued provision of financial services to the real economy. These include payment moratoria and Shariah-compliant government guarantees on bank exposures to certain sectors in receipt of Islamic financing.

To ensure Shariah compliance, the Islamic Financial Services Board (IFSB) has had to issue public statements and provide technical guidance related to the extraordinary measures when calculating the capital requirements of institutions offering Islamic financial services. This is in line with treatments prescribed by the International Accounting Standards Board (IASB), the Basel Committee on Banking Supervision (BCBS) and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

In any case, Islamic banks should have adequate buffers for loss absorption to meet near-term challenges, but risks to asset quality and profitability are envisaged should the Covid-19 outbreak be prolonged.

Multilateral organizations have played a big role in cushioning the pandemic's impact on member countries. What are some of the upcoming initiatives planned by ICD as part of its continuing support?

In a bid to extend support, shore up demand, and protect people's jobs and livelihood, ICD has set up a dedicated US$ 250 million stimulus package to aid SMEs and the private sector in affected countries. The emergency funding will mainly be in the form of medium-to long-term financing instruments to alleviate the economic burden faced by existing and new clients.

There is also a role for those companies that have a direct hand in combating the pandemic through the provision of healthcare or access to basic goods and services. We are closely assessing opportunities to invest in this type of business. ICD will be aiding the private healthcare industry of affected member countries to meet the surging need for services, equipment and medicines.

ICD will also step forward and channel much-needed liquidity to local banks to enable them to support their business customers. ICD will work closely with more than 100 local and regional financial institutions in our network to provide the necessary support so they can continue to finance SMEs in affected sectors within the markets they operate in.

Moving forward, we are at the stage where it is important to think about what more resilient economies should look like in the future and the ways we can support them as a private sector multilateral institution. The investment community has an opportunity to focus on investing in growth and in businesses that are sustainable, with high levels of environmental, social and governance (ESG) standards, and that are aligned to the SDGs, for example.

If anything, the COVID-19 pandemic has highlighted that humanity will continue to face various global challenges, and investors are realizing that the corporate sector can and must participate in meeting them.

In that regard, I believe that ICD will step up efforts in increasing awareness on this front and will work together with current and future clients to ensure that the type of support we give will lead to gains in growth and well-being that are sustainable in the long term.

What lessons can the disruption bring to Islamic finance so that the impact of such a crisis can be minimized in the future?

The COVID-19 crisis is undoubtedly an opportunity for financial intermediaries to transform themselves and improve their long-term positions. The crisis is shifting the dynamics in the industry and has put in motion new opportunities for Islamic finance markets by accelerating trends such as digitalization, socially responsible investing, the Islamic finance industry's social role, and recommitment to sustainability.

On digitalization, for example, digital acceleration and the development of a digital strategy is key to creating a nimbler industry. Islamic banks can take this opportunity to implement aggressive and permanent measures to transform business models in order to offer clients a full digital experience.

In addition, the pandemic has put significant emphasis on the role of stress-testing within risk management. Stress testing should form an integral part of the overall governance of an Islamic bank. Solvency and liquidity stress testing should not only cover severe but plausible scenarios, but also reverse stress testing (the stresses that would cause a bank to fail).

How does the pandemic affect the future of Islamic finance and do we expect to see more alignment between Islamic finance and other sectors such as ESG?

The COVID-19 outbreak has prompted financial institutions across the globe to pay greater attention to ESG risks in order to build greater resilience in their business operations and supply chains, and we believe that Islamic finance markets will see a similar trend as well.

There is also an opportunity for the reemergence of certain strong Islamic instruments, such as zakat and waqf, which could once again play a role in reducing the impact on the most vulnerable segments of the population or on poor countries. This would not only be in line with the ultimate goals of Shariah but also create a new growth channel for the industry.

The pandemic may serve as an impetus for further innovation in the Islamic capital markets, with instruments specifically ring-fenced to mitigate the health and economic impact of the coronavirus and aid recovery.

To this end, issuance by the Islamic Development Bank (IsDB) of sustainability Sukuk to tackle the effects of the pandemic in its member countries has set a stellar example. The proceeds will be exclusively deployed by IsDB towards social projects under its Sustainable Finance Framework, with a focus on 'access to essential services' and 'SME financing and employment generation' categories under the umbrellas of 'SDG-3: Good Health and Well-Being' and 'SDG-8: Decent Work and Economic Growth' for its 57-member countries.

In general, Islamic banks should identify use cases for effective partnership in focus areas. For example, financial technology, or FinTech, will continue to play a significant role in the industry's development in coming years by improving access to financial services and transforming the industry, and it would be ideal to form partnerships with FinTech firms as no single organization is likely to have the full suite of digital capabilities under one roof.

ISLAMIC FINANCE OVERVIEW

In order to assess the Quantitative Development of Islamic financial institutions and markets, it is necessary to look at all the sub-sectors of the industry and review their quantitative dimensions.

This chapter highlights the financial growth, depth and performance of the overall Islamic finance industry and its different sectors. It also looks into key trends and opportunities across its five main sectors: Islamic Banking; Takaful; Other Islamic Financial Institutions; Sukuk; and Islamic Funds.

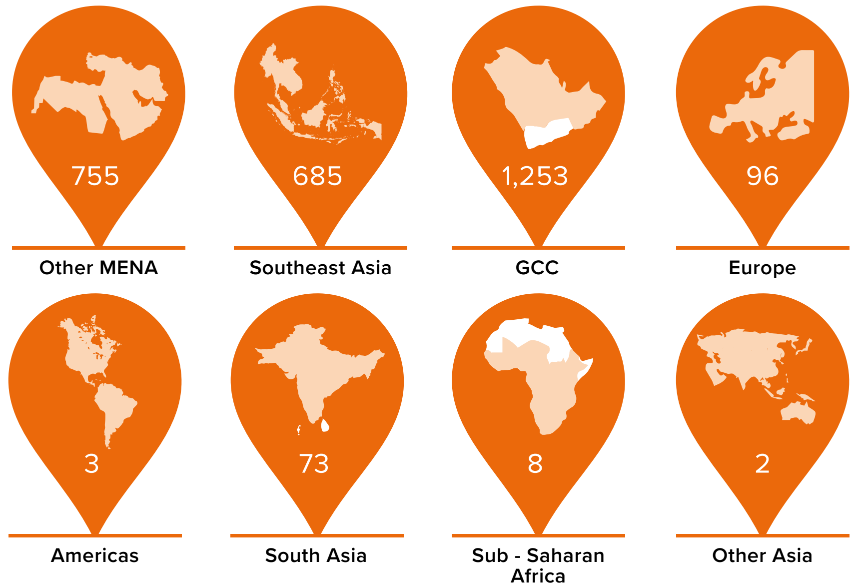
GLOBAL ISLAMIC FINANCE LANDSCAPE

US$ 2.88 Trillion Total Islamic Finance Assets in 2019

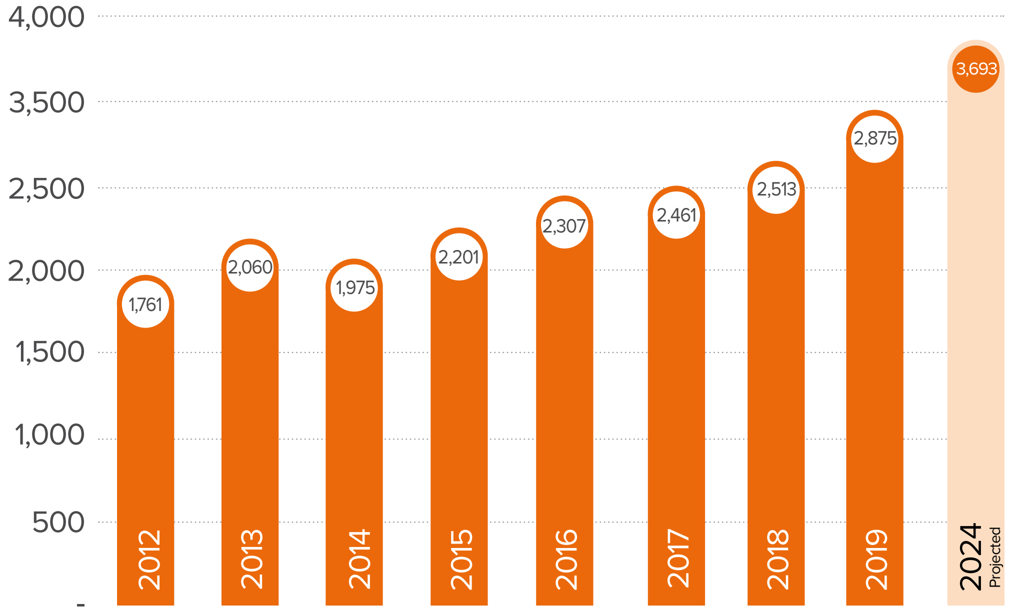
14% Annual Growth of Islamic Finance Assets in 2019

1,526 Total Islamic Financial Institutions

Islamic Finance Assets by Region 2019 (US$ Billion)



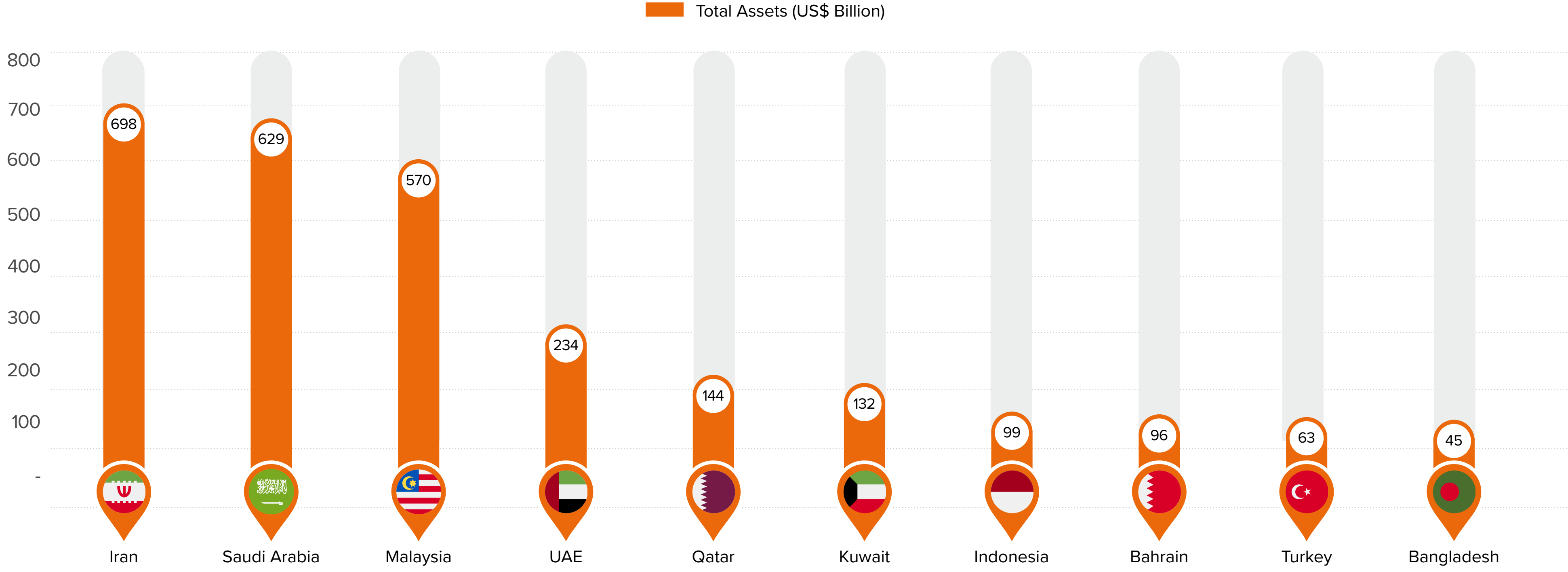
Islamic Finance Assets Growth 2012 - 2019 (US$ Billion)



Distribution of Global Islamic Finance Assets 2019 (US$ Billion)

	Size (US$ Billion)	Share of Islamic Finance Assets	Number of Institutions / Instruments	Number of Countries Involved
Islamic Banking	1,993	69%	526	74
Sukuk	538	19%	3,420	25
Other IFIs	153	5%	645	54
Islamic Funds	140	5%	1,749	629
takaful	51	2%	336	47

Top Countries in Islamic Finance Assets 2019 (US$ Billion)

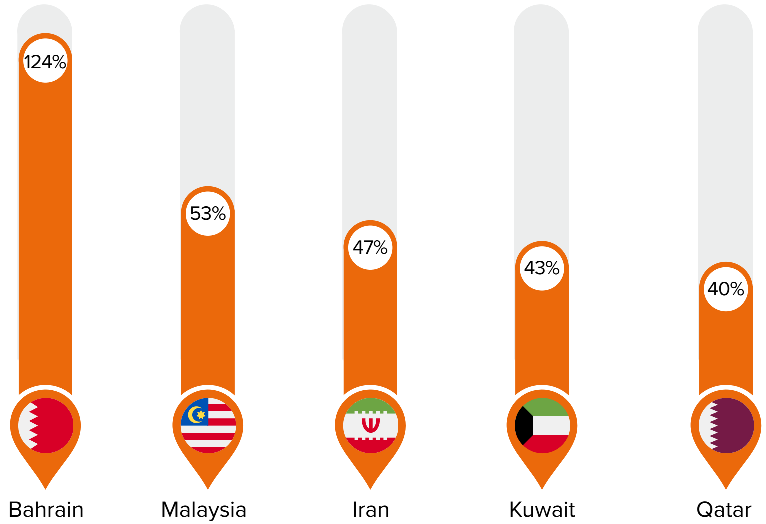


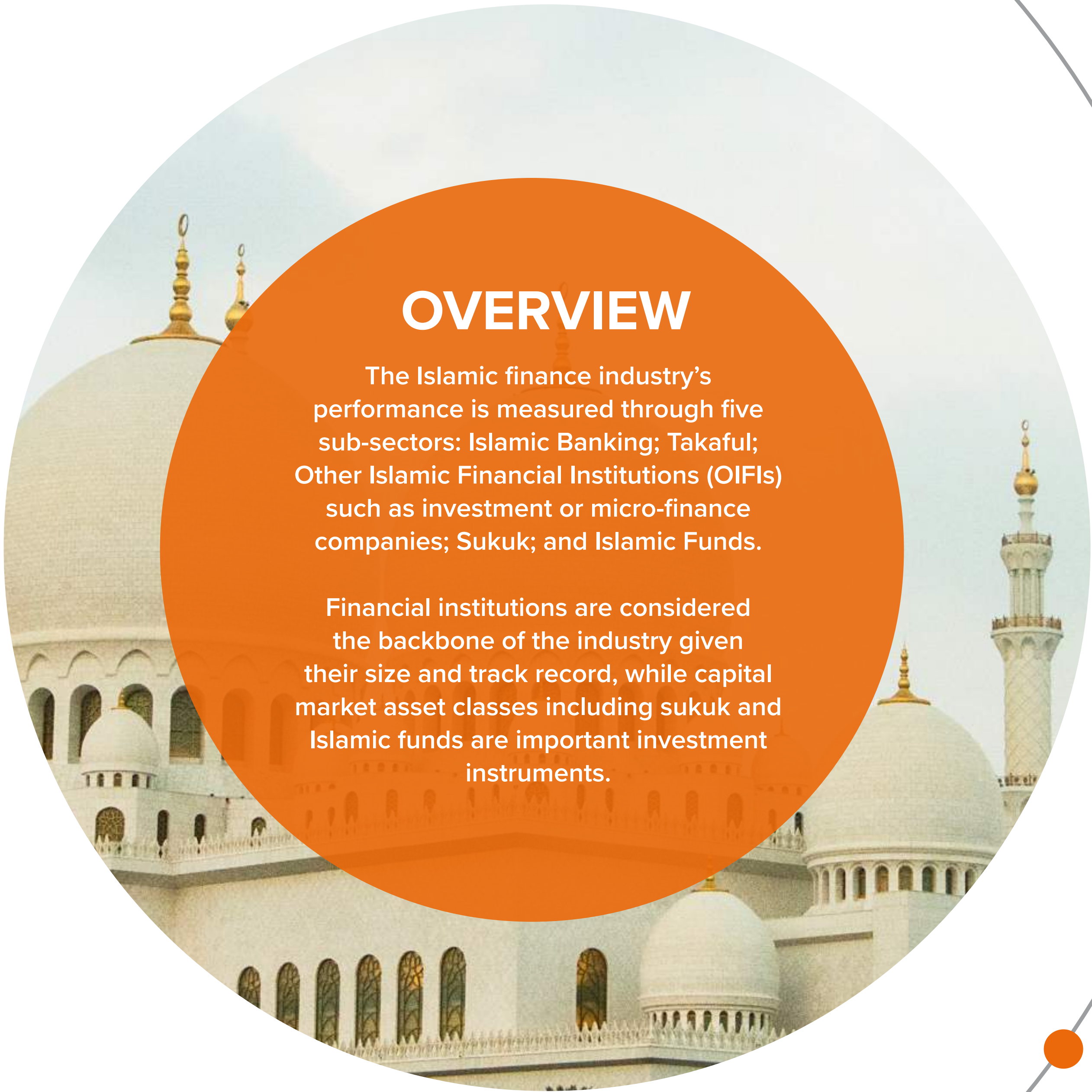
*Including Windows

Top 3 Markets' Share
of Global Islamic Finance Assets in 2019

Fastest Growing Markets in Islamic Finance Assets in 2019

Countries with Highest Islamic Finance Assets to GDP 2019





OVERVIEW

The Islamic finance industry's performance is measured through five sub-sectors: Islamic Banking; Takaful; Other Islamic Financial Institutions (OIFIs) such as investment or micro-finance companies; Sukuk; and Islamic Funds.

Financial institutions are considered the backbone of the industry given their size and track record, while capital market asset classes including sukuk and Islamic funds are important investment instruments.

Industry returns to double-digit growth in 2019

The Islamic finance industry's assets grew by 14% in 2019 to US$2.88 trillion, returning to its long-term pattern of strong growth after the slowdown in 2018, when the industry expanded by a more moderate 2%.

The strong growth in 2019 was aided by large issuances of sukuk in the tradition Islamic finance markets of Saudi Arabia, Malaysia, Iran, Qatar, Bahrain, and the UAE. There was a surge in Islamic banking assets, up by US$248 billion on year, particularly in the largest Islamic markets such as Saudi Arabia and Iran. Islamic funds saw the fastest growth overall, with double-digit growth recorded in Malaysia, Indonesia, Iran, Saudi Arabia, Turkey, and Luxembourg.

Islamic finance assets remain concentrated in the three leading markets – Iran, Saudi Arabia and Malaysia – which between them accounted for 66% of global assets in 2019.

Algeria following Morocco's footsteps in developing Islamic finance industry

North Africa contributed US$28 billion in Islamic finance assets in 2019. Morocco was the world's fastest-growing market in 2019 following the opening in 2017 of the country's first 'participative banks', as Islamic banks are termed there. The experience of Morocco's participative banks has shown there needs to be greater awareness among consumers of what Islamic finance offers if the industry is to continue growing there and a larger offering of Islamic finance products to increase its appeal. However, following the approval in 2019 of Shariah-compliant insurance, there is likely to be a greater acceptance of Islamic finance products in Morocco in the future, as previously Islamic banks had only offered uninsured car and real estate loans.

Taking inspiration from Morocco and to combat the economic blow from Covid-19 and the resulting collapse in oil prices, neighbour Algeria is also looking to attract local savers through the introduction of Islamic finance. Islamic banking products were formerly offered in Algeria only by foreign banks, but with the approval of the country's first home-grown Islamic finance products by National Bank of Algeria in August 2020, local banks are set to play a prominent role in the industry in coming years. Other banks in Algeria, both state-run and foreign, are planning to follow suit. The Algerian government is also planning to issue regulations on takaful with a view to introducing Islamic insurance as part of its reforms to tackle the financial impact of Covid-19.

Countries shifting to Islamic finance to combat the financial impact of Covid-19

Algeria's financial reforms are just one example of how countries are utilizing Islamic finance to help revive their economies after the onset of Covid-19, just as they did after the oil crisis of 2014 and the global financial crisis six years earlier. Various Islamic multilateral organizations have also stepped in to support countries reeling from the pandemic. In April 2020, the Islamic Development Bank (IsDB) allocated US$2.3 billion to member countries through its Strategic Preparedness and Response Programme. As of September 2020, it had deployed emergency support to 23 different member organizations in North and sub-Saharan Africa and in Central Asia totaling US$687.1 million.

IsDB subsidiary the International Islamic Finance Trade Finance Corporation (ITFC) also provided US$850 million in emergency financing to its member governments, to be used for healthcare, energy and food requirements. This was an initial contribution and is expected to be scaled up.

One Islamic finance tool being used to finance recovery programs is sukuk, as seen in Malaysia, Indonesia, Bahrain, and the UAE, while the Maldives is also considering issuing a sovereign sukuk to cushion the economic blow from massively reduced tourism. While there has been a slowdown in corporate sukuk issuance as the pandemic has made them appear high-risk, issuance was expected to pick up again before the end of the year given low borrowing costs and mounting economic pressure on corporate entities including Islamic financial institutions.

Further industry transformation expected post-Covid-19

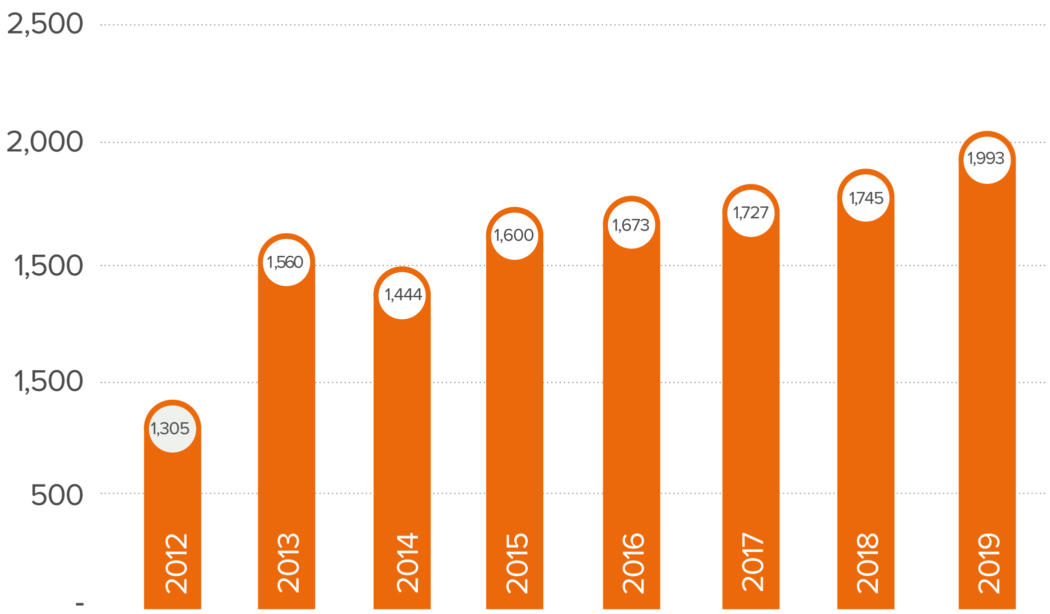
Despite the larger role being played by Islamic finance in shoring up ailing economies, Islamic financial institutions are struggling with the pandemic's impact. Several Islamic banks reported losses or reduced profits in the second quarter of 2020 when compared with the same period the previous year. This reflected higher loan impairments reported by the banks in expectation of large credit losses and weakened asset quality.

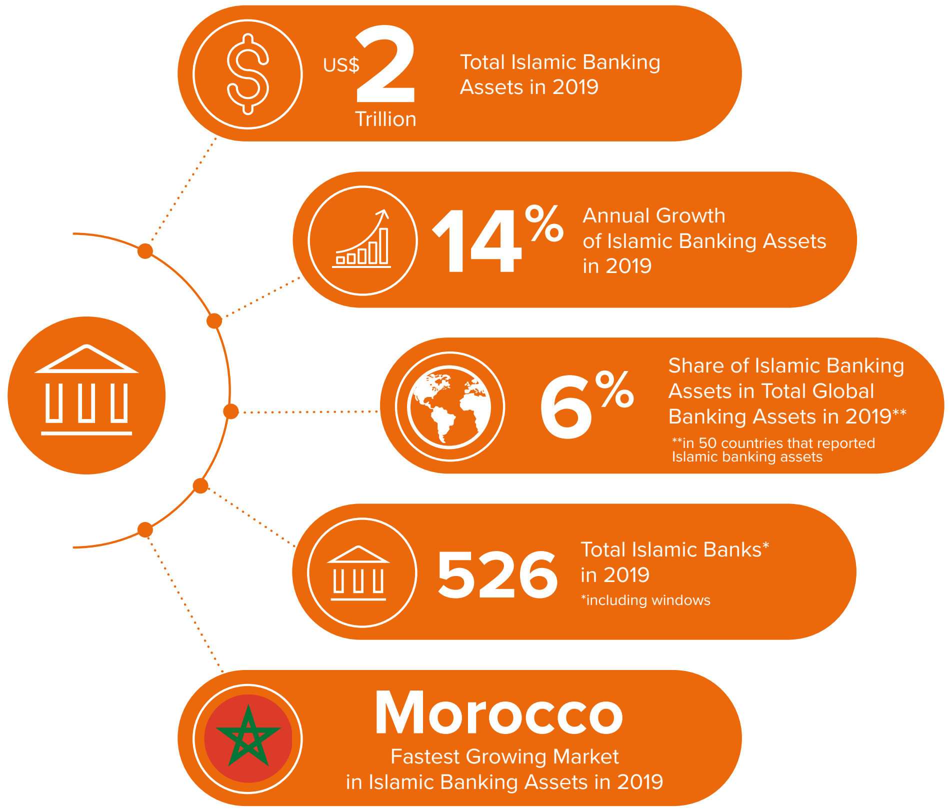
However, the pandemic proved to be a game changer for the industry's digital transformation as many Islamic financial institutions moved quickly to offer more and better digital products and services for their locked-down customers. FinTech-based Islamic financial institutions are becoming increasingly attractive for consumers, especially those who are spending less and saving more in response to the pandemic and thus looking for suitable investment avenues.

Some recovery is expected in the main Islamic financial markets led by Malaysia and the GCC given the technological innovations of its financial institutions and large liquidity injections from central banks. It is expected the industry will see on average single-digit growth across the years to 2024 to reach US$3.69 billion in global assets.

ISLAMIC BANKING

Islamic Banking Assets Growth 2012 - 2019
(US$ Billion)

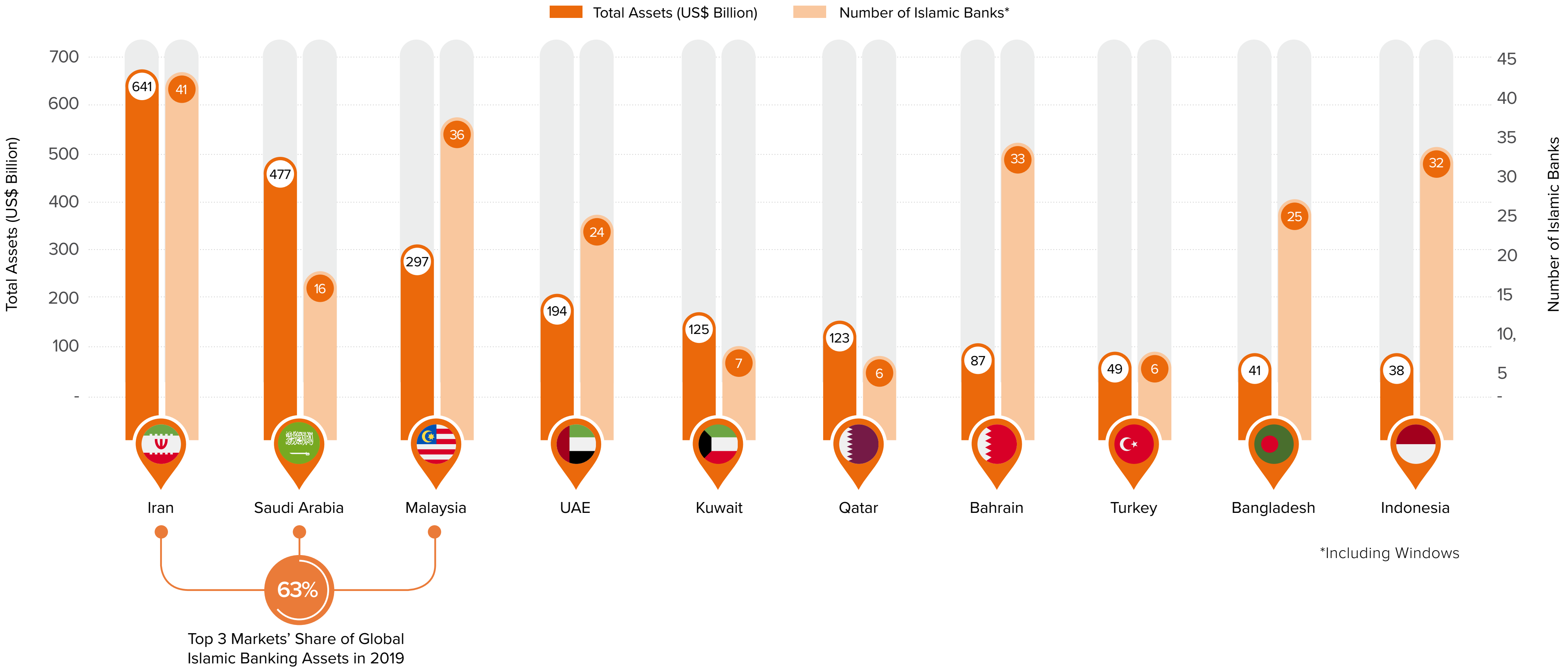




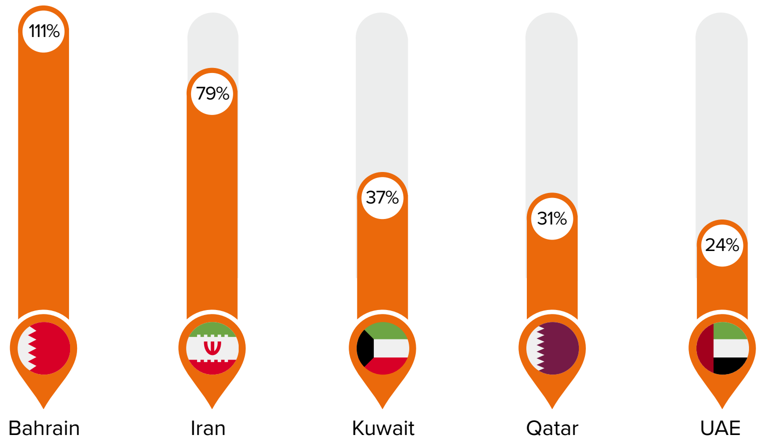
Number of Islamic Banks by Type 2019

Commercial	428
Wholesale	22
Investment	57
Specialized	19

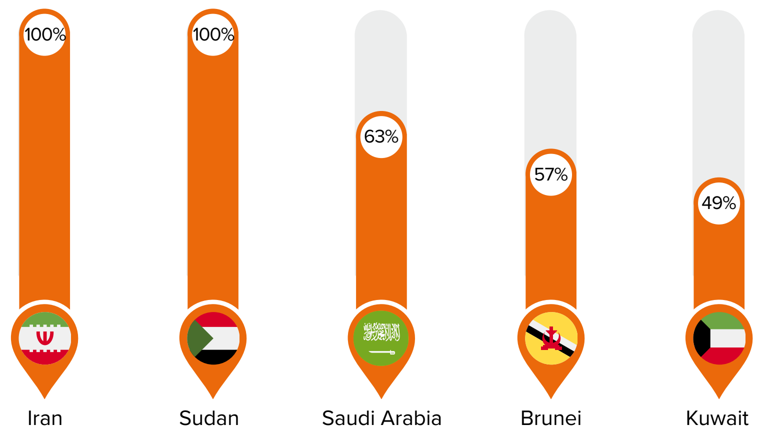
Top Countries in Islamic Banking Assets 2019



Countries with Highest Share of Islamic Banking Assets to GDP 2019



Countries with Highest Share of Islamic Banking to Total Banking Assets 2019



Islamic banking bounces back; highest growth in non-core markets

Islamic banking contributes the bulk of the industry's assets. The sector grew 14% in 2019 to US$1.99 trillion in global assets. This compares with just 1% growth in 2018 and an average annual growth of 5% over the years 2015 to 2018.

The fastest expansion was seen in countries outside the core Southeast Asian and GCC markets, particularly Morocco, where assets more than doubled in 2019. Islamic, or 'participatory', banking in Morocco was first launched in 2017, but has since seen exponential growth averaging an annual 120%. Islamic banking growth in the core markets has been much slower, however, though still showing improvement over 2018.

Sector growth is likely to be muted in 2020 as Islamic banks around the world move to preserve their capital bases rather than expand operations as they face the economic fallout of Covid-19. Although the bottom lines of Islamic banks in core markets have taken a hit during the pandemic, this will be countered by liquidity injections from government bailout packages. As global economies recover over the next five years, Islamic banking assets are projected to reach US$2.44 trillion by 2024.

Covid-19 spurs new consolidation wave

Consolidation among both Islamic banks and the conventional banking sector is showing no signs of easing, with a new wave set in motion by the economic impact of Covid-19. This trend is likely to continue in the core Islamic finance markets, mainly the GCC countries, Malaysia and Indonesia, as banks face shrinking lending demand, lower profit margins, and higher numbers of non-performing loans.

Recently closed mergers and acquisitions of Islamic banks include Dubai Islamic Bank's acquisition of Noor Bank. This resulted in a combined assets of US$75 billion, making it one of the world's largest Islamic banks. Also, the conventional Oman Arab Bank acquired Alizz Islamic Bank to boost its Shariah-compliant portfolio. For the same reason, National Bank of Bahrain took a 78.8% stake in Bahrain Islamic Bank.

Other deals have included the merger of Qatar's Masraf Al Rayan with Al Khaliji Commercial Bank to create another major Islamic bank, with assets valued at US$45 billion. In Bahrain, Bank of Bahrain and Kuwait is expected to aquire Ithmaar Bank. Also, the Indonesian government announced a planned three-way merger of the Islamic subsidiaries of state-owned banks: BRI Syariah, Syariah Mandiri, and BNI Syariah. The new bank, worth US$14 billion in assets, is intended to support post-Covid economic recovery and accelerate Indonesia's Islamic economy development through project and SME financing.

Possibly the most anticipated deal in the global industry, however, Kuwait Finance House's merger with Bahrain's Ahli United Bank, was postponed to December 2020 due to the circumstances imposed by Covid-19. The region's first major cross-border bank deal would have created the world's largest Islamic bank, with assets of about US$101 billion. In addition, the National Commercial Bank's expected merger with Samba could introduce a new Islamic banking heavyweight into the industry in Saudi Arabia and globally.

Turkey eyes ambitious growth

Turkey is a rising star in Islamic finance, with one of the industry's fastest growth rates in 2019. Participatory banking assets in Turkey reached US$48 billion in 2019, a figure which is set to double over the next decade, according to Moody's Investor Services.

Asset growth for participative banks has outpaced that of conventional banks in recent years despite market volatility, reflecting the creation of three new state-owned Islamic banks since 2015.

The government granted license to Emlak Bank as an Islamic lender in 2019, making it Turkey's sixth Shariah-compliant bank. It had previously established Ziraat Katilim in 2015 and Vakif Participation Bank in 2016, aiming to increase the share of Shariah-compliant banking assets to 15% of the country's total by 2025. Participative banking accounted for 6.3% of banking assets in 2019.

Philippines passes new law to expand Islamic banking offering

A new Islamic Banking Act passed by the Philippines government in 2019 has opened the door for both domestic and foreign banks to establish Shariah-compliant windows or subsidiaries in the country, tapping a potential market of 11 million Muslims. As most of these Muslims remain under- or un-banked, the law is hoped to increase financial inclusion as well as attract foreign investment. Although the Philippines was an early adopter of Islamic finance, establishing its first and only Islamic bank in 1973, this remains limited in size and in its scope of operations.

Several local banks in the Phillipines are preparing to set up Islamic banking windows, while some Malaysian Islamic banks have shown interest in expanding into this new territory. The government is also partnering with market players in the GCC, mainly Qatar, to develop the Islamic banking sector.

Rise of the Islamic challenger bank

Financial technology, or FinTech, has been playing a fast-expanding role in Islamic banking over the past two years, even more so since the outbreak of Covid-19. The global lockdown has forced customers to only use digital channels for their day-to-day banking needs, and this has presented digital banks with the opportunity to expand their business while many traditional banks have scrambled to develop their own digital services.

Shariah-compliant challenger, or digital-only, banks have begun to emerge, particularly in the UK, posing a threat to traditional Islamic banks in their non-core markets. These new banks offer a lifestyle-focused banking experience for the more than 3 million Muslims resident in the UK. Two Shariah-compliant challenger banks were launched in the UK early in 2020 – Rizq and the mobile-only Niyah. Four more digital banks are currently in the pipeline, based in the UK, Malaysia and Kenya.

Halal robo-advisory Wahed Invest and newly launched gold trading platform Minted have also announced plans to establish Shariah-compliant digital banks as soon as the first quarter of 2021 However, these would be deposit taking-only operations supplementing their core investment businesses, with no plans to provide loans in the future. Similarly, the Saudi Arabian Monetary Authority (SAMA) issued licensing guidelines for digital-only banks early in 2020, including conditions that they should be set up as locally incorporated joint-stock companies and maintain a physical presence in the kingdom. It has been reported that two entities have applied for a digital banking license with the regulator. The only bank to date with a digital presence in Saudi Arabia is Meem, the Islamic banking arm of Gulf International Bank, which mainly operates online while leveraging its physical presence.

TAKAFUL

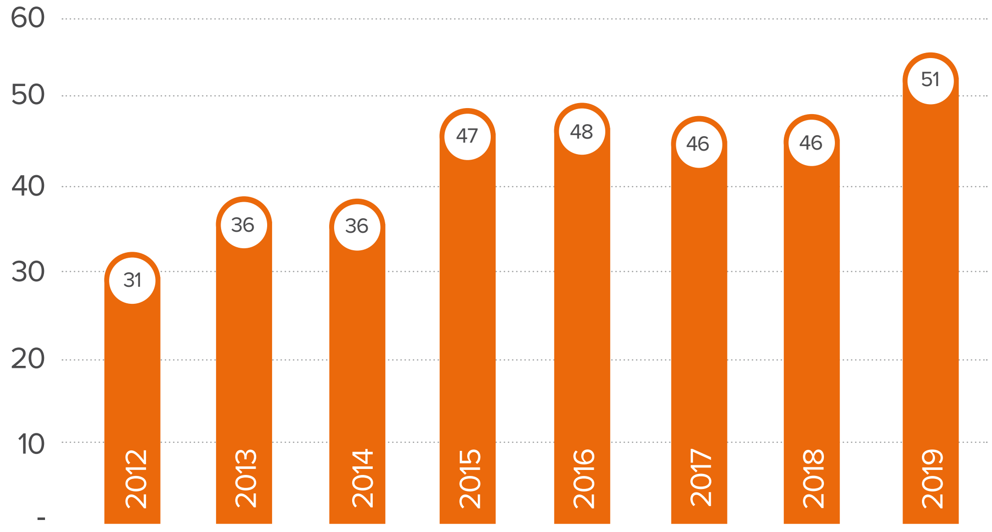
US$ **51** Billion
Total Takaful Assets in 2019

10%
Annual Growth of Takaful Assets in 2019

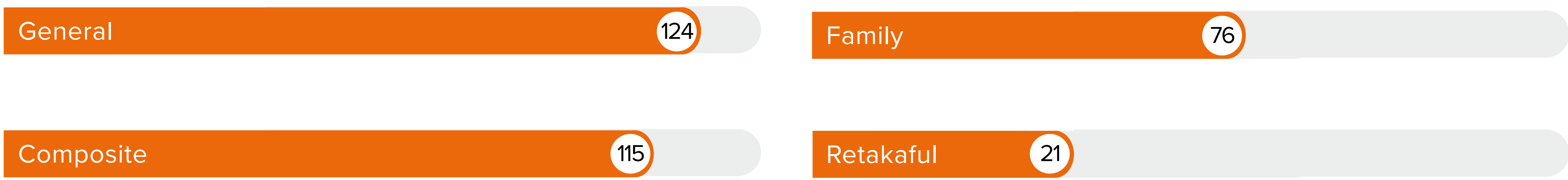
336
Total Takaful Operators * in 2019
*including windows

Turkey
Fastest Growing Market in Takaful Assets in 2019

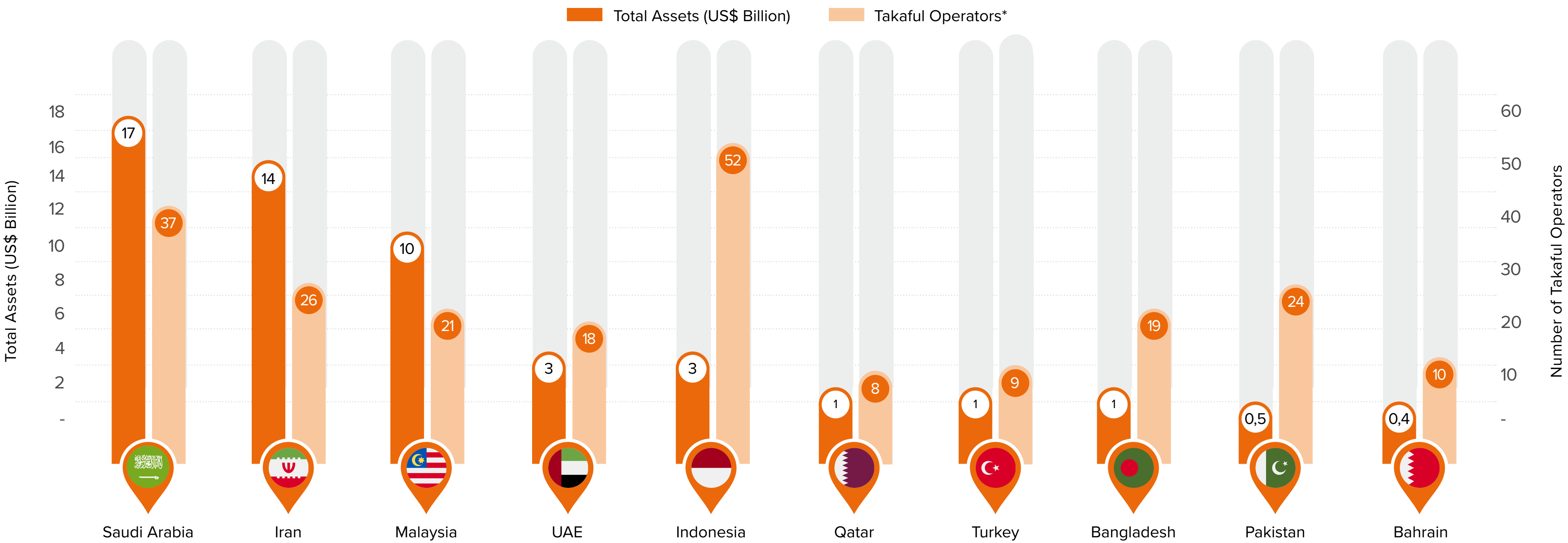
Takaful Assets Growth 2012 - 2019 (US$ Billion)



Number of Takaful Operators by Type 2019



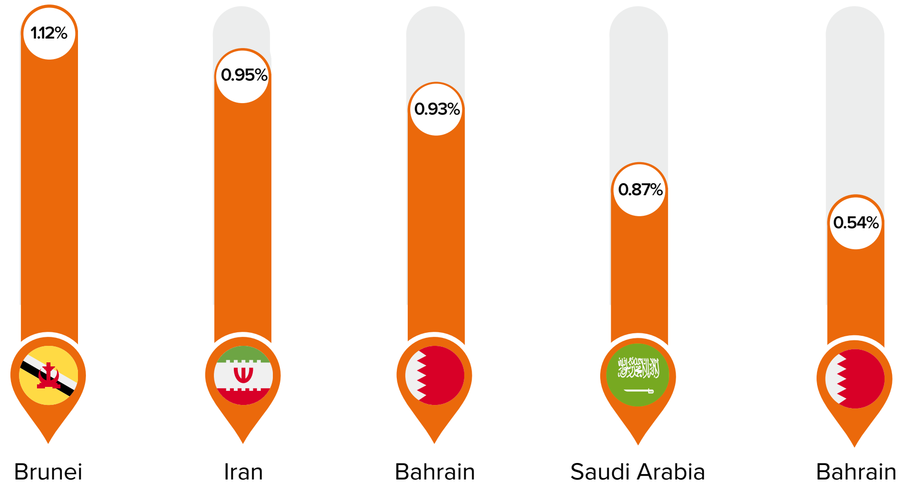
Top Countries in Takaful Assets 2019



*Including Windows

Top 3 Markets' Share
of Global Takaful Assets in 2019

Countries with Highest Takaful Assets to GDP 2019



Recovery in contribution growth ended by Covid-19

Global takaful assets grew 10% to US$51 billion in 2019, expanding on just 1% growth in 2018. Takaful contributions rose 8.8% in Saudi Arabia, the world's largest market for Islamic insurance, providing the industry with a much-needed boost after several years of losses. New business mainly came from the medical line following the introduction in 2018 of mandatory cover for dependents of Saudi nationals.

Takaful operators in other GCC markets saw even higher growth in 2019, with contributions rising 14% over the year. Growth was seen across several business lines and there was an improvement in profitability of investments. However, this growth proved to be short-lived once the Covid-19 pandemic took hold, as the lockdowns and closures of businesses significantly reduced insurance and takaful sales and profits.

Takaful expansion via online aggregation platforms

Although the global takaful industry has stagnated in recent years, new insurance technology, or InsurTech, promises to transform the sector through improved efficiency and the ability to reach greater numbers of consumers. The disruption caused by InsurTech has centred on online insurance aggregators, which has led several jurisdictions such as Bahrain and Saudi Arabia to begin regulating insurance aggregation.

Oman's first online insurance and takaful platform – Bima – was launched in July 2020. The platform has already partnered with eight insurance and takaful providers, offering auto and domestic helper coverage and plans to introduce travel, property and term life coverage.

Channelling waqf to offer takaful to unserved segments

A recent innovation in the InsurTech space that has received attention in 2019 is Wakaful – a Malaysia-based platform that uses blockchain to channel waqf funds towards making takaful products more affordable to low-income consumers. The platform pools CSR funds from corporates into trust funds and then offers low-cost takaful coverage to consumers who either cannot afford or have no access to traditional takaful products.

Increasing capital requirements spur wave of consolidation in Saudi Arabia

Takaful operators in the GCC are facing challenges on multiple fronts – from the economic slowdown, greater competition, and raised minimum capital requirements. This is likely to lead to industry consolidation, particularly in Saudi Arabia, which accounts for 85% of the region's takaful contributions.

Some Saudi insurers have sustained losses in recent years that eroded their capital, leading almost 10% of companies to cease operations. In addition, a planned five-fold increase in minimum capital requirements by the insurance regulator would require almost 90% of insurers in the kingdom to raise new capital, consolidate through mergers and acquisitions, or exit the market entirely.

The first-ever merger within the Saudi insurance and takaful sector came in March 2020, between Walaa Cooperative Insurance and Metlife AIG ANB Cooperative Insurance.

At the same time, AlAhli Takaful and Chubb Arabia Cooperative Insurance entered into preliminary merger discussions. In June, a binding merger agreement was also agreed between Al-Ahlia Insurance and Gulf Union Cooperative Insurance. Aljazira Takaful Taawuni Co. signed a similar agreement with Solidarity Saudi Takaful Co. in August.

Renewed interest from Indonesian government

Insurance and takaful penetration in Indonesia remains low at just 1.5% of GDP. The contribution from takaful has shrunk in recent years, mainly due to a lack of consumer awareness and understanding. However, renewed support from the Indonesian government under the government's Islamic finance economic masterplan, including a relaxation of takaful foreign ownership laws, promises to create new growth opportunities.

In January 2020, the government issued an amendment to its foreign-shareholding rule to allow spun-off takaful windows exemption from the statutory 80% foreign ownership limit. This will make it easier for the 50 insurers that must spin off their Islamic units by 2024 as mandated by the 2014 Insurance Law to comply with the requirement.

Each spin-off would require a minimum capital of IDR 100 billion (US$6.79 million) – double that for a takaful window. This would make separating many of the takaful windows from their parent companies unfeasible. However, the amendment has offered these spin-offs the option to propose raising additional foreign capital when seeking regulatory approval.

Indonesia's takaful sector is also set to benefit from the government's Islamic Economic Masterplan 2019-2024. One of the key recommendations is to introduce a government policy directing government entities and state-owned enterprises to offer their employees takaful options for their insurance cover, thus providing takaful operators a level playing field with conventional insurers.

OTHER ISLAMIC FINANCIAL INSTITUTIONS

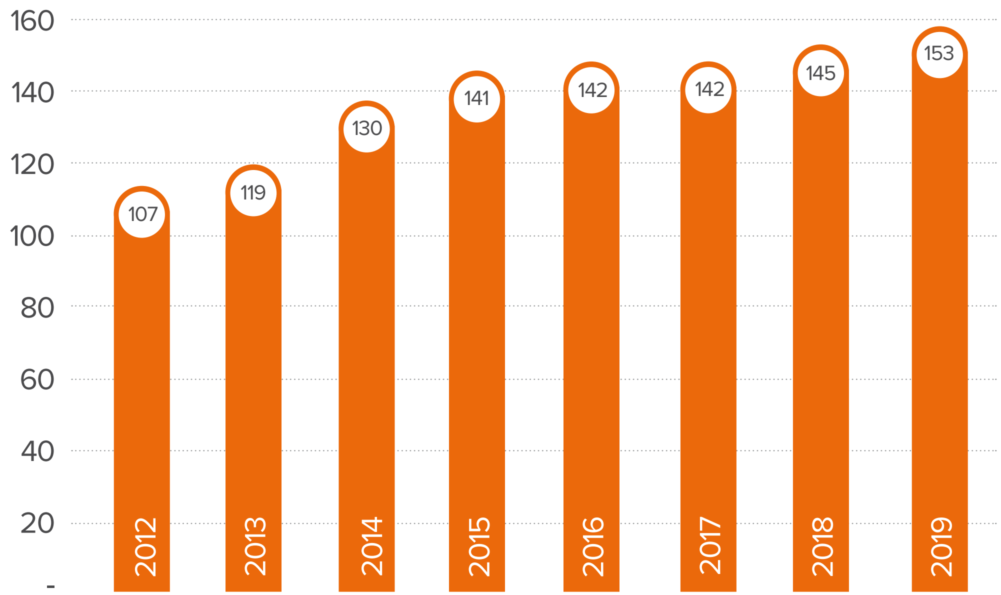
US$ **153** Billion Total OIFI Assets in 2019

6% Annual Growth of OIFI Assets in 2019

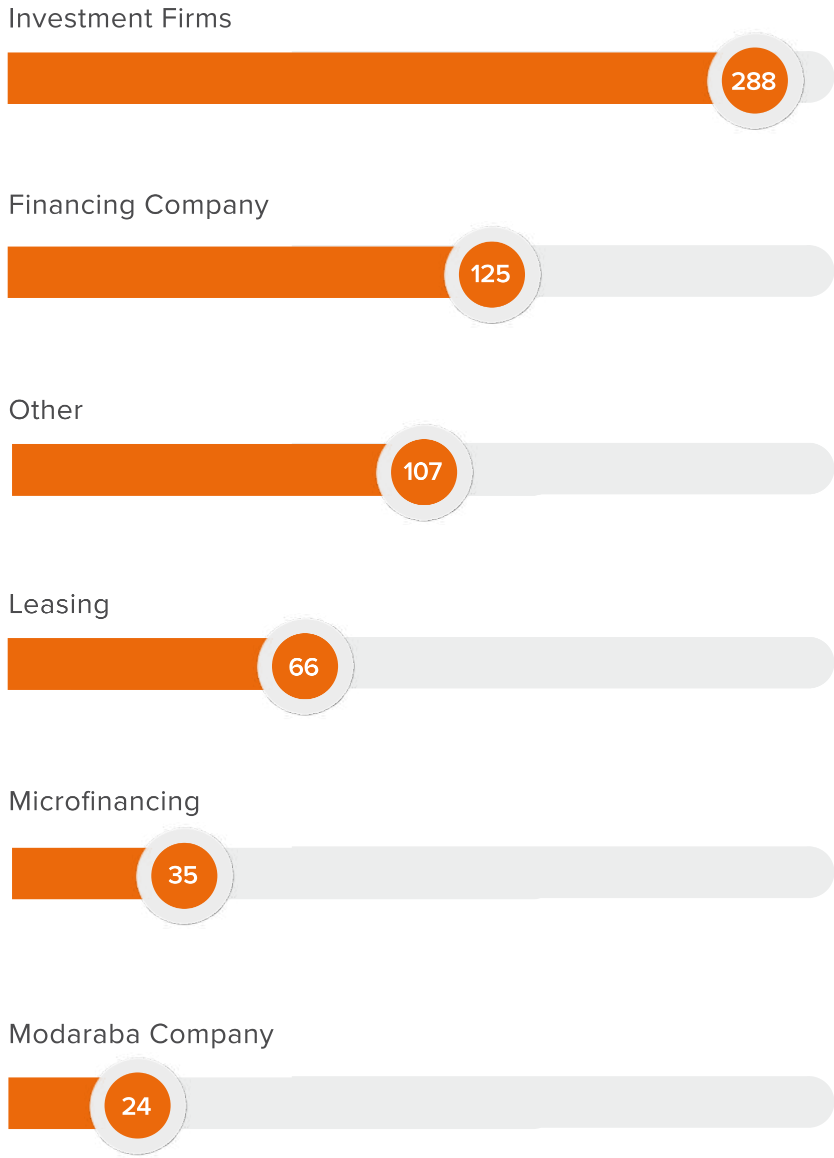
645 Total OIFIs* in 2019
*including windows

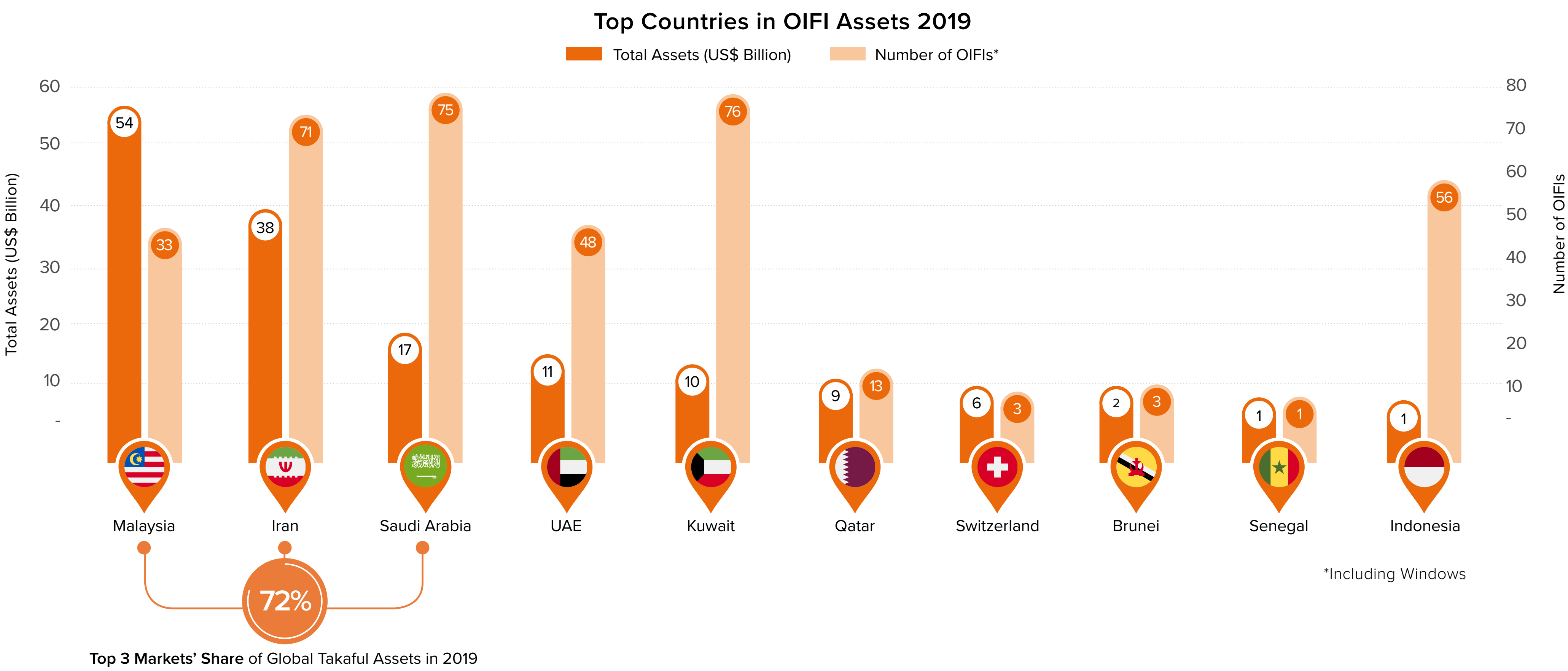
Maldives
Fastest Growing Market in OIFI Assets in 2019

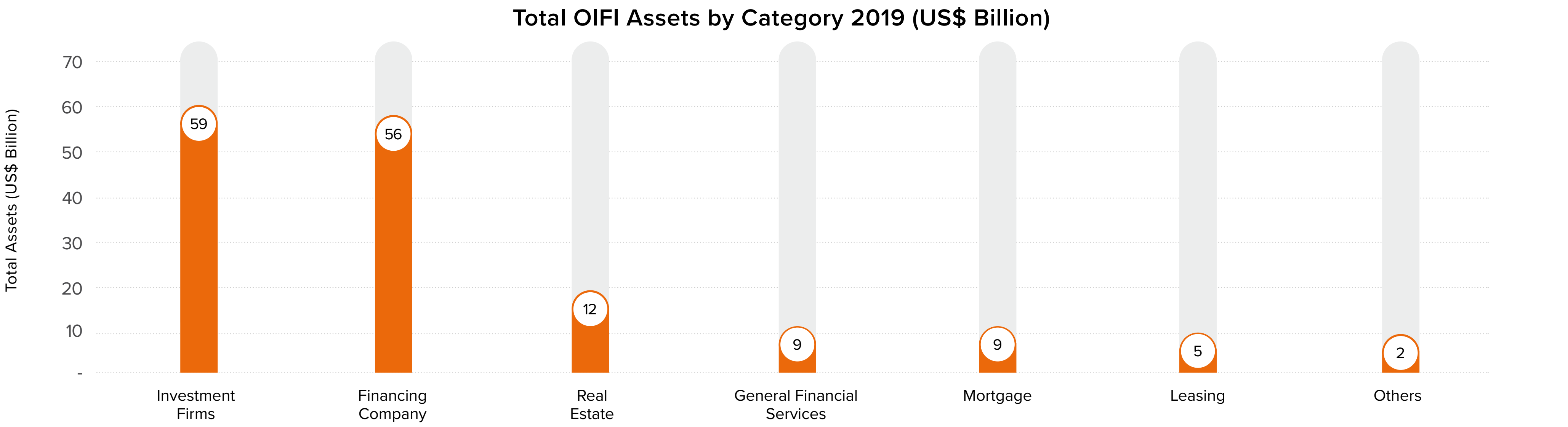
OIFI Assets Growth 2012 - 2019 (US$ Billion)



Number of OIFIs by Type 2019




Top Countries in OIFI Assets 2019
Total Assets (US$ Billion)
Number of OIFIs*
Total Assets (US$ Billion)
Number of OIFIs
60
50
40
30
20
10
-
80
70
60
50
40
30
20
10
-
54
33
38
71
17
75
11
48
10
76
9
13
6
3
2
3
1
1
1
56
Malaysia
Iran
Saudi Arabia
UAE
Kuwait
Qatar
Switzerland
Brunei
Senegal
Indonesia
*Including Windows
72%
Top 3 Markets' Share of Global Takaful Assets in 2019


Total OIFI Assets by Category 2019 (US$ Billion)
Total Assets (US$ Billion)
70
60
50
40
30
20
10
-
59
56
12
9
9
5
2
Investment Firms
Financing Company
Real Estate
General Financial Services
Mortgage
Leasing
Others

The Maldives sees fastest growth in OIFI sector assets

The 'other Islamic financial institutions', or OIFI sector, saw a 6% increase in total assets in 2019, to US$153 billion. This sector consists of financial institutions other than Islamic banks and takaful operators, such as financing, mortgage, leasing and factoring companies.

The fastest growing market in OIFI in 2019 – with total assets rising 62% to US$44 million – was the Maldives, which has been working in recent years to diversify its economy. The rapid growth in assets was a result of government and regulatory support for developing frameworks for the Islamic finance industry. Shariah-compliant housing financing has gained popularity in the Maldives' retail market. The Housing Development Finance Corporation (HDFC) saw a 31% increase in such assets over the year, boosted by rising demand for scarce housing units, particularly in the capital Malé.

Islamic FinTech transforming OIFI sector around the world

FinTech has accelerated the evolution of the Islamic finance industry over the past year, nowhere more so than in the OIFI sector, where it can provide both simplification and innovation. In Saudi Arabia, the Saudi Arabian Monetary Authority (SAMA) in 2019 launched its Regulatory Sandbox Framework to attract local and international financial innovators as part of its drive to transform the Saudi market into a smart financial centre. As of April 2020, there were 30 businesses operating under the framework. Similarly, Indonesia posted a five-fold growth in financing for Islamic FinTechs in 2019, with 12 registered platforms in 2019.

Islamic FinTech is also expanding outside of the industry's core markets. Malaysia-based Islamic savings platform HelloGold in 2019 partnered with African digital financial inclusion group Baobab to develop products for consumers in several countries across the contnent. HelloGold's gold-backed savings and products will help Baobab expand its financial services to Africa's unbanked and underserved. HelloGold also launched its Islamic savings platform in Thailand in 2019.

With OIFI assets estimated at US$54 billion in 2019, Malaysia is competing to become the global hub for Islamic FinTech. There were several Islamic FinTech players in the country in 2019, supported by the government's two-decade-old digital strategy. By 2020, the digital economy contributed around 18% of the country's GDP. In addition, Malaysia's Securities Commission signed an agreement with Indonesia's Finacial Services Authority (Otoritas Jasa Keuangan) in August 2020 to establish a collaborative framework for developing FinTech ecosystems in each of their countries.

Islamic FinTech can be expected to derive further impetus from the Covid-19, where lockdowns and social restrictions have necessitated a much faster take-up of technological solutions in all economic sectors around the world, including consumers who are increasingly using online channels to manage their finances.

UK expanding Shariah-compliant financing offerings through OIFIs

Active government support for the promotion and development of the Islamic finance industry has seen sector assets in the UK reach an IFDI estimate of US$22 billion. OIFIs play a particularly large role. In 2019, the UK's first Shariah-compliant bridging lender, Offa, was launched in Birmingham and London. The company provides Islamic residential and commercial bridging finance among other products.

Islamic start-up funding for small and medium-sized enterprises (SMEs) will be boosted by the launch in 2020 of an Islamic P2P crowdfunder: Qardus. The launch will provide an additional avenue of financing other than the big-ticket funding required by Islamic banks. This places it alongside other UK-based Islamic crowdfunding FinTechs such as the property-focused Yielders.

Bahraini wholesale banks converting to investment firms

Investment firms made up 45% of OIFIs in 2019. Bahrain had 19 OIFIs, mostly investment firms, with a total $693 million in assets. Several Bahraini wholesale banks, including Ibdar Bank and Gulf One Bank, converted their licences to Category 1 Investment Business Firms in 2019, and GB Corp along with Al Baraka Banking Group followed suit in 2020. This follows previous similar transformations such as Ithmaar Bank's 2016 structural reorganization that saw it establish an investment subsidiary (IB Capital) so as to benefit from new opportunities in the market while reducing the risk profile of the banking entity.

There could be more conversions still to come of wholesale Islamic banks or conventional banks with Islamic windows as they seek to realign with the Central Bank of Bahrain's regulatory framework. Investcorp, which has an Islamic window, also converted its license to that of an investment firm. It concluded that if its client deposit-related activities are not carried out by Investcorp, then a wholesale banking license is not required and an investment firm license would be more suitable.

SUKUK

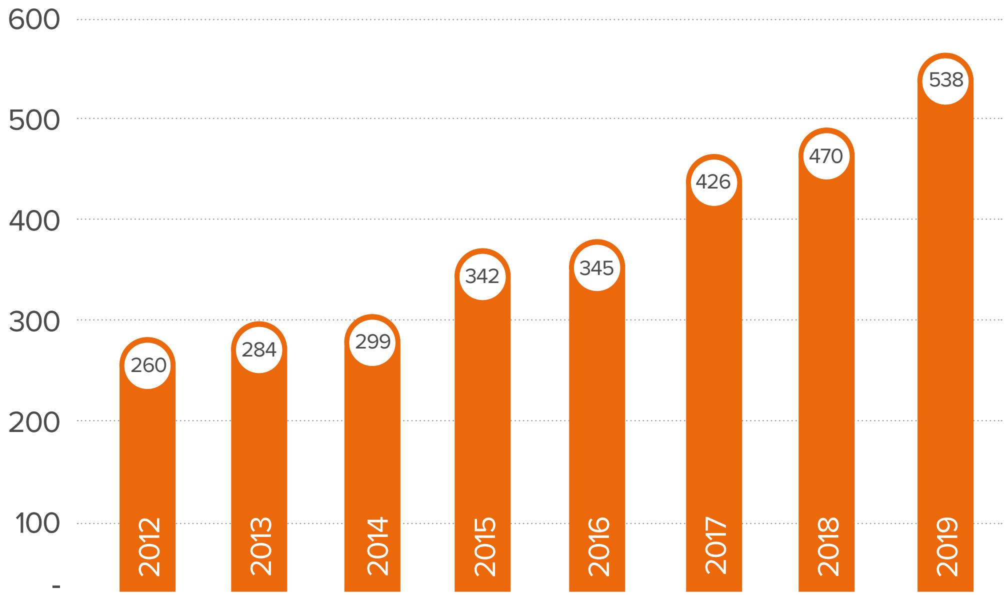
US$ 538 Billion Total Sukuk Outstanding Value in 2019

15% Annual Growth of Sukuk Value in 2019

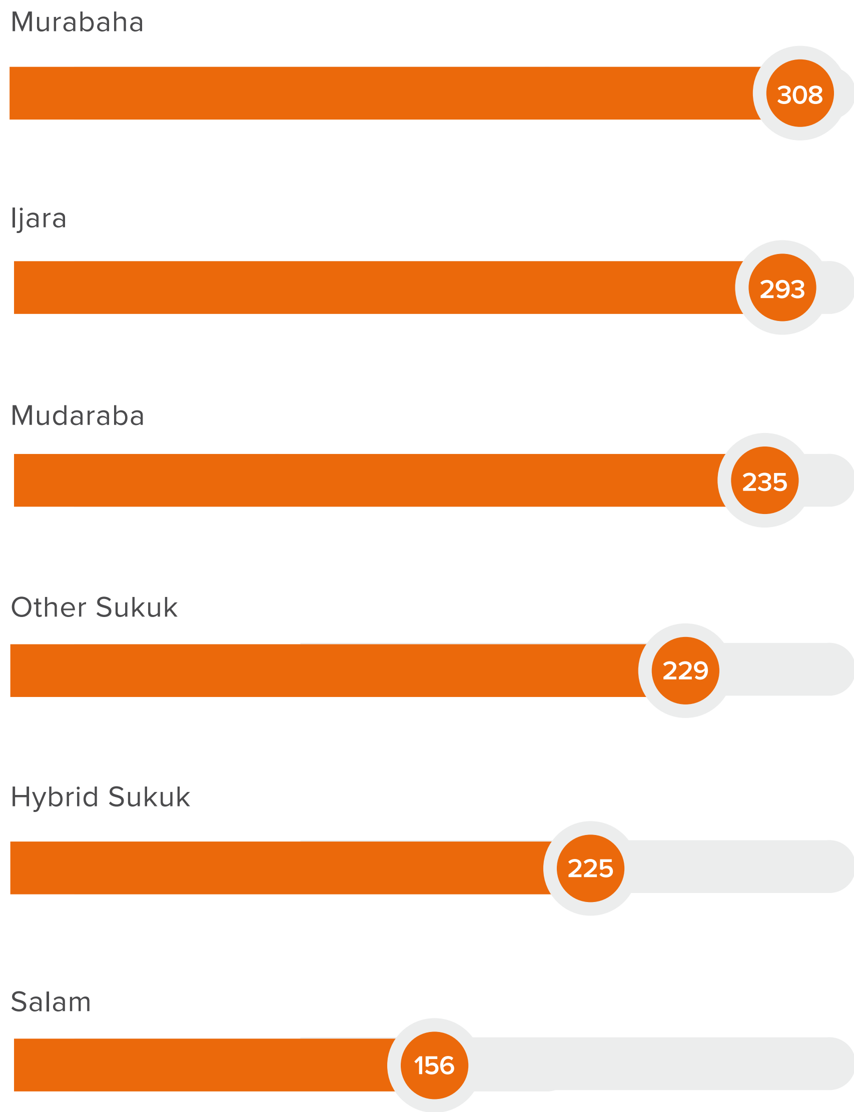
3,420 Number of Sukuk Outstanding in 2019

Brunei Fastest Growing Market in Sukuk Assets in 2019

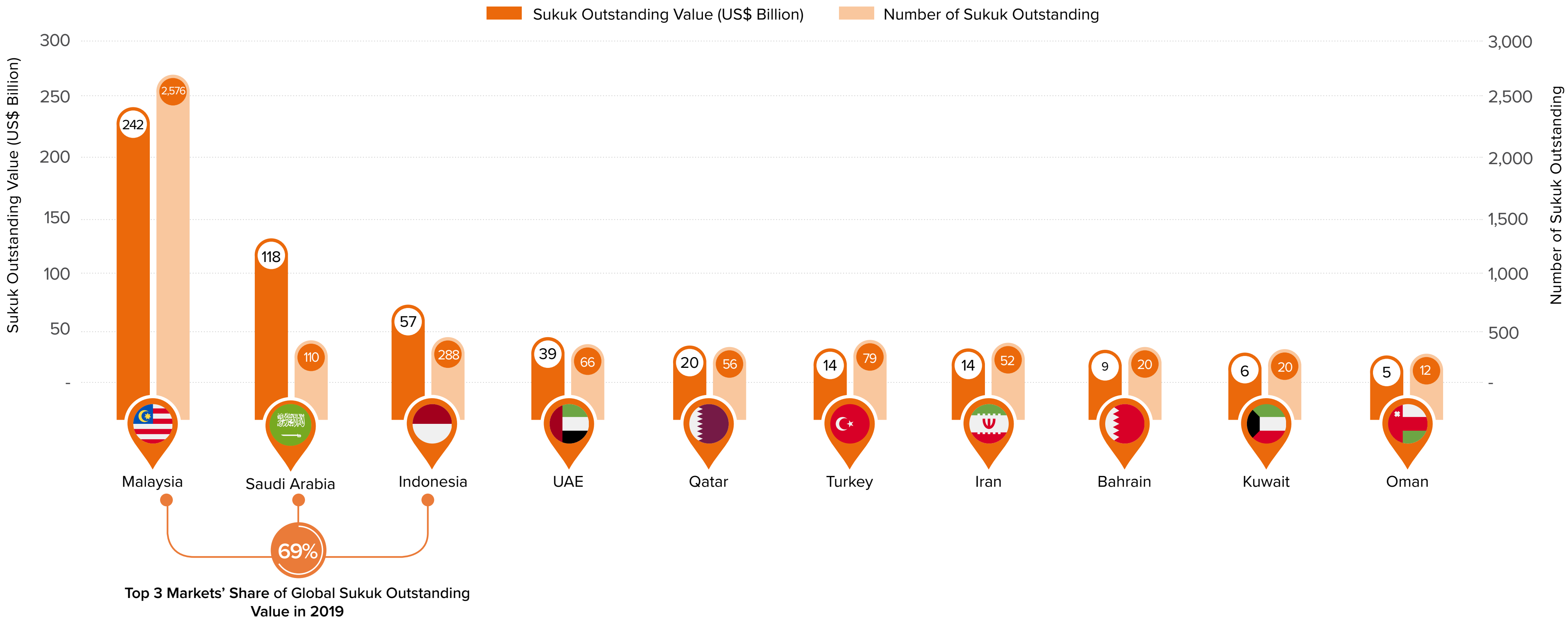
Sukuk Value Outstanding Growth 2012 - 2019 (US$ Billion)



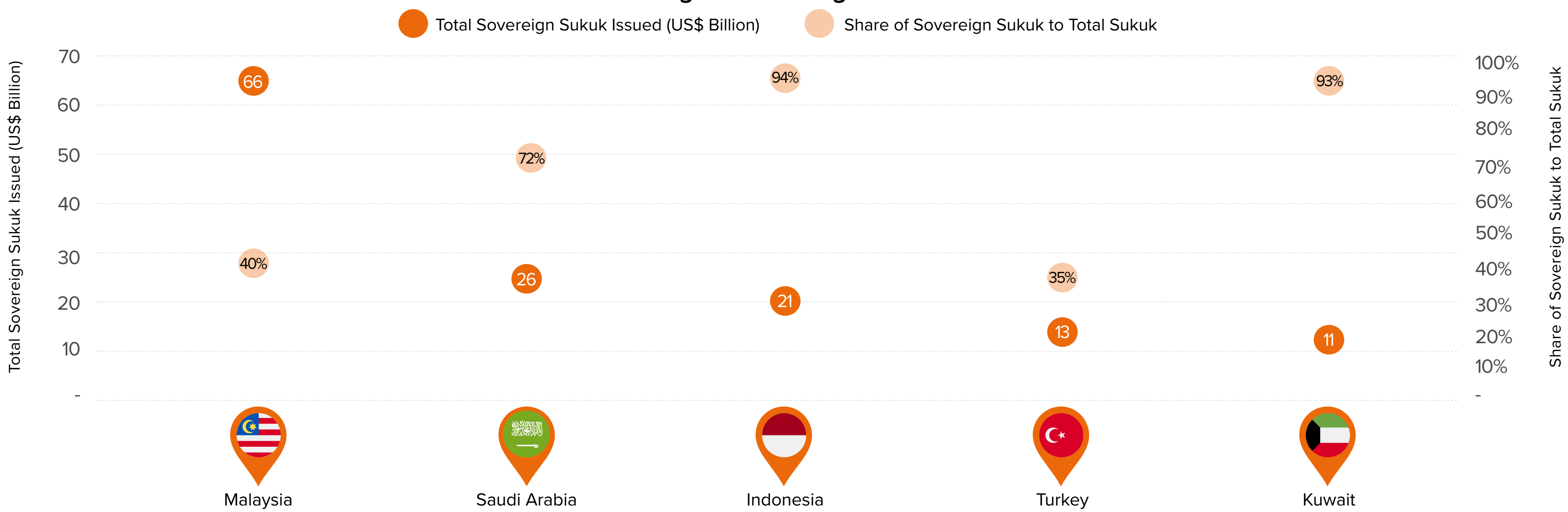
Number of Sukuk Issued by Structure 2019



Top Countries in Sukuk Outstanding 2019



Countries with Largest Sovereign Sukuk Issued 2019



Sukuk maintains double-digit growth

The sukuk market grew 30% in issuance value to US$162.1 billion in 2019, from US$124.8 the year before, maintaining the double-digit growth in the sukuk industry seen across of the past five years. Sukuk remained the debt instrument of choice for sovereign issuers in Malaysia, Indonesia and Saudi Arabia to finance budget deficits and maintain liquidity levels as the Covid-19 pandemic weighed heavily on economies.

Indonesian sukuk issuance rose 37% in 2019 as the government ramped up domestic issuances in order to finance its state budget and broaden the investor base. Domestic corporate issuance remained a challenge in Indonesia, however, due largely to poor secondary market liquidity. This was despite government efforts to improve liquidity through its own sukuk issuances, as many investors hold on to their sukuk until maturity.

In Malaysia, the central bank's resumption of its short-term murabaha sukuk programme to maintain domestic liquidity levels boosted activity in the sovereigns market.

Covid-19 pandemic and tumbling oil prices hamper H1 sovereign issuance

The first two quarters of 2020 saw high levels of volatility in global markets as the Covid-19 pandemic took hold and oil prices crashed. Some of the largest sukuk issuers, often from oil-exporting countries, held off from issuing sukuk during the first quarter amid the market turmoil.

Governments around the world introduced sweeping stimulus measures to defend their economies, with the result that budget deficits ballooned, and some countries began to issue sukuk to help finance their deficits. The Malaysian government issued US$13 billion worth of sukuk during the second quarter. In August, it issued its first digital retail sukuk, with a target issuance of US$119.4 million. This sukuk could be subscribed to through digital channels such as mobile banking platforms, with 27 banks participating in the scheme. The Indonesian government made a similar move, issuing retail sukuk in the same month amounting to IDR5 trillion (US$342 million).

Sovereign issuance in Saudi Arabia totalled US$18 billion over the first half of 2020 as part of government efforts to shore up the economy after oil prices collapsed in March. Issuance is likely to increase further in the second half to provide funding for the national budget deficit and offset losses from reduced oil revenues.

Other sovereigns to have issued sukuk to soften the economic downturn include Bahrain, Dubai and Oman. The Maldives has also announced plans to issue sukuk to support the government budget.

Corporate issuers rethinking strategies amid market turmoil

There was a small drop in the number of corporate and sovereign sukuk issuances in the first half 2020. However, there was a slight pickup in the second quarter from corporates that had postponed issuance earlier in the year during the initial market turmoil caused by the Covid pandemic. Dubai Islamic bank successfully closed a US$1 billion sukuk issuance in June 2020 that had originally been intended as a US$750 million issue during the first quarter but was postponed due to unfavourable market conditions caused by the pandemic.

In Indonesia, national carrier Garuda Indonesia secured majority approval to extend the maturity of US$500 million sukuk by three years past its original date of June 2020, giving the airline time to produce positive cashflow to pay back its investors after global travel restrictions slashed passenger volumes by 90%. Malaysian Airlines also deferred payments to holders of its US$362.5 million sukuk by six months to March 2021 due to the impact of the pandemic on the travel sector.

Green sukuk come to prominence to meet UN's SDGs

Green and socially responsible investing (SRI) sukuk came to the fore in 2019 as governments and corporates step up efforts to achieve the United Nations' Sustainable Development Goals (SDGs), a trend which is expected to accelerate in the years ahead. Green sukuk issuance totalled US$4.4 billion in 2019, comprising issuances from Indonesia and countries of the GCC.

The Indonesian government and Dubai holding group Majid Al Futtaim both issued their first green sukuk in 2019. Indonesia's issuance of two green sukuk totalling US$2 billion was in line with a strategy under the government's economic masterplan to seek innovative sources of financing for domestic infrastructure projects. Indonesia issued another green sukuk in June 2020 worth US$750 million to finance sustainable development projects and cushion the blow of the Covid-19 pandemic. Majid Al Futtaim's US$600 million sukuk issuance was used to finance and refinance renewable energy projects and projects related to energy efficiency.

During the first half of 2020, Islamic Development Bank (IsDB) issued its debut sustainability sukuk valued at US$1.5 billion to support various social projects undertaken by member countries affected by the Covid pandemic. This was the first ever AAA-rated sustainability sukuk to be issued on the global capital markets. IsDB launched its first green sukuk in December 2019, valued at EUR 1 billion (US$1.17 billion), to finance climate change-related and green projects among its member countries. Elsewhere, Saudi Electricity Company (SEC) raised US$1.3 billion from the sale of a dual-tranche green sukuk in September 2020. This was the first green sukuk from a Saudi issuer. It was intended to raise capital for various green projects such as smart meters.

Further green sukuk issuances are being considered by Uzbekistan and Kazakhstan. In Malaysia, water company Air Selangor has said it plans to issue a MYR10 billion (US$2.4 billion) sustainability sukuk to fund development of Selangor state's water infrastructure.

New sukuk markets emerge in 2020 as investor base expands

Egypt entered the sukuk market in April 2020 with an inaugural corporate issuance from Talaat Moustafa Group, an Egyptian real estate developer, valued at US$127 million. This was followed in July 2020 by another Egyptian corporate, finance company Sarwa Capital, announcing that it planned a US$156 million sukuk for later in the year. However, Egyptian aviation leasing company CIAF was forced to cancel a US$50 million sukuk as the Covid-19 pandemic led to many aircraft orders being postponed until global travel returns to normal.

Elsewhere, the world's first Formosa sukuk were issued early in 2020 by Qatar Islamic Bank. The issuance was raised to US$800 million from an initially planned US$650 million to meet strong investor demand. The issuance followed a revision of the Taiwan Financial Supervisory Commission's rules that had previously only allowed conventional issuers to access the Taipei market.

ISLAMIC FUNDS

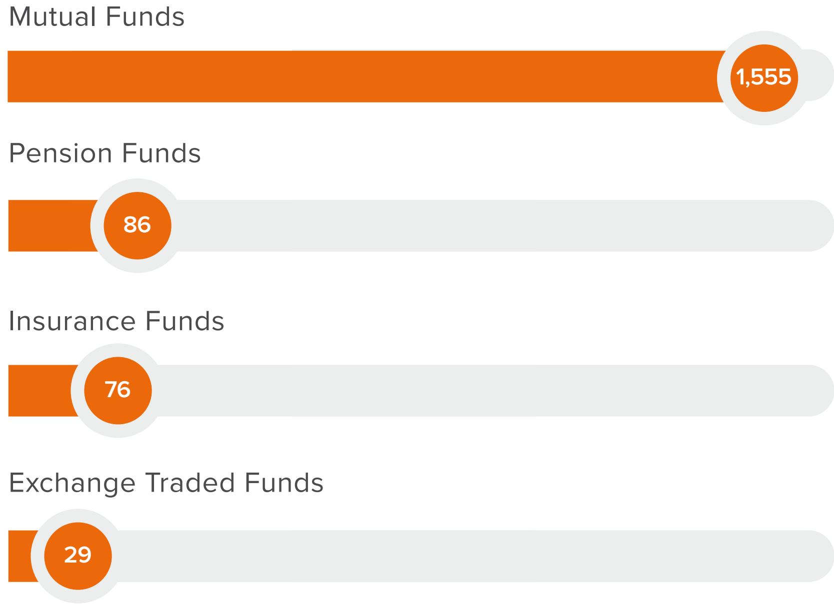
US$ **140** Billion
Total Islamic Funds Outstanding Value in 2019

30%
Annual Growth of Islamic Funds Value in 2019

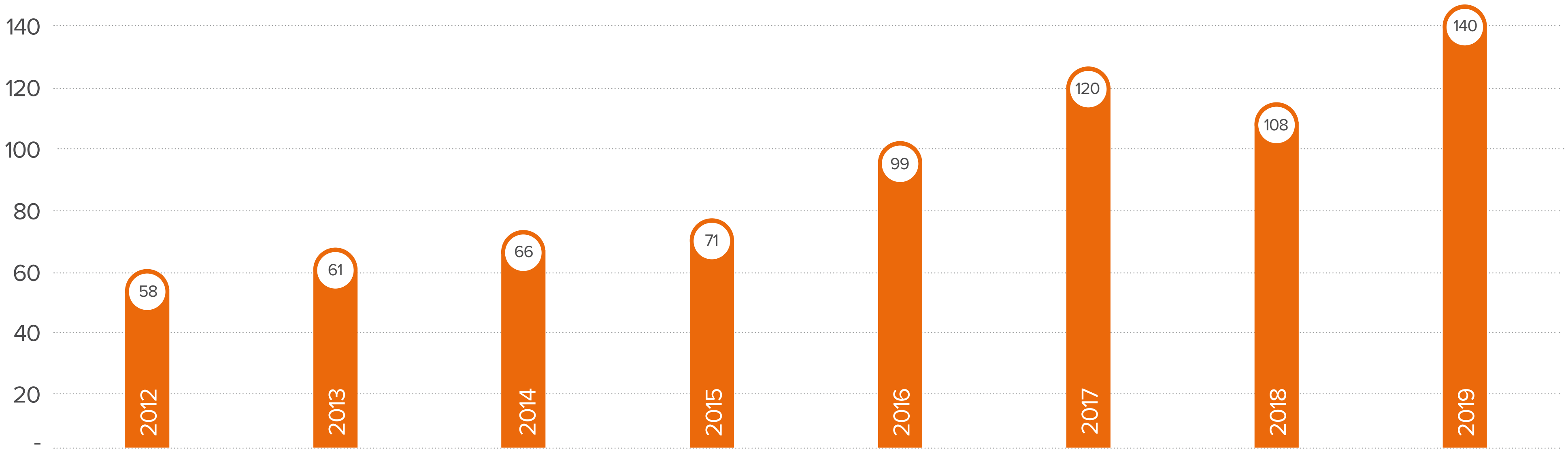
1,749
Number of Islamic Funds Outstanding in 2019

Iran
Fastest Growing Market in Islamic Funds Assets in 2019

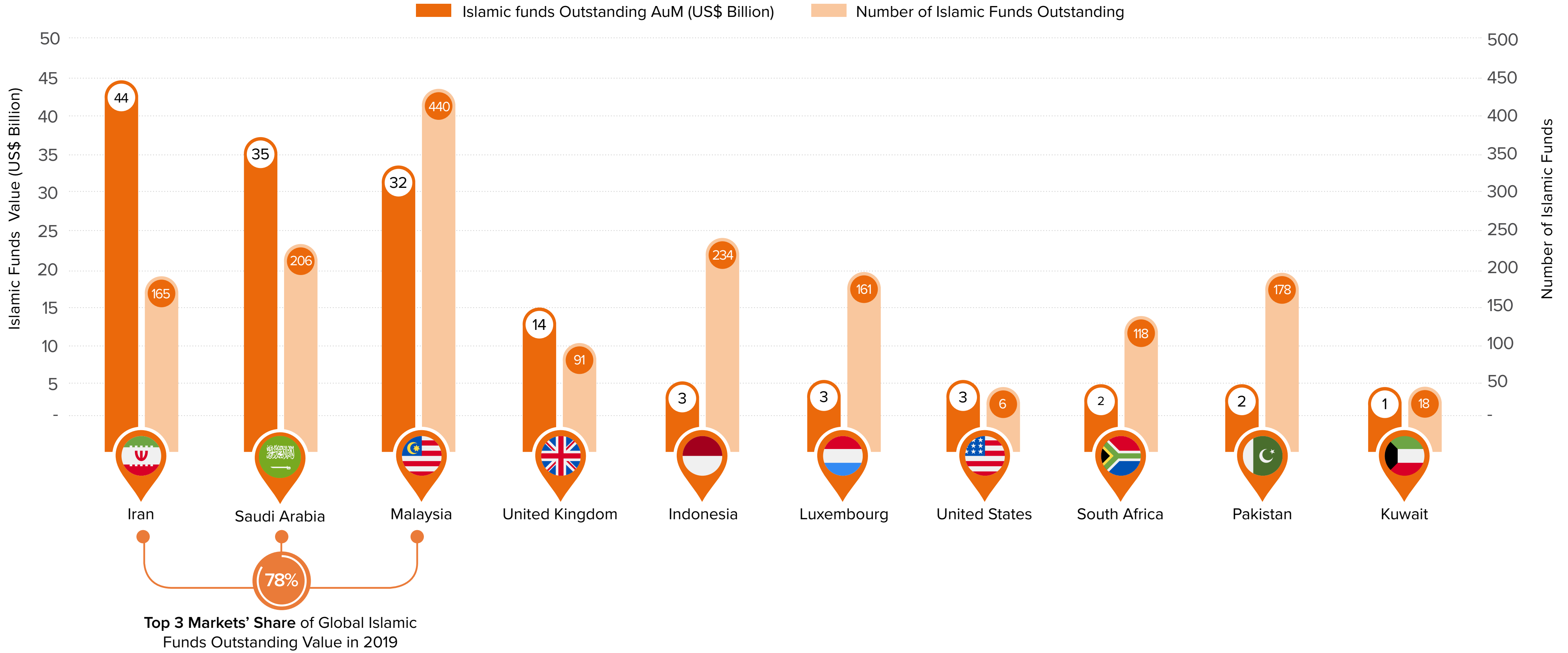
Islamic Funds Outstanding Value by Universe 2019 (US$ Billion)



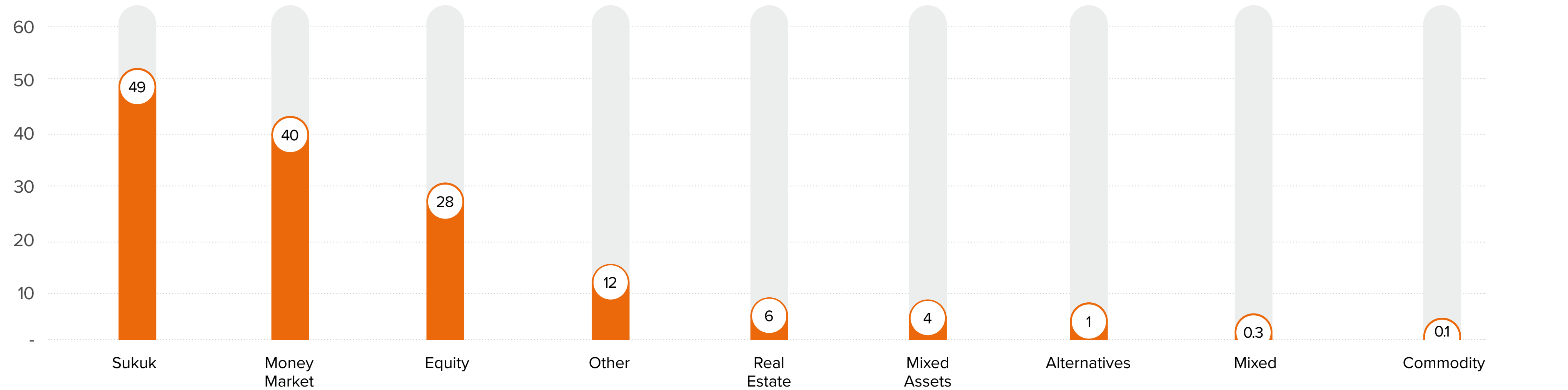
Islamic Funds Value Outstanding Growth 2012 - 2019 (US$ Billion)



Top Countries in Islamic Funds Outstanding 2019



Islamic Funds Outstanding Value by Type 2019 (US$ Billion)



Islamic funds grow at fastest pace in a decade, led by GCC

Total assets under management (AuM) for Shariah-compliant investment funds saw their highest growth in the last decade, rising 30% to $140 billion, from US$108 billion in 2018. In all, 127 funds were launched in 2019, including Shariah-compliant mutual funds, pension funds, insurance funds, and exchange-traded funds (ETFs). Mutual funds, which comprise the largest share of managed assets, soared 97% in 2019 to US$125.4 billion. By type, Islamic bonds (sukuk), had the highest value of the mutual funds, followed by money market funds. The latter grew the fastest of all mutual fund types, rising 54% from the previous year.

Southeast Asia had the highest regional value of Islamic funds in 2019, followed by the GCC. However, the GCC saw the highest growth in Islamic funds, up 35%. Among individual countries, Saudi Arabia saw the most rapid growth in Islamic funds, rising 43%, making it the world's largest investor in Shariah-compliant assets. The outperformance by Saudi Arabia and the GCC as a whole may have been due partly to recent regulatory changes that improved market efficiency, liquidity and investor security while attracting foreign investors. Most GCC countries have made regulatory changes to attract foreign investors since 2014, when falling oil prices made economic diversification a key priority.

However, Covid-19 and renewed weakness in oil prices are putting pressure on Islamic asset managers, particularly in the GCC. Many investors in the region depend on oil as a key source of revenue. Still, asset managers are benefiting from economic and regulatory reforms in the GCC countries aimed at attracting domestic and international investors looking to invest in a more diverse pool of products and asset classes.

New tools for Islamic investment products targetting millennials in Indonesia and Malaysia

There is a growing trend for Islamic investment products targetting millennials, as has been seen in Southeast Asia. Indonesia had the second largest number of funds in 2019, mostly mutual funds investing in the country's fast-growing sukuk market, and in 2019 a new online marketplace was launched employing a business aggregator model for Shariah-compliant mutual funds. The application, Halalvestor, is aimed at millennials seeking both comprehensive market information and investing convenience. Use of such applications also presents investment managers with better marketing opportunities as they can reach younger, more digitally savvy investors.

In Malaysia, Public Bank unit Public Mutual in 2019 launched the Public e-Islamic Sustainable Millennial Fund (PeISMF). This targets investors, particularly millennials, who want to include sustainability considerations in their investments while achieving long-term capital gains.

Islamic investment platforms such as these tap into the concerns of younger investors about where and how their wealth is invested, and reports suggest many would be interested in sustainable investing. A 2019 Morgan Stanley survey found that 90% of people aged 24 to 39 would prefer to tailor their investments to their values.[1]

Malaysia leading expansion in Shariah-compliant ESG investing

Demand is growing for ESG-related investment assets such as green bonds and there is a high degree of complementarity between Islamic and ESG investing. This is making Islamic financial products increasingly attractive to investors who are not Muslim.

Malaysia is a leading presence in both Islamic funds and ESG investment and has seen several initiatives in this space. BIMB Investment Management Bhd (BIMB), an arm of Bank Islam Malaysia, launched its Global Shariah-ESG Equity fund for retail investors in October 2019. BIMB also in April 2020 launched its BEST Invest robo-intelligence app to help investors build their portfolios, offering a range of Islamic and sustainable unit trust funds. Other such initiatives include the above-mentioned launch of the Public e-Islamic Sustainable Millennial Fund by Public Mutual, and an Islamic-ESG fund – the Maybank Global Sustainable Equity-I Fund – by Maybank Asset Management in 2020.

More Shariah-ESG funds are likely to be launched in coming years, in line with growing issuance of green and sustainable sukuk. In addition, the global economic slowdown caused by Covid-19 will lead to greater numbers of social instruments being launched by Islamic financial institutions to tackle issues such as mass unemployment. The pandemic could be a turning point for the asset management industry as many businesses are betting on sustainability to tackle the challenges it is presenting.

[1] Morgan Stanley Institute for Sustainable Investing: Sustainable Signals -- The Individual Investor Perspective

Islamic ETFs becoming increasingly popular globally

Islamic exchange traded funds (ETFs) were the second biggest in value after Islamic mutual funds, having risen 37% to over $12 billion in 2019 from $9 billion the year before. Three ETFs have launched in the Islamic finance market in the United States: the Wahed FTSE USA Shariah ETF (HLAL) by Wahed Invest, and the S&P 500 Sharia Industry Exclusions ETF (SPUS) and SP Funds Dow Jones Global Sukuk ETF (SPSK) by SP Funds. The HLAL and SPUS each invest in Shariah-compliant equities.

In the GCC, which had the second-highest regional value of ETFs in 2019 after Europe, Abu Dhabi Securites Exchange and Dubai Financial Market both listed a Shariah-compliant ETF by asset management firm Chimera Capital in August 2020. Qatar is likely to see more such products after the launch of its first, the Al Rayan Qatar ETF, in 2018, as part of efforts by its stock market to boost foreign investment. Qatar is also expected to see similar listings of Islamic pension funds and real estate investment trusts (REITs) once a suitable listing framework is drawn up for these types of funds.

Elsewhere, Pakistan's first Shariah-compliant ETF was launched in September 2020, by Al Meezan Investment Management. This followed the introduction of the country's first ETFs six months earlier.

INTERVIEW

Ahsan Ali

Managing Director and Head
of Islamic Origination
Standard Chartered Saadiq

Ahsan is responsible for Islamic Commercial, Corporate & Institutional Banking business globally at Standard Chartered Saadiq, the bank's Islamic banking arm. In this role, he oversees the delivery of Islamic banking services to clients across multiple geographies and products, including financial markets, corporate finance, and transaction banking.

Since joining Standard Chartered Bank in March 2004, Ahsan has played a key role in building the bank's Islamic business from inception and has led several award-winning and industry-defining deals. He has over 27 years' experience in the financial services industry, of which the last 16 have been in Islamic banking. Prior to joining Standard Chartered, he worked at Citi.

Ahsan holds a Master's in Business Administration from the Indian Institute of Management, Calcutta, and a Degree in Mechanical Engineering from the Indian Institute of Technology, Delhi. He is also a Chartered Financial Analyst (CFA).

What will be the overall impact of the COVID-19 pandemic on sukuk issuance? What are the key economic metrics that will drive issuance going forward?

The pandemic triggered major uncertainty in the markets during the first quarter 2020, bringing new international issuance almost to a standstill by March. Although jurisdictions such as Saudi Arabia, which has the benefit of established domestic debt markets, issued SAR15 billion in sukuk in March, global issuance volumes fell in the first quarter from 2019.

However, the international dollar sukuk market picked up pace in May and June, led by sovereigns such as Bahrain, Sharjah and Indonesia, resulting in significantly higher transaction volumes. This was an indication of a stabilising market, which saw investors and issuers come back strongly in the second half, highlighting robust demand dynamics for sukuk. The market has since seen high levels of activity, with global sukuk volumes in the first nine months of the year set to equal or even surpass levels for the same period 2019. This has been driven mainly by sovereigns, Islamic banks, and high-quality corporates tapping the international sukuk market and achieving very successful transactions.

We expect this market momentum to continue for Q4 2020 and going into next year, as issuers lock in long-term funding at historically low rates. Investor demand is also intact, driven by huge liquidity injected by central banks around the world. Sovereign and quasi-sovereign supply from the GCC is likely to remain strong to cover for the higher fiscal needs caused by low oil prices and for refinancing purposes.

An interesting trend is emerging in Saudi Arabia where the country has issued more sukuk than bonds in the past few years. What has contributed to this shift and will this trend continue and expand to other markets?

Saudi Arabia has very ambitious economic plans, which have been set in motion by the Saudi Vision 2030 and which will ultimately have huge capital and funding needs. Add to that the recent low oil price environment resulting in budget deficits that will need to be financed by accessing the debt capital markets – both domestic and international. Given that Saudi Arabia is the largest Islamic finance market in the world, it is but natural that sukuk would be the preferred route, especially when it comes to accessing local investors.The Saudi Arabia Ministry of Finance, acting through the country's National Debt Management Center, established in 2017 the first-ever unlimited SAR-denominated sukuk programme with the aim of diversifying its funding sources.

This programme provides a deeper pool of Shariah-compliant securities to facilitate liquidity management for domestic Islamic financial institutions, and with various tenors of up to 30 years this programme has helped to further develop the local Islamic market by establishing a domestic benchmark sukuk yield curve.

Taking the cue from the sovereign programme, Saudi financial institutions and corporates have followed suite in accessing domestic and international markets through sukuk. We expect this trend to continue and also expect other countries in the GCC and the broader Islamic world to do the majority of their local debt issuances in an Islamic format.

There has been a lot of hype around green sukuk, yet its development and growth has been limited, with few issuances to date. What is holding back issuers and is there a genuine appetite from investors for green sukuk?

The Shariah principles which underline Islamic economics and finance encourage wholesome and sustainable development of communities, countries and the world. This is pretty much aligned with the goals of sustainable, green and social financing, and therefore provides a natural fit between Islamic and sustainable financing.

However, it is true that green and sustainable financing within Islamic finance is still at an early stage and hasn't yet been explored to its full potential. One challenge has been the availability of suitable green assets or of projects big enough to be used in structuring a green sukuk. But this should ease soon as governments, quasi-sovereign entities and large corporates are increasingly embedding green and sustainability principles as their core objectives. Also, while we haven't seen many dedicated Islamic green investors, the awareness is certainly increasing on that front too.

Nonetheless, the green and sustainable sukuk market has seen many landmark transactions, led by sovereigns such as the Republic of Indonesia, which issued its first sovereign green sukuk, worth US$1.25 billion, in 2018, followed by US$750 million in 2019 and most recently a US$750 million green sukuk in June 2020. Also there have been multilateral institutions such as the Islamic Development Bank, which issued its first-ever green sukuk, worth EUR 1 billion, in 2019 and followed this with the first-ever COVID-19 response sustainability sukuk in June 2020, worth US$1.5 billion. We have also witnessed a few corporates riding the green wave. Majid Al Futtaim issued a US$600 million green sukuk – the world's first corporate green sukuk – and most recently Saudi Electricity Company issued a dual-tranche US$ 1.3 billion green sukuk.

What is the role for technologies such as blockchain in providing a smoother issuance process to address the multifaceted investor demand without adding cost, complications or delays for issuers?

Once the structure and documentation are standardised across markets, we can then use the true potential of technologies such as blockchain, which would help in automating the process of sukuk issuance, especially for retail issuance. This would certainly help bring down the cost of issuance, as well as help the sukuk market move away from the currently largely institutional market to the retail space.

I think we'll need to take a step back and see where the bottlenecks for such technological solutions might be. One such challenge is standardisation of sukuk documentation. While it is true that differing Shariah principles across jurisdictions have held back such developments, there is now a concerted effort by industry bodies such as IIFM (International Islamic Financial Market) to standardise some of the frequently used sukuk structures.

ISLAMIC FINANCE ECOSYSTEM

Measurement of the development of the Islamic finance industry goes beyond just measuring core business components such as financial performance. There is also a need to investigate the industry's infrastructure, including its management components (Governance and Corporate Social Responsibility) and industry ecosystem (Knowledge and Awareness) to see whether it is heading in the right direction, whether globally or in individual countries.

This chapter investigates the other elements deemed important for the development of the industry and will look into key trends and opportunities within each element.

ISLAMIC FINANCE GOVERNANCE

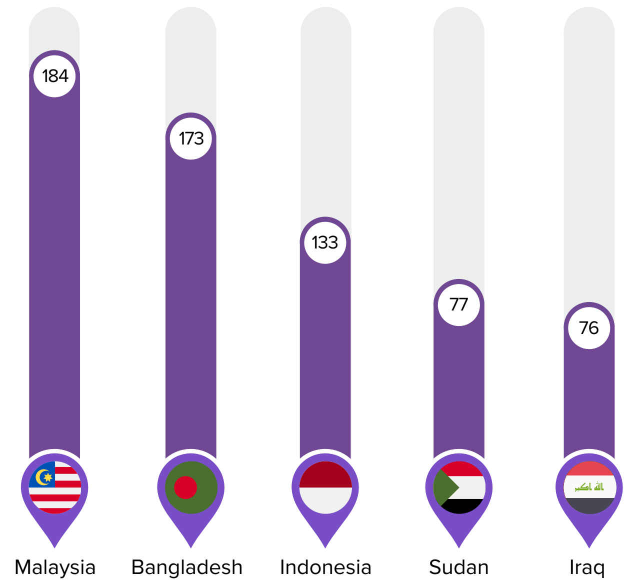
1,170 Total Scholars Representing Islamic Financial Institutions in 2019

14 Countries with Central Shariah Boards

45 Females Representing Shariah Boards

39% out of 70 Items Average Global Financial Reporting Index in 2019

Top Countries by Number of Shariah Scholars 2019

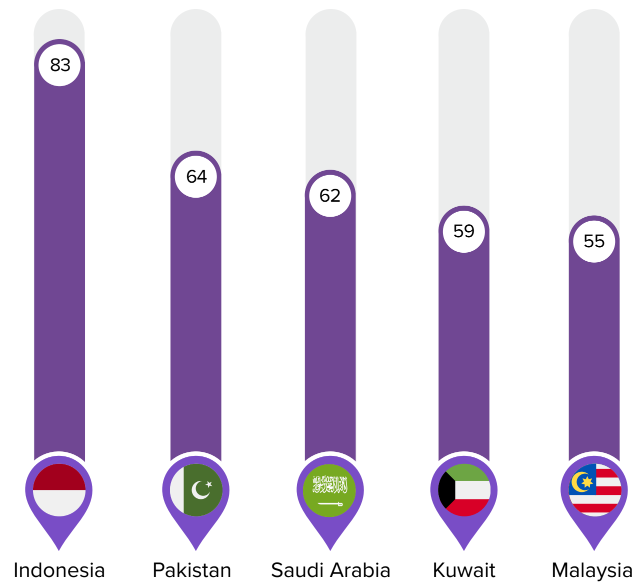


Number of Countries with Islamic Finance Regulation 2019

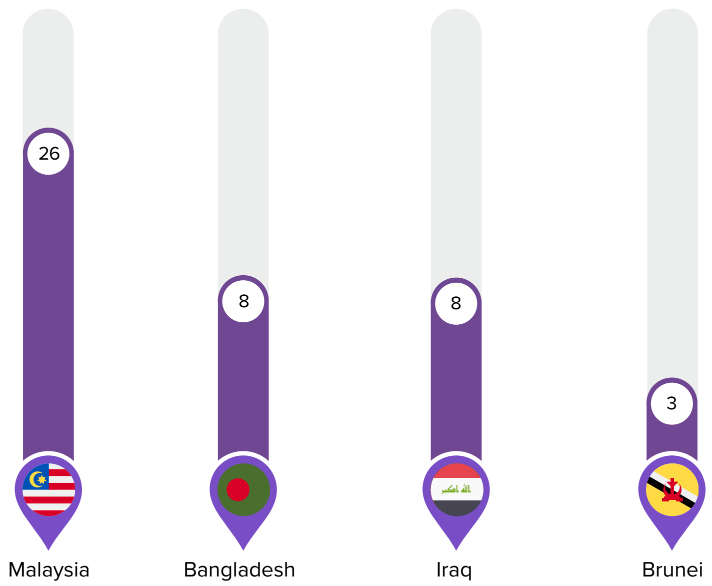
- Islamic Finance: 46 Countries
- Islamic Banking: 42 Countries
- Accounting/Auditing: 32 Countries
- Specific Shariah Governance: 31 Countries
- Sukuk: 21 Countries
- Takaful: 22 Countries
- Islamic Funds: 12 Countries

Countries with a Full Set of Islamic Finance Regulations 2019

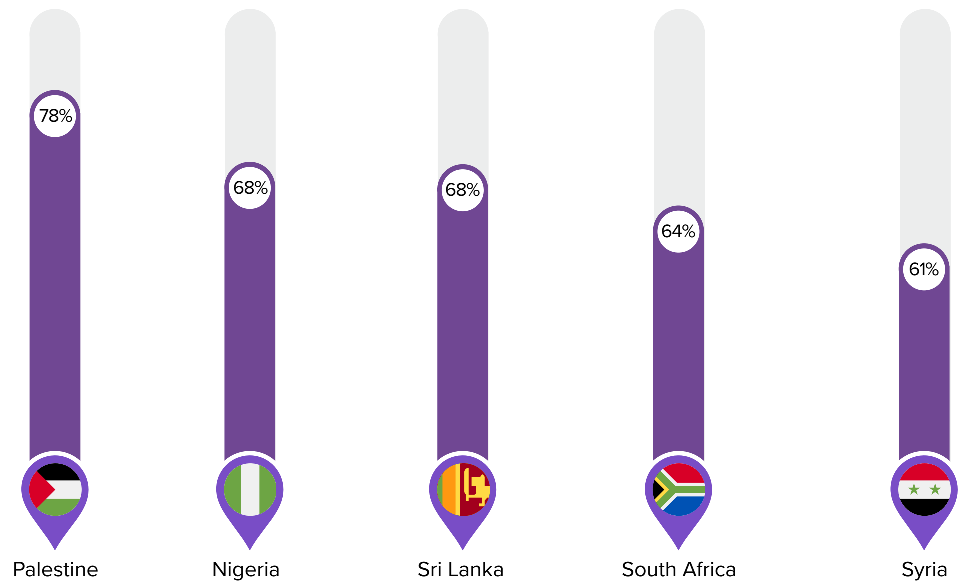
Top Countries with IFIs Represented by at Least 3 Shariah Scholars 2019



Countries with Females Representing Shariah Boards 2019

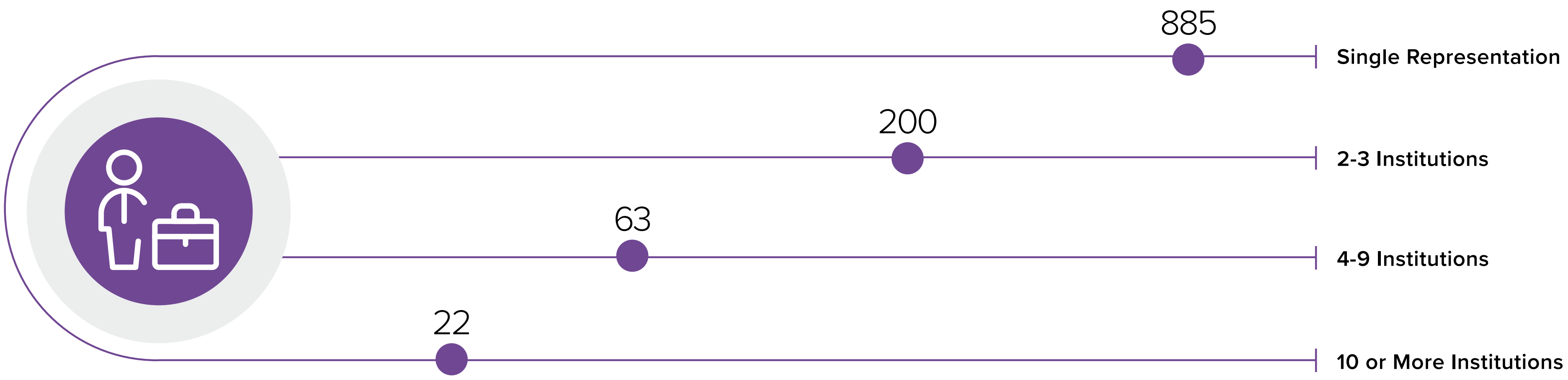


Top Countries in Average FRDI Score 2019*



*The Disclosure Index covers 70 items that need to be disclosed in 2019 annual or financial reports of Islamic Financial Institutions

Global Islamic Finance Shariah Scholar Institutional Representation 2019



GOVERNANCE OVERVIEW

Governance provides an important indicator of the health of the Islamic finance industry's infrastructure. Appropriate controls will maintain consumer and investor confidence in the industry.

Indeed, recent scandals and the collapse of financial institutions whether in leading Islamic finance regions or elsewhere tell us that strong governance and regulations will provide legitimacy to Islamic financial institutions' operations. Governance is assessed through regulations, corporate governance, and Shariah governance.

UAE to develop unified global legislative framework for Islamic finance

In 2019, 46 countries had regulations covering Islamic finance, increasing by two from 2018. The number of countries with a comprehensive regulatory system covering each of the industry's six sectors – accounting; Islamic banking; Shariah governance; takaful; sukuk; and Islamic funds – remained at six. The other countries' regulations covered one or more of these sectors.

The UAE in 2019 introduced new regulations related to banking, takaful and sukuk in order to improve its existing regulatory framework, which had not covered all areas of the industry. The UAE also in May 2020 launched an initiative to develop a unified global legal framework for Islamic finance, as greater standardization would be likely to facilitate further expansion of the Islamic economy. Dubai Islamic Economy Development Centre (DIEDC) will use Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) standards as a reference in building --the international legal framework.

African countries turning to Islamic finance to boost economies

Countries around the world are enhancing their Islamic finance ecosystems as the multifaceted industry continues to expand, and many of these countries are in Africa. One such is Tanzania, where despite rapid growth in Islamic finance there are no specific regulations to govern the sector other than for takaful, for which regulations were approved in 2019. The Tanzanian government announced in December 2019 that it was working to draw up a regulatory framework to develop the still-nascent industry there.

In North Africa, Tunisia approved a draft law for participatory financing in July 2020 that will help efforts to develop new sources of financing for start-up and SMEs. A digital platform developed by a specialist in participatorty financing will provide the link between the public, companies, and projects in need of funding. Tunisia also in May 2020 inaugurated the country's first zakat fund since independence was achieved in 1956.
Countries are increasingly turning to Shariah-compliant financing instruments such as zakat and sukuk to help in their responses to the economic, health and social impacts of the Covid pandemic. Algeria is another country looking to Islamic finance as a new source of funding as the country's economy reels from the coronavirus and collapsed oil prices. Shariah-compliant financial services were approved in Algeria in August 2020. National Bank of Algeria was the first to be granted a certificate of Shariah-compliance, with more financial institutions to follow.

CIS nations to create regulatory framework for green sukuk

Kazakhstan has permitted Islamic finance since 2009 in order to encourage foreign investment in the country. The Astana International Financial Centre (AIFC) was founded in the country's capital city, Nur-Sultan, in 2018 with the aim of establishing Kazakhstan as a financial hub for Central Asia, the Eurasian Economic Union, the Caucasus, West China, Mongolia and Eastern Europe, as part of which it is working to develop its Islamic finance industry. The AIFC in 2019 also started work on creating a regulatory framework for green finance and a potential issuance of the country's first green sukuk.

Uzbekistan also has plans to sell its first green sukuk. In July 2020, the country's Capital Markets Development Agency (CMDA), the United Nations Development Programme, and Islamic Development Bank signed a statement of intent to work together to introduce Islamic finance in Uzbekistan, which will support CDMA in its efforts to create an enabling environment for green sukuk. The CDMA stepped up its efforts to develop alternative financing instruments after the Covid-19 pandemic outbreak, while also committing to the UN's Sustainable Development Goals agenda to help the country recover from the crisis.

New central Shariah board established in Kuwait and to be established in Qatar

There were 14 countries with central Shariah boards in 2019, the same as in the previous year, but that number is likely to grow with the planned additions of boards in countries such as Qatar. Central Shariah boards allow the principles and structures of Islamic finance to be harmonized at a national level and thereby promote its acceptance and growth.

Kuwait, which ranks 9th overall in the IFDI report, approved a draft law in February 2020 to establish a Shariah board overseeing the country's Islamic finance and banking activities. Under the law, the country's Central Bank will take charge of supervising the banking sector and ensure it complies with Islamic law. In October, it appointed the central Shariah board to underpin the governance of Shariah supervision. Islamic finance plays a large role in the country's financial industry, and Islamic banking grew more strongly last year than did conventional banking.

Qatar is also set to establish a centralized Shariah board, with the aim of enhancing consistency and integrity within the Islamic finance sector. The current decentralized Shariah governance structure has raised concerns around potential conflicts of interest.

The Philippines is seeking to tap into the growing popularity of Islamic banking worldwide and in December 2019 it approved a Shariah Governance Framework that set out a number of requirements, measures and policies for Islamic banks and units. The guidelines are aimed at encouraging both domestic and foreign financial institutions to invest in Islamic banking operations. Expanding ties with leading Islamic finance players in major industry regions such as the GCC would also drive the industry forward in the Philippines.

THE ROLE OF WOMEN IN ISLAMIC FINANCE

Prof. Dr. Engku Rabiah Adawiah
The International Islamic University Malaysia

Dr Engku Rabiah Adawiah is a professor at the IIUM Institute of Islamic Banking and Finance, International Islamic University Malaysia. She is also a member of the Shariah Advisory Council of Bank Negara Malaysia, Securities Commission Malaysia, Labuan Financial Services Authority, and Employees Provident Fund. She also sits on the Shariah boards of Labuan Re, Gen Re, Amanah Ikhtiar Malaysia, and Yayasan Pembangunan Ekonomi Islam Malaysia.

Dr Adawiah has been recognized as the Most Outstanding Individual Contribution to Islamic Finance by Deloitte in 2004 and again in 2014. As a pioneer female Shariah scholar in Islamic finance, Dr Adawiah has featured numerous times in lists of influential women in Islamic finance, including: Top 10 Women in Islamic Finance (2014 and 2017); Top 10 Most Influential Women in Finance (2017); and the 300 Most Influential Women in Islamic Finance 2018 and 2019, where she was ranked No. 3 during the WOMANi Gala Dinner hosted by Cambridge IF Analytica.

EXECUTIVE INSIGHTS

Islamic finance has grown in leaps and bounds in the past five to six decades. In the product development space, industry practitioners have worked closely with Shariah scholars to devise workable and innovative solutions that meet both commercial demands and Shariah compliance requirements. As the market grows, so the number of players has expanded, and product knowledge and development have become more extensive and diversified. In terms of gender participation, although Islamic finance is male dominated, which is common for the finance industry in general, the ratio of female participation seems to have improved, perhaps due to policy-driven actions towards better gender representation.

Women's participation in Shariah scholarship is a major area where male domination is more entrenched. Even outside of Islamic finance, Shariah scholarship roles are dominated by men. There are undoubtedly women scholars, too, but in terms of numbers and reach, male scholars are more dominant. Part of the reason is perhaps less access to education and training opportunities for women in some parts of the Muslim world, certain religio-cultural norms that restrict female participation to a women-only environment, and other invisible barriers that are not spoken of but exist in reality.

To some extent, Malaysian women are perhaps more fortunate. Women in Malaysia generally enjoy equal access to education, as well as job opportunities at most workplaces. There is also a conscious policy for better gender inclusion, where the target of a minimum 30% female participation is propagated across the board. Nonetheless, in many organisations, actual implementation is not as simple as policy announcements and rhetoric. A lot of other enabling strategies must be implemented to overcome barriers that are impeding this effort.

In relation to Shariah scholarship in Islamic finance, regulatory moves in Malaysia have created a sustained demand for Shariah experts. The demand was immediately felt after the introduction of a structured Shariah Governance Framework (SGF) in 2004. This framework for the first time limited the work of an individual Shariah advisor to just one institution within a particular segment of the Islamic finance industry, preventing multiple Shariah advisory engagements. Before then, just a handful of Shariah experts had advised almost all Islamic financial institutions (IFIs) in Malaysia. The restriction created an immediate demand to meet the new regulatory requirement of at least three Shariah committee members per institution. Between 2004 and 2010, the number of Shariah committee members grew from 10 active advisors to around 100.

When the SGF was strengthened in 2011, the minimum number of Shariah committee members was increased to five, creating still further demand for Shariah scholars. This led to the addition of another 50-60 persons, with the number of advisors now totalling around 160. The SGF 2011 also required the setting up of various Shariah governance functions within the IFIs, entailing the need to employ trained Shariah personnel to undertake the jobs under each function. The enforcement of the new Shariah Governance Policy Document of 2019 has raised once again the demand for Shariah expertise within IFIs in Malaysia.

As far as the Malaysian IFIs are concerned, anyone who meets the job requirements in terms of competency and talent, whether male or female, is welcome. It seems that throughout these years, demand has consistently exceeded supply. Despite this, the IFIs are becoming increasingly choosy in picking the talent they want. This is understandable. Given that Shariah compliance governance is becoming more demanding, IFIs want to ensure that capable persons are helming the job so as to avoid difficulties later.

Does gender play a role in IFIs' choice? To some extent, yes, and it is perhaps more than positive discrimination. Many IFIs would be happy to have women scholars on board to meet the country's policy of 30% female representation. Unfortunately, the number of women in Shariah committee membership is still under 20%. There are to date 25 women out of a total 160 Shariah committee members, down from an earlier 33 out of 160. The ratio of men to women on Shariah committees is quite fluid due to retirement, expiry of terms, and new appointments. This suggests that there are fewer women compared to men who are interested or have the necessary competency to serve as Shariah advisors.

Frankly speaking, despite the increase in demand, there is a feeling that the supply of quality and competent Shariah expertise may be slightly lagging behind. Undoubtedly, many of the scholars involved in Islamic finance advisory are good and competent. Yet there are some who do not meet the mark. Competency does not depend on gender. Both genders have their shares of good and not-so-good members. Ultimately, what matters is the actual ability and merits of the individual in proving his or her worth.

There are at least three key criteria that must be developed in an aspiring scholar to ensure acceptance into the increasingly competitive Shariah advisory market: (a) an ability to identify issues; (b) the ability to analyse, relate and apply the issues to the relevant Shariah principles; and (c) an ability to suggest solutions or alternatives. A scholar who has all three criteria is much valued and highly sought after by the industry. Someone with one or two of the traits is acceptable. Normally, any gap will be complemented by other members on the committee or by the IFI's own team. A scholar who does not possess any of the three criteria does not meet the mark and will be excluded or sidelined. This statement is true regardless of the gender of the scholar.

Hence, upskilling and training are necessary to prepare scholars from both sides of the gender divide to acquire the required skill-sets for them to be chosen for Shariah advisory or other Shariah-related jobs in Islamic finance. The Association of Shariah Advisors (ASAS) has done a good job in developing modules to upskill Shariah scholars as part of their continuous education program. Other education and training providers have also played a role.

When I was first involved in Shariah advisory work, about two decades ago, similar expectations were perhaps there, but the circumstances were a bit different. The market was relatively young. Many of the participants were at the early learning phase. Both practitioners and scholars were actively learning from each other, and the learning curve was admittedly steep and fast-paced. Scholars at this phase were literally growing together with the industry in developing the market and innovating new products and solutions. They understood the storyline behind the products and had valuable insights about the instruments.

Now, Islamic finance has developed. Expertise has been built, both on the practitioners' as well as the scholars' side. Understandably, newcomers may feel overwhelmed by the wealth of knowledge about Islamic finance that they are expected to master, with such a diverse product range and other technical complexities. Nonetheless, they should take this as an opportunity rather than a threat. With a keen interest in the subject, backed by an inquisitive and analytical mind, new scholars, irrespective of gender, will find themselves quickly adapting to the demands of Shariah advisory and scholarship in Islamic finance.

ISLAMIC FINANCE CORPORATE SOCIAL RESPONSIBILITY

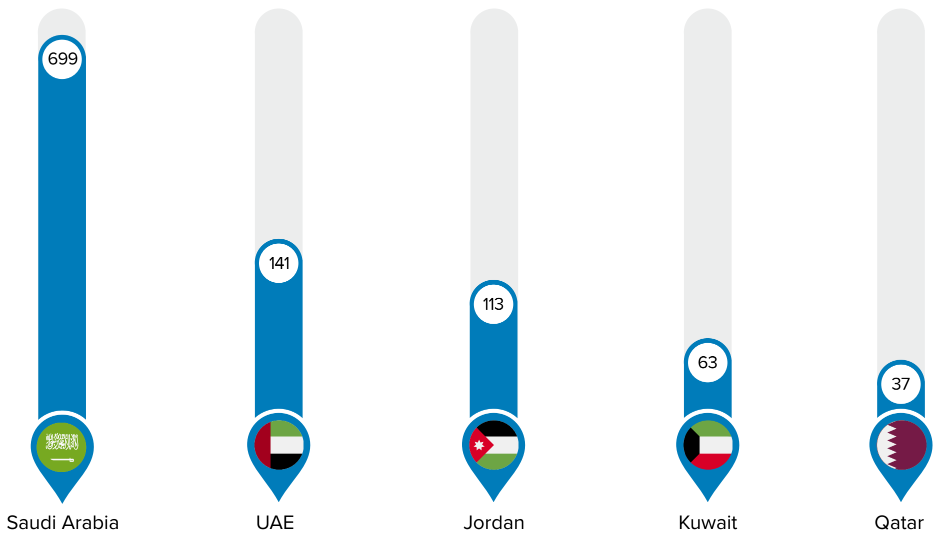
US$ **1.16** Billion — Total CSR Funds Disbursed by IFIs in 2019

US$ **1.03** Billion — Total Zakat and Charity Funds Disbursed by IFIs in 2019

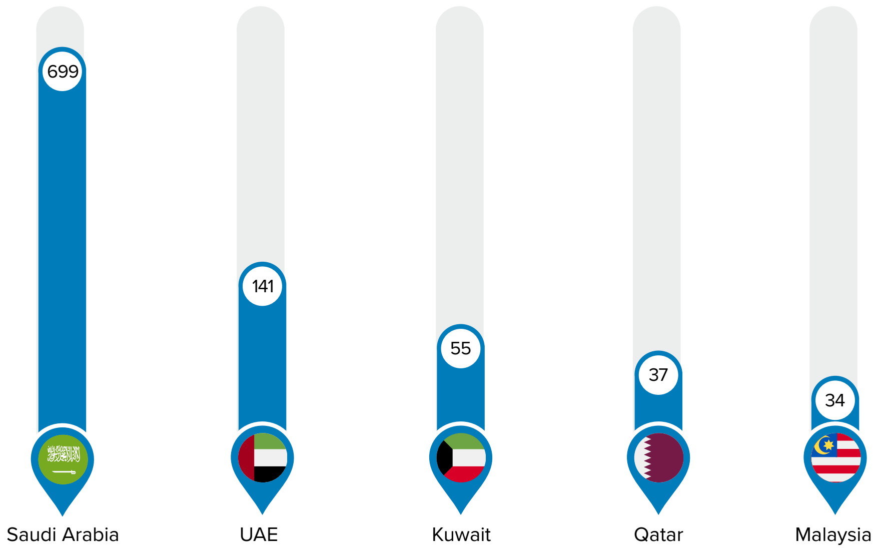
US$ **129** Million — Total Qardh Al Hasan Funds Disbursed by IFIs in 2019

328 IFIs that Reported CSR Activities in 2019

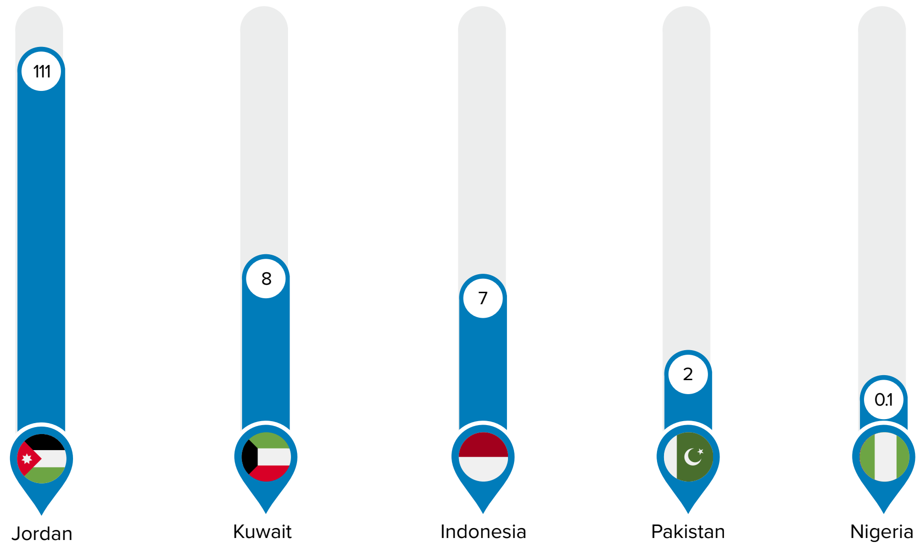
Top Countries in CSR Funds Disbursed 2019 (US$ Million)



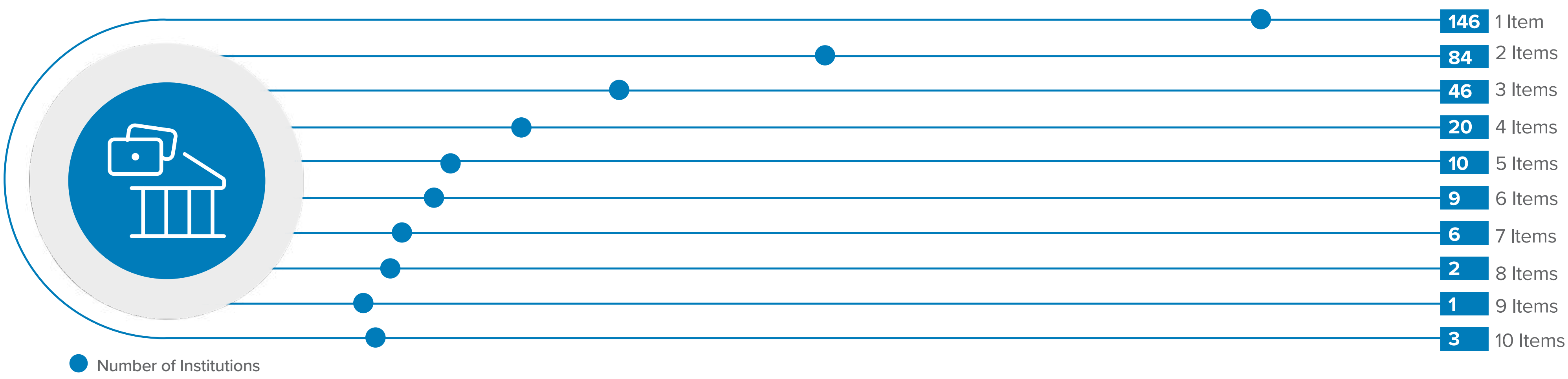
Top Countries in Zakat Funds Disbursed 2019 (US$ Million)



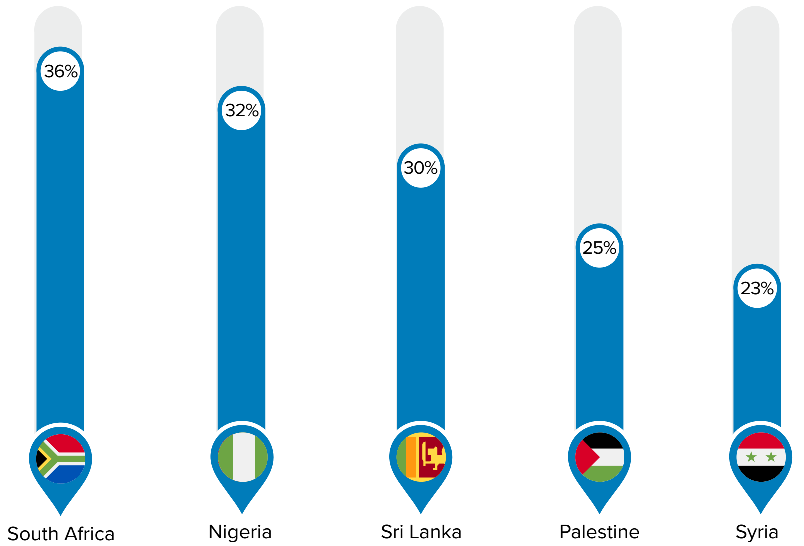
Top Countries in Qardh Al Hasan Funds Disbursed 2019 (US$ Million)



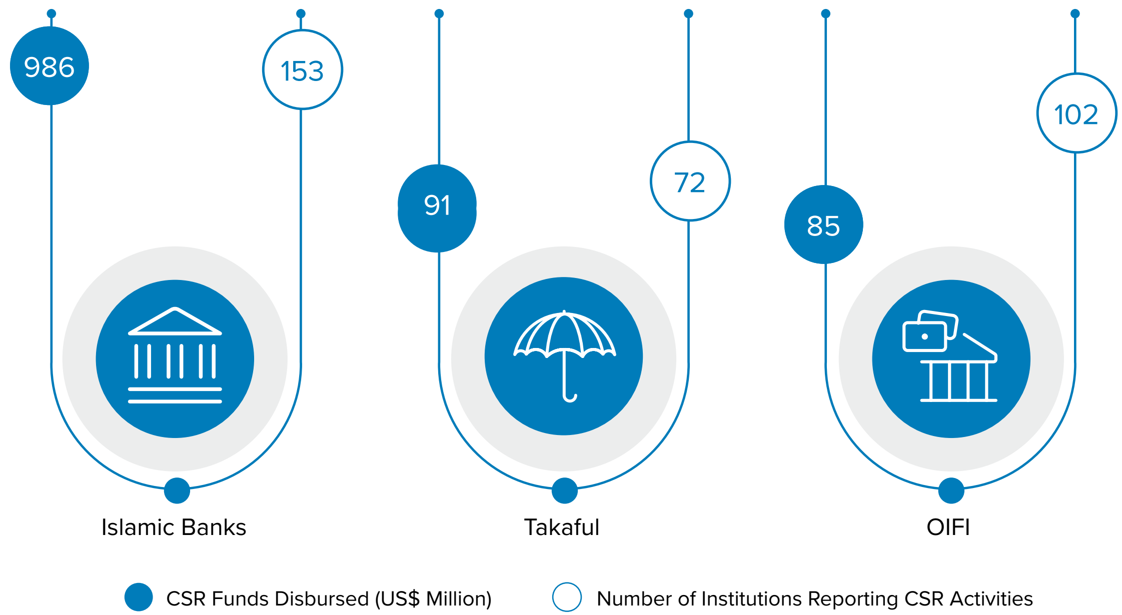
CSR Disclosure Scores by IFIs 2019 (Out of 11 Items)

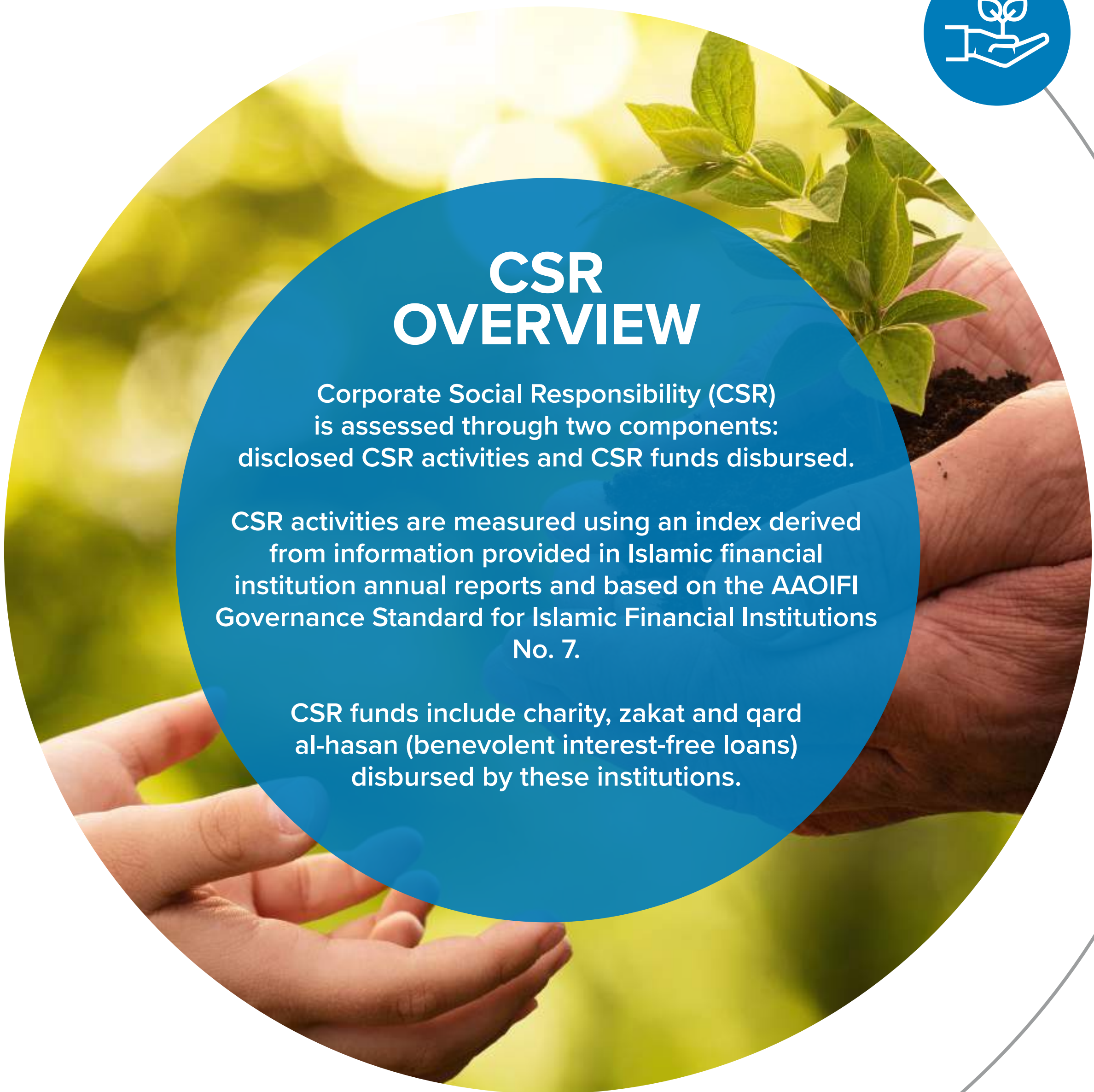


Top Countries in CSR Disclosure Score 2019 (Out of 11 Items)



CSR Performance by IFIs 2019





CSR OVERVIEW

Corporate Social Responsibility (CSR) is assessed through two components: disclosed CSR activities and CSR funds disbursed.

CSR activities are measured using an index derived from information provided in Islamic financial institution annual reports and based on the AAOIFI Governance Standard for Islamic Financial Institutions No. 7.

CSR funds include charity, zakat and qard al-hasan (benevolent interest-free loans) disbursed by these institutions.

Sustainability drive could boost CSR reporting

Although CSR reporting by Islamic financial institutions remains low, with just 52% of companies reporting one or more CSR activities in their 2019 financial statements. The current trend for reporting on ESG criteria is likely to result in an improvement in CSR disclosure outcomes. On average, Islamic financial institutions reported on just 1.5 of the 11 CSR categories in 2019. A handful of the categories dominated reporting, such as zakat, which is mandatory for inclusion in financial statements in some countries including Saudi Arabia and Kuwait. In Bahrain, the UAE and Indonesia, financial institutions normally report amounts disbursed to charities in a separate note, while in Pakistan and Bangladesh donations are reported in notes attached to income statements, even for Islamic windows.

However, this could all change as ESG reporting grows in prominence. Qatar, for example, is developing a sustainability index for its listed companies and the Qatar Stock Exchange is planning to make ESG reporting mandatory for its listed firms within two years. Saudi Arabia's Tadawul stock exchange is also planning to launch an ESG index, in conjunction with global index provider MSCI. An ESG index has already been established in Malaysia, a country at the forefront of efforts to bring together Islamic finance and sustainability. Bursa Malaysia launched the FTSE4Good Bursa Malaysia (F4GBM) back in 2014 in parternship with the UK's FTSE Russell.

As ESG reporting becomes more commonplace, this could enhance CSR disclosure by Islamic financial institutions, which in turn could boost the Islamic funds market, as has been seen in Malaysia, by attracting investors who want to incorporate sustainability factors into their investments. This has become an even more prevalent consideration during the Covid-19 pandemic.

Social welfare targeted by UK-based waqf funds

Two new social waqf funds were established in the UK in 2020 with a focus on capacity building. The One Endowment Trust will invest in real estate, private equity, and sukuk and Islamic funds, and reinvest in sustainable social projects. The National Waqf Fund (NWF) will also invest in real estate as well as other asset classes such as start-ups. The NWF will establish a central fund, to manage awqaf on behalf of other organisations, and create a virtual centre of excellence for Islamic endowments. Previously existing waqf funds in the UK were more charity-focused, supporting bodies such as the East London mosque or aid organizations such as Islamic Relief and Muslim Hands.

There is likely to be a greater need for awqaf in the immediate future to tackle the issues caused by the Covid pandemic. The UK-based International Waqf Fund directed some of its profit towards its Covid-19 response program, for example, providing hygiene kits combined with Ramadan food parcels for families in Gaza and Niger.

Voluntary charity contributions likely to grow in 2020 to combat impact of Covid-19 pandemic

Global CSR funds disbursed by Islamic financial institutions around the world in 2019 surpassed the US$1 billion mark for the first time. Saudi Arabia was the main contributor, with US$699 million disbursed by 67 Islamic financial institutions, mainly in zakat funds. Part of the reason for the large zakat contribution was an accounting change under Saudi law which raised the figures for Saudi banks, particularly Al-Rajhi Bank. This was in addition to a large settlement with the Saudi tax authority in December 2018 over historic zakat payments that will be spread over a number of years.

Disbursal of zakat funds can be expected to fall this year as Islamic financial institutions in Saudi Arabia and elsewhere cope with the financial fallout of the Covid-19 pandemic. On the other hand, the massive health and social impacts of the coronavirus could see a larger amount of voluntary charity contributions. It was reported in May 2020 that a group of Saudi banks, including Islamic banks, and insurance companies were among 300 companies in Saudi Arabia that had donated a total SAR1 billion (US$ 267 million) to the country's Health Endowment Fund. Bahrain also received contributions from Islamic and conventional financial institutions to its 'Feena Khair' national campaign to combat the coronavirus and its social impacts. Similar contributions have been made by Islamic financial institutions in other countries, including Malaysia and the UAE.

New developments in cryptocurrency and blockchain-based Islamic social finance

Over the past few years, there has been a steady rise in the number of FinTech companies offering Islamic social finance solutions such as awqaf, charity and zakat. By 2020, many of these providers were able to bypass social distancing restrictions with services accessible through digital platforms, and a growing number of these charities now accept Bitcoin contributions. GlobalSadaqah, a Malaysian-based Islamic social finance platform, is one such service, enabling zakat and waqf payments through cryptocurrency donations. These donations must still be converted to fiat money before distribution, and that can only be done through regulated crypto-currency exchanges, and not all countries have such exchanges.

Another firm that accepts cryptocurrencies to channel zakat to charities is Blossom Finance. Indonesian microfinance institution BMT Bina Ummah issued the world's first blockchain sukuk in October 2019 via Blossom's SmartSukuk platform. The sukuk rewarded investors with a 15.5% annualized profit as of August 2020, helped by a focus on sectors less impacted by the Covid-19 pandemic such as food distribution and farming. As of that month, the sukuk had funded 234 individual micro-businesses.

Elsewhere, the Islamic Corporation for the Development of the Private Sector (ICD) entered into an agreement in May 2020 with Singapore blockchain-based Islamic applications provider Finterra to use the latter's SadaqahChain, WAQFChain and ZakatChain platforms to aid crowdfunding operations in OIC member countries. This is aimed at raising financial inclusion levels and a more efficient mobilization of funds, which has become increasingly vital during the Covid-19 pandemic.

ISLAMIC FINANCE KNOWLEDGE

972 Total Islamic Finance Education Providers in 2019

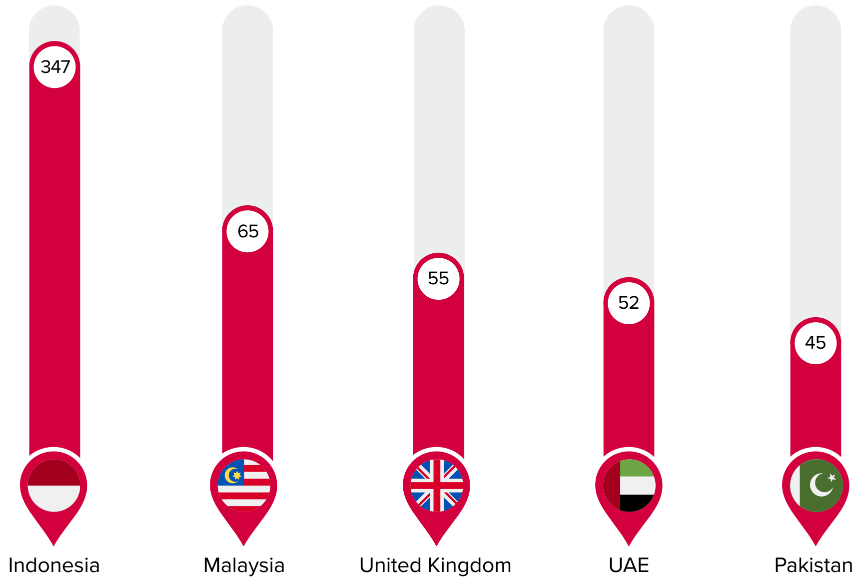
379 Total Islamic Finance Degree Providers in 2019

2,566 Islamic Finance Research Papers Produced between 2017 and 2019

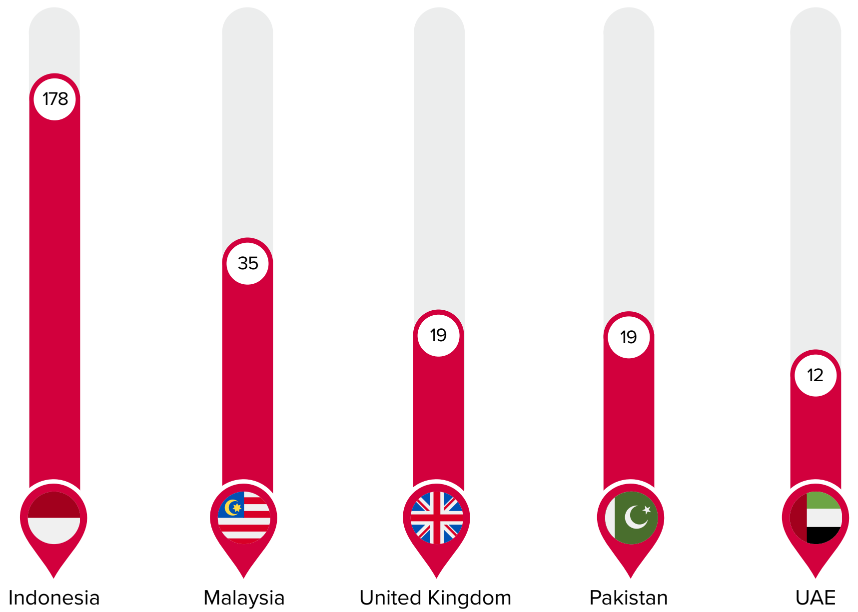
1,742 Islamic Finance Peer-Reviewed Journal Articles Produced between 2017 and 2019

963 Total Affiliations Producing Islamic Finance Research Papers

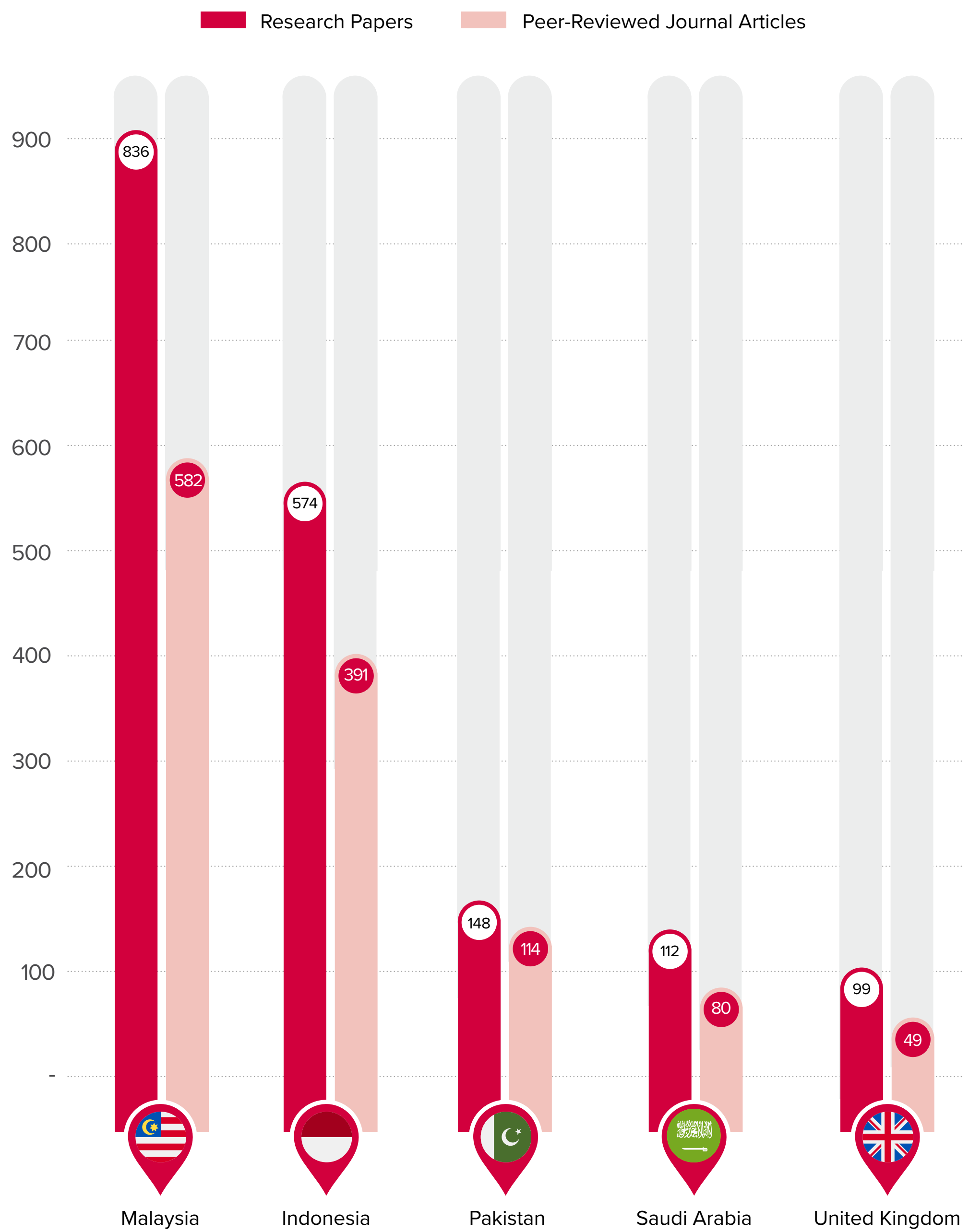
Top Countries by Number of Islamic Finance Education Providers 2019



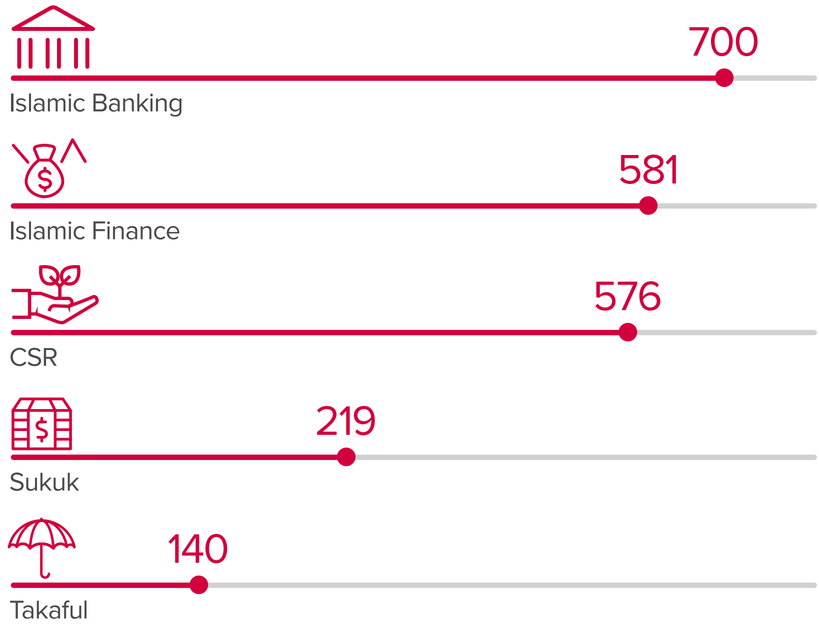
Top Countries by Number of Islamic Finance Degree Providers 2019



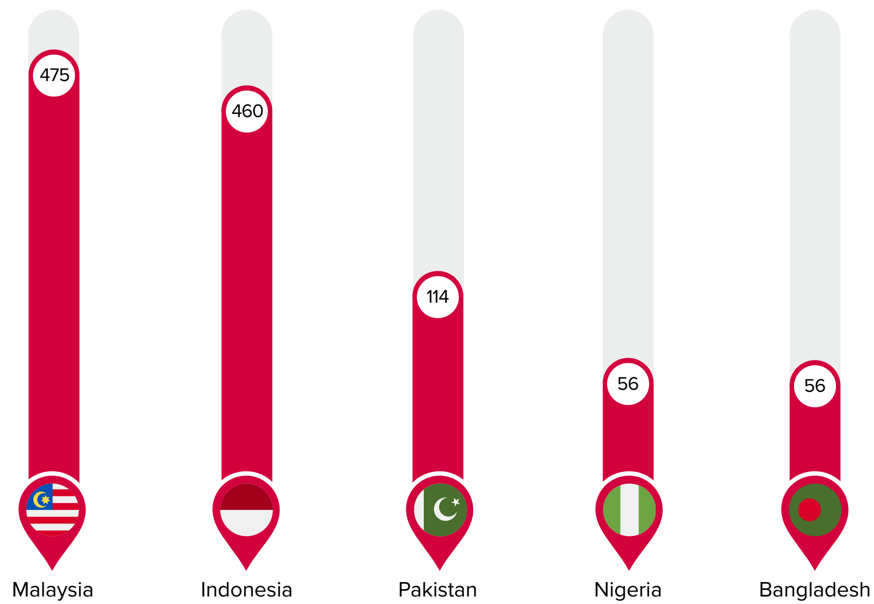
Top Countries with Affiliations Producing Research Papers between 2017 and 2019



Top Topics Covered in Islamic Finance Research Papers 2019



Top Countries Covered in Islamic Finance Research Papers 2019



KNOWLEDGE OVERVIEW

Islamic finance knowledge is assessed through education and research, the main building blocks for any knowledge-based industry.

These are the input factors needed to achieve depth and efficiency in the Islamic finance industry, and to provide the foundation on which a fully qualified workforce can spur economic growth.

Southeast Asia maintains lead in Islamic finance education and research

Indonesia hosts the world's largest number of Islamic finance education providers. As part of a strategy to develop the human capital required by the country's Islamic finance industry, Indonesian government body Komite Nasional Economy dan Keuangan Syariah (KNEKS) joined with the School of Business and Management ITB to launch the Centre for Islamic Economy and Finance in May 2020. The centre will have two divisions: Islamic finance studies for the development of human capital; and Islamic business studies to develop the halal products and services sector.

In all, 214 different universities and other educational institutions in Indonesia produced research papers on Islamic finance. State Islamic University Syarif Hidayatullah Jakarta and Airlangga University together contributed 13% of the papers. The Indonesian government's intention under its 5-year economic masterplan to further develop the country's already active Islamic finance industry are the chief reasons for the large number of educational establishments producing research papers.

Malaysia produced the highest number of papers. There were around 100 educational bodies in Malaysia producing research papers on Islamic finance, with around 45% of them produced by International Islamic University Malaysia, Universiti Utara Malaysia, and the International Centre for Education in Islamic Finance (INCEIF). Malaysia's position at the forefront of Islamic finance product innovation has made it an attractive area of research for students.

Islamic financial institutions forging partnerships with educators to develop industry professionals

If the Islamic finance industry is to continue to develop and grow it will need more and better trained professionals. A major challenge for the industry, however, has been a lack of placement opportunities for Islamic finance graduates. Islamic financial institutions still prefer to hire candidates with conventional banking experience, but their lack of experience in the specific rules governing Islamic finance often necessitates the institutions having to invest in additional training.

Some providers of education in Islamic finance have thus engaged in strategic partnerships with Islamic financial institutions to create placement opportunities for Islamic finance graduates and training for existing employees. In Pakistan, the IBA Centre for Excellence in Islamic Finance in 2019 partnered with Meezan Bank, the country's largest Islamic lender, to provide courses on Shariah-compliant financing.

Islamic finance education goes digital amid lockdown

The shutting down of educational institutions amid the Covid-19 pandemic has resulted in a much greater role for digital learning. Before Covid-19, many Islamic finance education institutions provided courses that could be accessed by unlimited numbers of students in any part of the world. These 'massive open online courses' (MOOCs), hosted on platforms such as Edx and Coursera, soared in popularity as the Covid-19 pandemic caused distance learning to move into the mainstream.

The pandemic had made necessary education providers who can teach Islamic finance to degree or certification level online. This could help spread Islamic finance education to countries where previously it was unavailable. Greater take-up of digital education would also increase competition between universities as students seek a more tailored learning experience that is more in line with the practical aspects of Islamic finance, which could also help close some of the gaps between the academic and practical views of the industry.

The Islamic financial education industry's digital revamp is likely to necessitate more strategic partnerships between education providers and Islamic financial institutions.

While some universities may already have strong online systems, smaller institutions may struggle under the weight of soaring demand. University course creators will need to work closely with IT departments to ensure their programs can be supported online.

Covid-19 pandemic to emerge as leading theme in Islamic finance research papers

Islamic banking and general Islamic finance were the most covered topics in Islamic research papers released between 2017 and 2019, followed by CSR and Islamic social finance-related topics such as zakat, qardh al hasan, and waqf.

However, it is likely that a large number of research papers and journal articles from 2020 and the years ahead will look at the impact of the Covid-19 pandemic on the Islamic finance industry. Some journals are already focusing on the 'Pandemic Crisis', with calls for researchers to consider solutions to the challenges the pandemic poses for the industry. There are also some special journal issues being prepared. Topics will include the impact of the crisis on Islamic financial markets; Islamic social finance solutions; the impact on Islamic banks; comparisons with the earlier impact from the global financial crisis; and the potential for new innovation.

ISLAMIC FINANCE AWARENESS

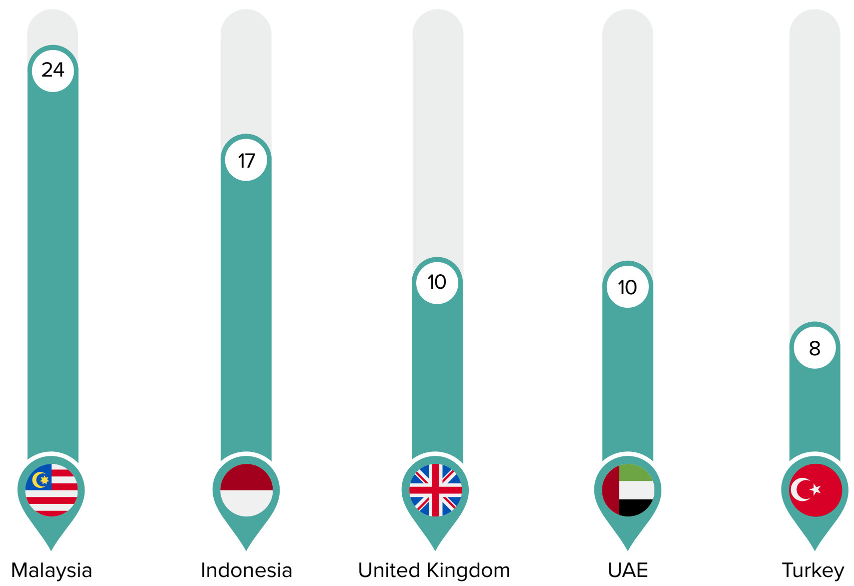
143 Islamic Finance Conferences in 2019

463 Islamic Finance Events in 2019

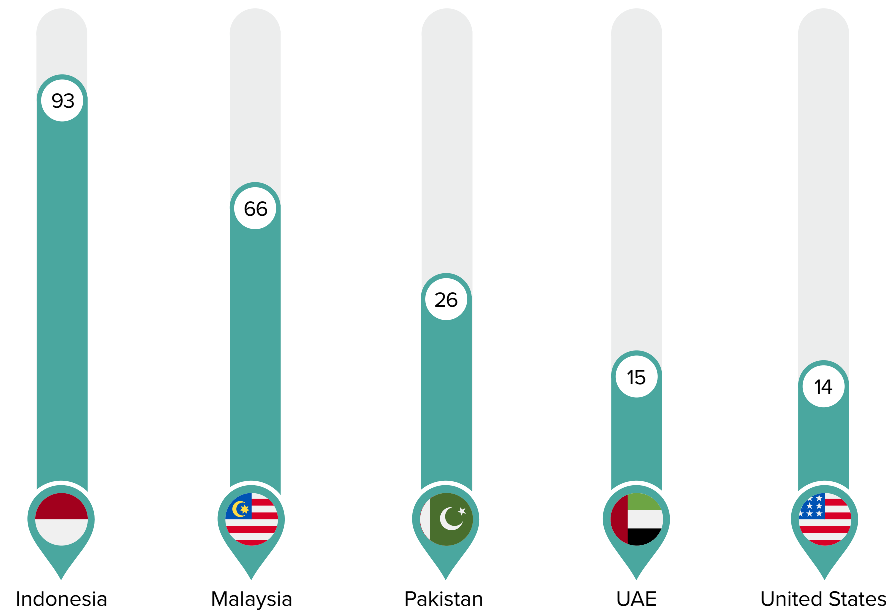
320 Islamic Finance Seminars in 2019

12,181 Exclusive Islamic Finance News in 2019

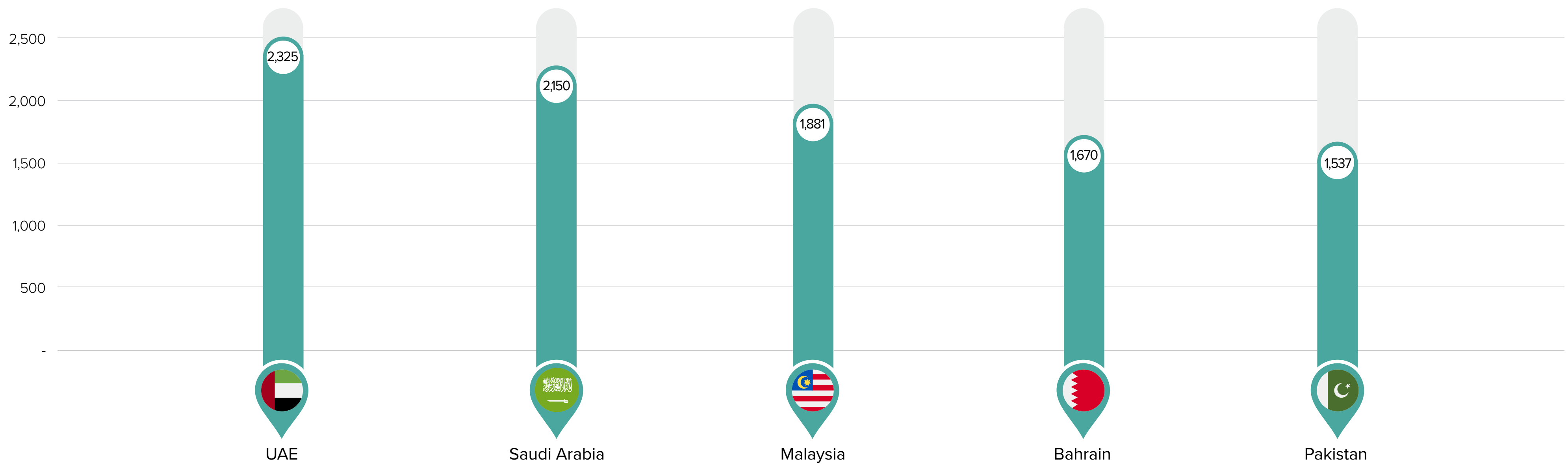
Top Countries that Hosted Islamic Finance Conferences 2019



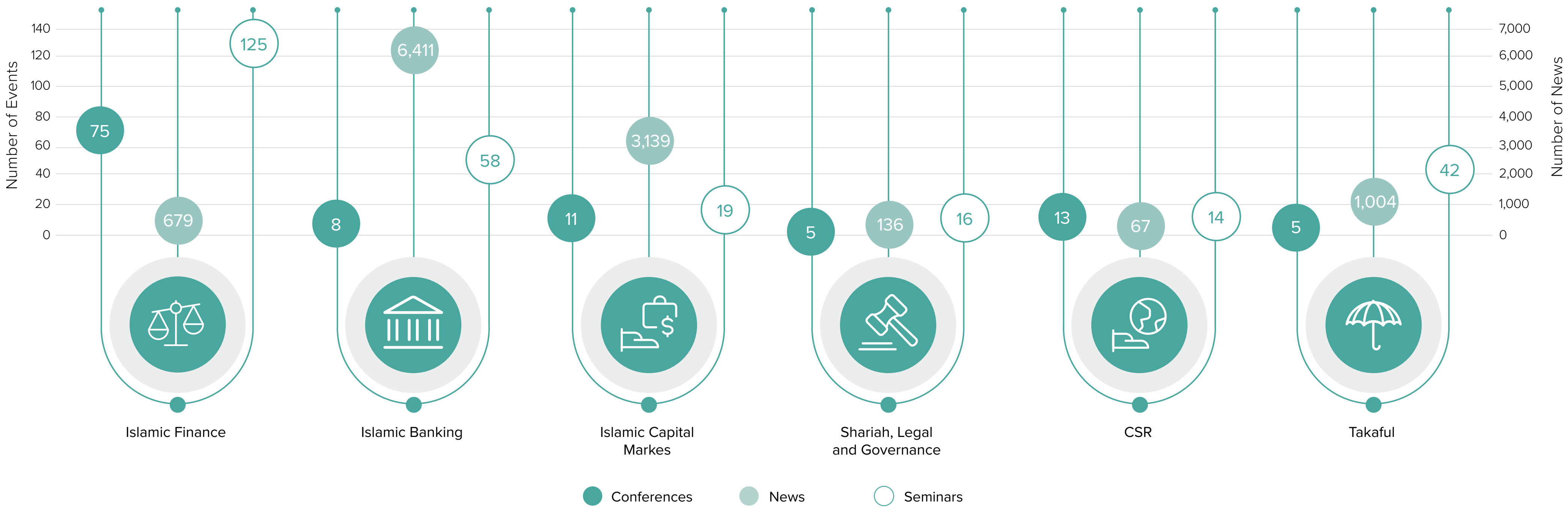
Top Countries that Hosted Islamic Finance Seminars 2019



Top Countries Covered in Islamic Finance News 2019



Top Islamic Finance Awareness Topics 2019



AWARENESS OVERVIEW

Awareness is measured by assessing three components: conferences; seminars; and news volume.

A rise in number of any of these components would contribute to the growth of a country's Islamic finance industry and improve the quality of products and services offered by its institutions.

Indonesia increases efforts but still has much to do to raise public awareness

Islamic finance events were hosted in 53 countries around the globe in 2019. These were mostly seminars and most were hosted in Indonesia and Malaysia. Indonesia surpassed Malaysia in terms of number of events for the first time. Most events in Indonesia were domestically focused and covered general Islamic finance as a topic, with Islamic banking the second-most covered and takaful also taking centre stage. Most events were in the form of seminars and workshops.

The Indonesian government is aiming to increase public literacy levels in Islamic finance as awareness remains low around Shariah-compliant financial products, particularly Islamic banking. The effort is being pushed by the National Shariah Economy and Finance Committee (KNEKS) as part of the Islamic Economic Masterplan 2019-2024, and there are a number of Islamic finance education providers able to support their aims. According to the Islamic Economy Literacy Index compiled by Bank Indonesia, just 16.3% of the sampled population were well versed in Islamic finance in 2019, leaving plenty of scope to raise public understanding.

Events transformed online amid Covid-19 pandemic

Before the Covid-19 pandemic struck in 2020, there were already a number of Islamic finance events hosted online, with 16 webinars or e-workshops offered in 2019. These were organized by different institutions based in Singapore, Malaysia and the United States and covered a variety of topics aimed at increasing awareness around basic Islamic finance concepts such as Shariah governance, Islamic finance contracts, and Islamic social finance.

The number of virtual events is likely to have mushroomed over the course of 2020 as the world went into lockdown. Some of these events used customized online platforms with features such as real-time Q&A sessions and polling and could be accessed from different devices.

The advantages of online events for attendees and organizers include reduced costs and prices, an ability to catch up on missed sessions, and the potential to capture a global audience. Some events were broken down into different sessions at different times, which further increased audience reach. One disadvantage, however, is that attendees miss out on the networking opportunities that are only possible when visiting events in person.

Philippines and Egypt stand out in news coverage

News on Islamic finance was published in 73 countries, mainly concentrated in the GCC, Malaysia and South Asia.

One country that received widespread coverage was the Philippines after the introduction and approval of an Islamic banking bill. Articles considered the law's impact on financial inclusion and whether other sectors of Islamic finance will be added in the future.

Egypt also saw increased coverage, particularly on plans to issue the country's first corporate sukuk, which required an amendment to the country's Capital Market Law. However, an intended issuance by CIAF Leasing failed to materialize as the Covid-19 pandemic forced the company to cancel its plan and look to alternative financing possibilities. A unit of real estate developer Talaat Moustafa did manage to issue the country's first corporate sukuk in April 2020, however, but this did not receive so much coverage.

Coverage of green sukuk and sustainability gathers pace

Another topic that received wide coverage during 2019 was green sukuk, which are growing in popularity in line with the global rise in green bonds. There was substantial reporting on the surge in green sukuk issuance and how it will impact the wider Islamic finance industry. Several events also had green sukuk on their agendas, whether through dedicated seminars on the subject or sessions within conferences.

Major news in this area included UAE-based holding group Majid Al Futtaim's issuance of the world's first green corporate sukuk, continued issuance of green sukuk in Indonesia, and a debut green sukuk from Islamic Development Bank – the first quasi-sovereign green sukuk ever issued.

Sustainable Islamic finance also received more attention during 2019. There were seven dedicated events on sustainable finance or on achieving the United Nations' Sustainable Development Goals through Islamic finance. There was also wide coverage of socially responsible investing (SRI) or sustainability sukuk.

Covid-19 impact to dominate news in 2020

Much of the news during 2020 has been on the impact of Covid-19 on Islamic financial institutions. So far, this news has focused on the impact on financial performance, downsizing plans, investment in FinTech, and support for local SMEs and affected communities. While many financial institutions reported losses or declines in profits, others emerged stronger, such as some takaful operators.

Much of the news will also look at the delays in sukuk issuance that had been planned for the year, such as an issue by Dubai Islamic Bank that was intended for the first quarter of 2020 but delayed in issuance until the second quarterof the year.

News concerning sovereign sukuk issuance is also prevalent as governments use the instrument to fund their various stimulus programs.

Methodology and Appendix

Concept and Background

The Islamic finance industry operates within a wider financial environment that is always evolving. For the industry to prosper it therefore will need to constantly advance and innovate, not merely to maintain the strength of the core industry but to stay ahead of the curve. Islamic financial institutions, market players, regulators and other authorities have made determined efforts to seek one another out in order to improve industry cooperation and alignment. Thus, reliable information and data are essential to the success of these efforts.

The Islamic Finance Development Indicator is the definitive barometer of the state of the industry across its fundamentals. It introduces a new way of measuring development by combining data on different elements of the industry into a single, composite indicator. The index assesses the performance of each of the industry's key areas in line with its inherent faith-based objectives, with data for their national and industry-level components. The different components that make up the Indicator – Quantitative Development, Governance, Corporate Social Responsibility, Knowledge and Awareness – are of fundamental importance to the development of a global industry. The optimal level of development in any of the indicators or sub-indicators is pegged to a maximum value of 200.

The data employed in the Islamic Finance Development Indicator (when aggregating data and computing indicator values) are based only on publicly disclosed information. This ensures both reliability and consistency in the results.

Key Objectives

The indicator is a product of a number of key indicators and sub-indicators measuring particular aspects of the industry. Breaking down the data into these different areas reveals the disparities and movements that are less visible in the wider-ranging, aggregated numbers.

Global Indicator Level

- Present one single indicator to show the pulse of the global Islamic finance industry's overall health
- Provide an indicator that is reliable and unbiased
- Inform Islamic finance stakeholders and investors about the industry's performance
- Gauge future industry growth

Country Indicator Level

- Assess the current state and growth potential of Islamic finance within each country
- Highlight the performance of Islamic finance institutions in particular markets
- Track progress and provide comparisons across different countries and regions

Specific Indicator Level

- Measure growth within different key areas of the industry
- Enhance Islamic finance market transparency and efficiency
- Identify issues that are preventing growth within the industry
- Help market players formulate practical solutions to face current obstacles
- Assist in setting new targets,goals, standards for Islamic finance institutions and regulators

Country List

IFDI 2020 covers 135 countries and dependencies with a presence in Islamic finance either directly or in other metrics such as news, education or events on the industry. These countries are divided into eight broad regions.

GCC

(Gulf Cooperation Council)

Bahrain
Kuwait
Oman
Qatar
Saudi Arabia
United Arab Emirates

Southeast Asia

Brunei Darussalam
Cambodia
Indonesia
Malaysia
Myanmar
Philippines
Singapore
Thailand

South Asia

Afghanistan
Bangladesh
India
Maldives
Nepal
Pakistan
Sri Lanka

Other MENA

(Middle East and North Africa Excluding GCC)

Algeria
Egypt
Iran
Iraq
Jordan
Lebanon
Libya
Mauritania
Morocco
Palestine
Sudan
Syria
Tunisia
Yemen

Europe

Albania
Austria
Belgium
Bosnia and Herzegovina
Bulgaria
Croatia
Cyprus
Czech Republic
Denmark
Finland
France
Georgia
Germany
Greece
Guernsey
Hungary
Ireland
Italy
Jersey
Latvia
Liberia
Liechtenstein
Luxembourg
Macedonia
Malta
Netherlands
Norway
Poland
Portugal
Romania
Serbia
Slovakia
Slovenia
Spain
Sweden
Switzerland
Turkey
Ukraine
United Kingdom

Other Asia

Australia
Azerbaijan
China
Hong Kong
Japan
Kazakhstan
Kyrgyzstan
New Zealand
Russia
South Korea
Taiwan
Tajikistan
Turkmenistan
Uzbekistan
Vietnam

Americas

Bahamas
Bolivia
Brazil
Canada
Cayman Islands
Chile
Guyana
Mexico
Suriname
Trinidad and Tobago
United States

Sub-Saharan Africa

Angola
Benin
Botswana
Burkina Faso
Burundi
Cameroon
Chad
Comoros
Djibouti
Ethiopia
Gabon
Gambia
Ghana
Guinea
Guinea-Bissau
Ivory Coast
Kenya
Liberia
Malawi
Mali
Mauritius
Mozambique
Niger
Nigeria
Rwanda
Senegal
Seychelles
Sierra Leone
Somalia
Somaliland
South Africa
Tanzania
Togo
Uganda
Zambia
Zimbabwe

CONTRIBUTORS

Report Authors

Shereen Mohamed
Senior Research Analyst
Project Leader

Abdulaziz Goni
Senior Research Analyst

Farah Alanzarouti
Senior Research Analyst

Jinan Al Taitoon
Senior Research Analyst

Report Consultants

Mustafa Adil
Head of Islamic Finance

Redha Al Ansari
Head of Islamic Finance Research

IFDI Team

Mohamed Al Salman

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Islamic Finance Development Report 2020

PROGRESSING THROUGH ADVERSITY

Islamic Corporation for the Development of the Private Sector

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