ICD - LSEG ISLAMIC FINANCE DEVELOPMENT REPORT 2024

From Niche to Norm

Islamic Corporation for the Development of the Private Sector

LSEG DATA & ANALYTICS

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Contents

Executive Insights:

Acronyms

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions	ICD	Islamic Corporation for the Development of the Private Sector
ASF	Alternative Student Finance	ICMA	International Capital Markets Association
AUM	Assets Under Management	IF	Islamic Finance
BNM	Bank Negara Malaysia	IFDI	Islamic Finance Development Indicator
BSEC	Bangladesh Securities and Exchange Commission	IFIs	Islamic Financial Institutions
COP	United Nations Climate Change Conference	IILM	International Islamic Liquidity Management Corporation
CSR	Corporate Social Responsibility	IsDB	Islamic Development Bank
ESG	Environmental, Social and Governance	LSEG	London Stock Exchange Group
ESX	Ethiopian Securities Exchange	OIC	Organisation of Islamic Cooperation
ETF	Exchange Traded Fund	OIFI	Other Islamic Financial Institutions
FRDI	Financial Reporting Disclosure Index	SBP	State Bank of Pakistan
FP	Financial Performance	SECP	Securities Exchange Commission of Pakistan
GCC	Gulf Cooperation Council	SME	Small and Medium Enterprises
GDP	Gross Domestic Product	UAE	United Arab Emirates
HQLA	High-Quality Liquid Assets	UK	United Kingdom

Islamic Finance Glossary

A glossary of Islamic finance terms can be accessed at the following link: https://www.zawya.com/en/islamic-economy/glossary/ or by capturing the QR code.

Foreword

Welcome to the 2024 edition of the Islamic Finance Development Report. Each year, we monitor over 40 metrics across five indicators that track the development of the Islamic finance industry by country and globally. The Islamic Finance Development Indicator (IFDI) records the pulse of this market.

The IFDI charts another strong year for the Islamic finance industry. In 2023, the industry was driven by an 11% growth to US$4.9 trillion in assets. Much of this growth is thanks to the continued commitment by different stakeholders that make up the industry's ecosystem, including financial institutions, regulators and educators.

Malaysia, Saudi Arabia and the United Arab Emirates top this year's IFDI as they continue to maintain the development of their local industries, which are supported by enabling ecosystems and infrastructure. At the same time, less developed Islamic finance jurisdictions Kenya, Malawi, the Philippines and Tanzania posted notable milestones that advanced the progress of their own industries. This report investigates the outcomes of strong and continued long-term commitment that has nurtured a more mature Islamic finance industry in these and other countries.

As the Islamic finance industry responds to new challenges, so too does the IFDI adapt to the industry's developments. In this year's report, we have introduced some changes to the underlying IFDI model to better reflect the industry's developments. With these changes, we believe that the indicator will continue to guide Islamic finance stakeholders towards strengthening their strategies, many of which are already well-established.

We would like to thank everyone who has contributed to help us produce this research study that, in its 12th edition, continues to be a reliable source of insights, data and knowledge for the Islamic finance community. We hope that you find this report and its findings meaningful to help your organisation successfully navigate the Islamic finance industry to meet your long-term objectives and goals.

Eng. Hani Salem Sonbol

Chief Executive Officer.
International Islamic Trade Finance Corporation

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

Mustafa Adil

Head of Islamic Finance,
The London Stock Exchange Group

Executive Summary

Since the start of this decade, the world has been caught in a chain of changes and transitions, first with the onset of a pandemic then the rapid advances in artificial intelligence (AI), both of which are resulting in sweeping changes across multiple industries. In 2023 alone, we faced conflict in the Middle East, a banking crisis in the US that while contained was not without its consequences, and an earthquake hitting Türkiye and Syria. The year also saw a turning point in inflation, a sign that the monetary tightening cycle is winding down. The discussions now have turned towards timing and the magnitude of rate cuts.

Islamic finance assets nearing US$5 trillion mark with Islamic capital market playing a bigger role in growth picture

2023 was also the year the Islamic finance industry was close to achieving a significant milestone — the US$5 trillion mark, according to the Islamic Finance Development Indicator (IFDI). Islamic finance assets posted double-digit growth of 11% to come within touching distance of that mark, hitting US$4.9 trillion in 2023. Iran, Saudi Arabia and Malaysia continue to be the largest Islamic financial markets in the world.

By sector, Islamic banking grew by 12% to US$3.6 trillion in assets. The countries that posted the highest growth rates were Afghanistan, Iraq and Bahrain. The sector continues to advance in 2024, welcoming new countries such as Malawi and Uganda. It also welcomes new digital banking players in Malaysia, Saudi Arabia, Türkiye and the UAE.

Takaful grew by 1% globally to US$86 billion, held back by hurdles including competition from conventional insurance, limited Shariah-compliant options and pressures from the monetary tightening cycle. Despite these challenges, the sector is seeing moves in new countries such as the Philippines and Tanzania. Islamic financial institutions other than Islamic banks and takaful operators grew by 5% to US$153 billion. Islamic FinTech registered continued growth in numbers, with some FinTechs paying close attention to the digitalisation of Sukuk and setting new benchmarks for innovation in the industry.

Sukuk, on its own, also had a notable year, growing by 9% to US$863 billion in amount outstanding and surpassing US$200 billion in issuance in 2023 alone. This rise is attributed to an increase in sovereign issuances to maintain yield curves in key markets, sizeable offerings from non-traditional markets, and a significant increase in the issuance of green and sustainability Sukuk.

Islamic funds enjoyed a buoyant 16% growth to US$254 billion thanks to positive investor sentiment as earnings beat forecasts. However, the asset class is still struggling to achieve scale, with most funds managing US$1 million. However, the countries with the highest growth in Islamic finance assets in 2023 were mainly driven by Islamic funds. These countries include India, the United States and Canada where Islamic funds invested in equities saw strong gains in 2023.

There were also governance and regulatory developments across many countries that show promise to strengthen the Islamic finance industry. Chiefly, the focus on Shariah governance intensified for Islamic capital market regulators in Bangladesh and Malaysia, new Sukuk regulations were introduced in Tanzania while amendments were introduced in Egypt, and Ethiopia, Syria and Sri Lanka moved towards potentially introducing regulatory backing for Sukuk.

With Islamic capital markets growing, the focus on awareness and knowledge of the fundamentals of investing in its products, such as Sukuk, Shariah-compliant equities and Islamic funds, is rising in tandem. This was most notably evident in Malaysia, Indonesia and Pakistan.

Must-know numbers of the Islamic finance industry:

US$4.9 trillion

The combined total of Islamic finance assets in 2023, up **11%** from 2022

204

The number of Islamic financial institutions with at least **US$1 billion** in total assets on their balance sheet. This is compared to **144** in 2013.

57%

The share of assets of the top 20 Islamic finance institutions in 2023. This compares to **45%** in 2013.

Indicator Performance: Malaysia, Saudi Arabia and the UAE top IFDI 2024

The report also looks at the development of the Islamic finance industry across 136 countries and ranks them based on their IFDI scores. The composite indicator is supported by five separate indicators that are the main drivers of the development of the Islamic finance industry: Financial Performance, Governance, Sustainability, Awareness and Knowledge.

In order to adapt to the industry's ongoing developments and needs, we have modified this year's underlying model for the Indicator. This includes removing the performance metrics for Islamic financial institutions and capital markets, such as return on assets, and combining some sub-indicators to form a single indicator. After applying modifications and incorporating data for the financial year of 2023, the most developed countries in Islamic finance according to IFDI are Malaysia, Saudi Arabia, the UAE, Indonesia and Pakistan.

The biggest takeaways from this year's IFDI: For Financial Performance, which considers Islamic financial institutions and Islamic capital markets, market size does not mean equally-developed sectors. Some of the largest Islamic finance markets still need to further deepen and diversify their local Islamic finance industries by improving on low-performing sectors and asset classes to achieve a more holistic overall growth.

For the Governance indicator, which considers regulations, Shariah and corporate governance factors, Malaysia retains its lead but the UAE, Bahrain and Bangladesh are catching up in a tight race for second. On the Sustainability indicator, 61% of the countries covered by the IFDI scored zero because of the absence of sustainability metrics. For the Knowledge and Awareness indicators that cover Islamic finance education, research, news and events, five countries dominate — Malaysia, Indonesia, Saudi Arabia, the UAE and Pakistan.

IFDI-related numbers to know:

12

The number of consecutive years Malaysia has topped the IFDI.

12

The global average IFDI score for 2024.

24%

The share of countries that have an IFDI score above the global average.

While a brighter outlook is expected due to different Islamic finance developments globally and overall financial market recoveries, downside risks remain

Apart from the specific Islamic finance developments in different countries mentioned earlier, there are wider financial and economic considerations that impact the industry. Financial pressures on businesses and households that borrow from financial institutions are expected to ease and stock markets are seeing improved performance as investors are expected to take more risks given that yields on government securities lower.

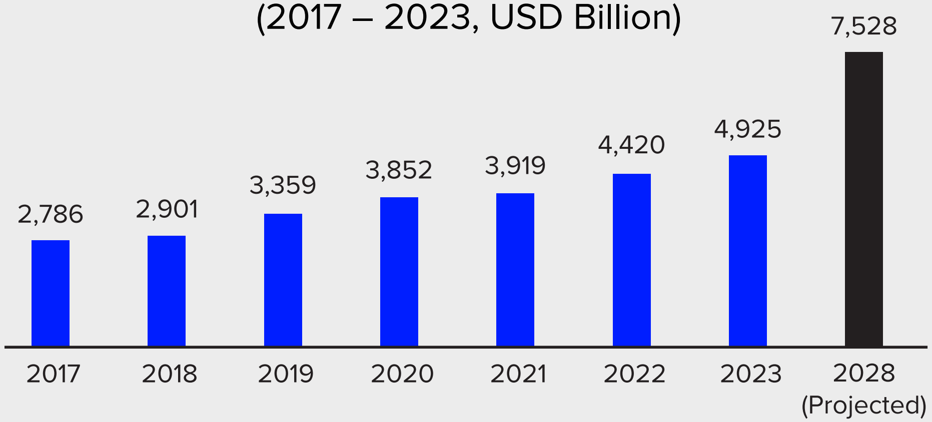
Signs are pointing to a brighter economic outlook. In August 2024, inflation in the US hit a three-year low, and the US Federal Reserve, whose monetary policy decisions are tracked by policymakers in some of the largest Islamic finance markets such as the GCC, responded by cutting its policy rate by 50 basis points in September, with more cuts expected in the next 12 months. For the Islamic finance industry, the uptick in global Sukuk issues is an indication of an improved positive outlook.

Still, there are downside risks. These include geopolitical tensions, natural disasters, trade fragmentation and effects of high interest rates. A particular risk that is important to highlight is rising tensions in the Middle East, which is adding another layer to economic uncertainties despite policymakers just starting to congratulate themselves for moving away from inflation without triggering a recession. So far, the impact is being felt in oil prices as wider conflict could impact oil flows from the Middle East. This will have implications for the Islamic finance industry in the short-term especially, as the size and growth of the industry are largely driven by the GCC and wider Middle East region.

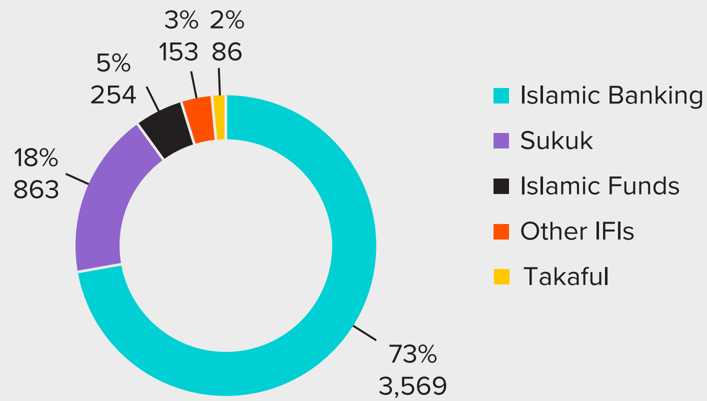
In the mid-term, the IFDI expects the Islamic finance industry will grow to US$7.5 trillion by 2028 in total global assets from US$4.9 trillion in 2023.

Islamic Finance Industry in 2023

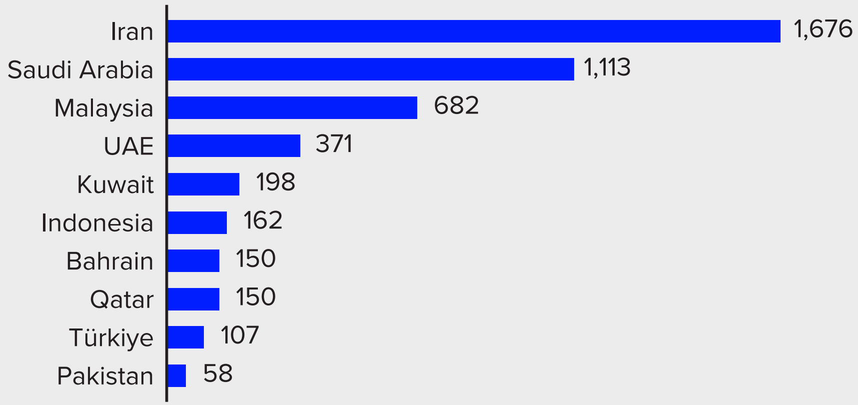
Islamic Finance Assets Growth
(2017 – 2023, USD Billion)



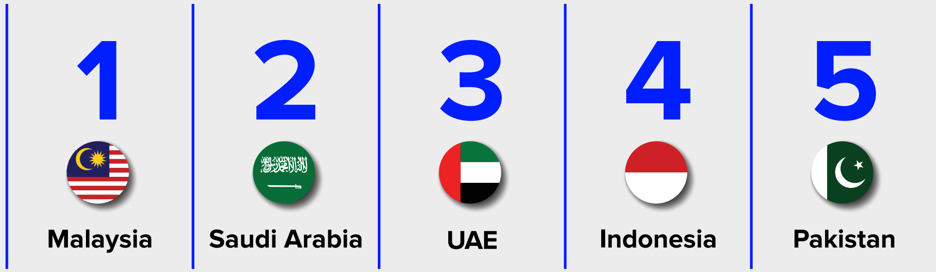
Islamic Finance Assets by Sector and Asset Class
(USD Billion, 2023)



Islamic Finance Assets by Top Countries and Regions
(USD Billion, 2023)



Most Developed Countries in Islamic Finance According to IFDI 2024



Islamic Finance Industry and its Supporting Ecosystem in 2023

Financial Performance

Total Islamic Finance Assets	YoY Growth of IF Assets	Islamic Financial Institutions
US$4.9 Trillion	**11%**	**1,981**

Governance

Countries with at Least One Type of Islamic Finance Regulation	Countries with FinTech Sandbox	Number of Countries with Centralised Shariah Committee	Average Disclosure Index by Public Islamic Banks	Scholars Representing Shariah Boards
57	**72**	**23**	**69%**	**1,512**

Sustainability

Total Value of ESG Sukuk Outstanding (USD Billion)	Total Value of ESG Islamic Funds Outstanding (USD Billion)	Number of Countries with Sustainability Guidelines	Average Sustainability Reporting Index by Public Islamic Banks	Total CSR Funds Disbursed (USD Billion)
35.9	**8.0**	**50**	**48%**	**1.3**

Awareness

Number of Islamic Finance In-Person Events	Islamic Finance Virtual Events	Number of Islamic Finance News
531	**387**	**10,534**

Knowledge

Islamic Finance Education Providers	Islamic Finance Research Papers Produced	Islamic Finance Journals
1,007	**5,162**	**347**

CHAPTER 1:
GLOBAL ISLAMIC FINANCE DEVELOPMENT INDICATOR

Introduction to IFDI

The IFDI is a composite weighted index that measures the overall development of the Islamic finance industry by providing an aggregate assessment of the performance of all its parts. It is a single measure that captures a holistic assessment of the Islamic finance industry across all sectors. The IFDI is a product of a number of key sub-indicators underlining the industry. Disaggregation of data helps expose the disparities, differences and movements that may not be exclusively covered in wide-ranging aggregate terms.

The IFDI is a global-level composite indicator with country- and unit-specific level indicators. The composite indicator is released annually, with a full report of each country and unit-specific level indicator and raw numbers. Here are some reasons why the indicator is essential:

- **Strategic Insights:** The Indicator provides strategic insights into the development of Islamic finance across various sectors, including Islamic banking, Islamic capital markets and takaful. Stakeholders can gain a comprehensive understanding of the industry's strengths and areas for improvement by analysing the components of the IFDI.
- **Global Comparisons:** The Indicator allows users to compare progress with other countries and regions. This global perspective helps the industry and its ecosystem identify best practices, learn from successful models and adapt their strategies accordingly.
- **Stakeholder Confidence:** A robust Indicator enhances investor confidence. Stakeholders are more likely to invest in Islamic financial products and services when they see a transparent and well-defined framework for measuring industry growth.
- **Policy Formulation:** Policymakers can use the Indicator to design regulations and policies that promote sustainable growth of the Islamic finance industry. The IFDI guides them to create an enabling environment for Islamic finance institutions as well as other supporting stakeholders to thrive.

The composite indicator is supported by five main indicators that are the main drivers of the development of the Islamic finance industry: Financial Performance, Governance, Sustainability, Awareness and Knowledge.

In summary, the Islamic Finance Development Indicator is not just a statistical tool but a compass that guides the Islamic finance industry toward greater resilience, innovation and inclusivity.

Modifications applied to this year's indicator

This 2024 edition of the Indicator covers 136 countries over the 2023 calendar year. We have modified this year's underlying model that generates the scores for the global indicator and five main indicators. The changes applied to this year's model are:

- **Financial Performance:** The five sectors and sub-indicators that contribute to the development of the Financial Performance indicator remain the same (Islamic Banking, Takaful, Other Islamic Financial Institutions, Sukuk and Islamic Funds), but we have made the following changes:
  - We removed the performance metrics for each of the sectors, including the average return on assets metric for Islamic financial institutions, bid-ask spread for Sukuk and growth for Islamic funds.
  - We combined the number of Islamic banks and the number of Islamic banking windows into a single metric: number of Islamic banks and windows.
- **Governance:** The following changes were introduced to this indicator:
  - We combined Shariah governance and corporate governance sub-indicators into a single sub-indicator: Other Governance.
  - We limited the Financial Reporting Disclosure Index (FRDI) scores to listed Islamic banks.
  - We removed the metrics that form 'Other Corporate Governance', which include the share of independent board of directors, independence of the chairperson of the board, non-executive chairperson of risk management and audit committees.
- **Sustainability:** The following changes apply:
  - We combined Corporate Social Responsibility (CSR) and Environmental, Social and Governance (ESG) sub-indicators to form a single indicator under sustainability.
  - We combined both CSR and ESG disclosure indices into a single index: Sustainability Reporting Index. We limited such disclosure scores to listed Islamic banks in the same manner as the FRDI index.
- **Knowledge:** We removed Education and Research sub-indicators, so the metrics feed into the score of a single indicator.
- **Awareness:** The following changes were introduced:
  - We removed News and Events sub-indicators, so the metrics feed into the score of a single indicator.
  - We combined both conferences and seminars metrics into a single metric: Number of In-Person Events.
- **Rationalising Coefficients:** While the underlying metrics for this component remains the same (banking assets, gross domestic product (GDP) and population), we changed the measure for central tendency from MEAN to TRIMMEAN by 20% for rationalising coefficients.

With these changes, the underlying structure of the 2024 edition of the IFDI will be viewed in the following manner:

IFDI 2024 breakdown

Indicator Level	Financial Performance					Governance		Sustainability	Knowledge	Awareness
Sub-indicator Level	Islamic Banking	Takaful	Other Islamic Financial Institutions	Sukuk	Islamic Funds	Regulations	Other Governance			
Number of Metrics	3	3	4	5	4	7	5	7	4	3

To get a full view of each of the five main indicators, the breakdown of the metrics are outlined in the next pages of this chapter.

In addition, a more detailed methodology of the indicator can be found in the IFDI rulebook online. Readers can view the underlying IFDI database on LSEG's Workspace that offers a wealth of additional information on the indicator and its rankings.

Malaysia, Saudi Arabia and the UAE top the 2024 Indicator

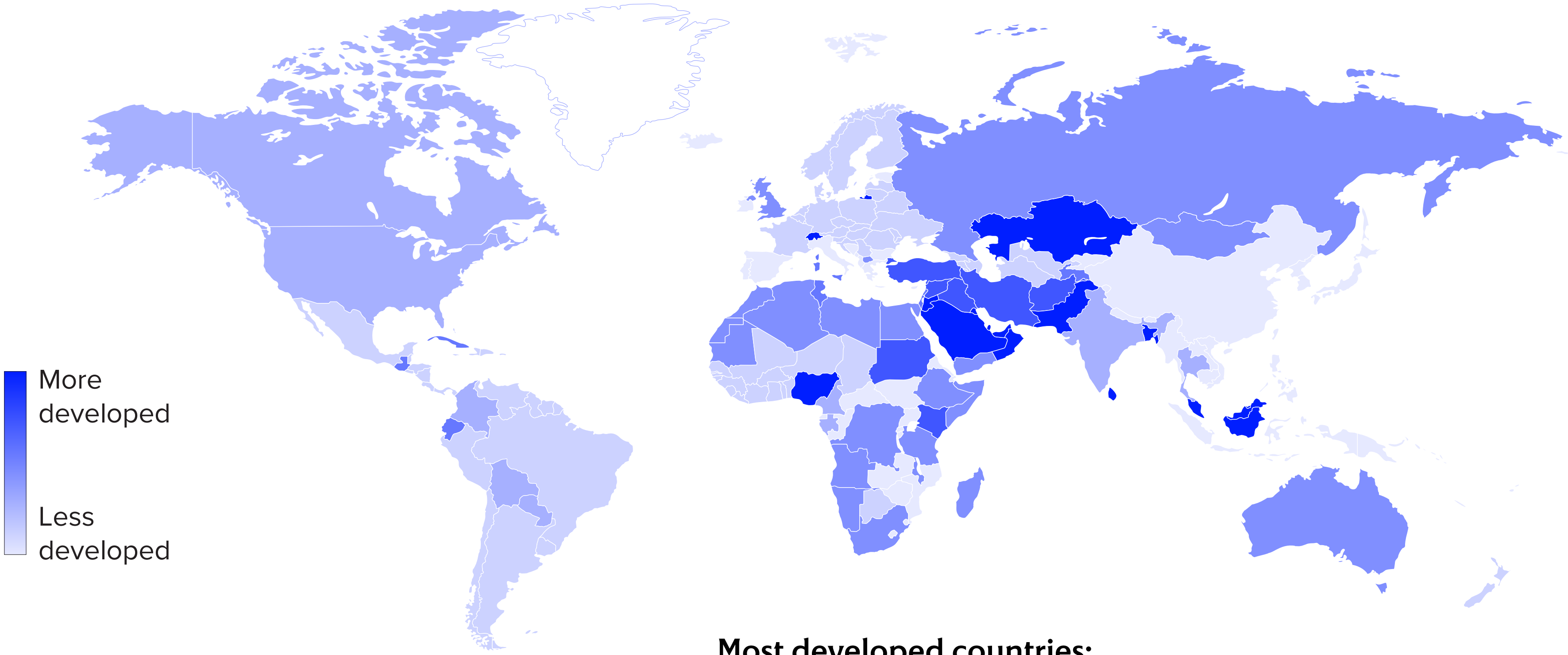
The IFDI global average score is 12 and 24% of the 136 countries studied stand above this level. Considering the global average score, there is a lopsided development of Islamic finance, with the top countries Malaysia scoring 145, Saudi Arabia 120, the United Arab Emirates (UAE) 89, Indonesia 87 and Pakistan 75. Even among this group of top five most developed countries, there is a substantial discrepancy of scores between fifth-placed Kuwait and the leading country Malaysia.

It is important to note that in order to arrive at the final country scores, the weightage of the five main indicators vary as the overall indicator stresses more on the financial components (40%) and governance (25%) and the remaining weightage is distributed among the rest of the indicators.

Malaysia topped the overall global ranking for all of the main indicators except Knowledge. Saudi Arabia is among the highest ranking countries for Financial Performance, Sustainability, Awareness and Knowledge. The UAE, the third most-developed Islamic finance country, co-leads countries on the Awareness indicator, and is second for Governance. Outside of the top three, fourth-ranked Indonesia tops the Knowledge indicator, and the country sits within the top five for Sustainability, Awareness and Financial Performance.

The six Gulf Cooperation Council (GCC) countries dominate the top 15 countries. The other regions that factor in this group are Other MENA, South and Southeast Asia. Türkiye and Nigeria are the only countries outside of these regions among the 15 most developed Islamic finance countries.

A global overview of Islamic finance development (Based on IFDI scores)



Most developed countries:

1. Malaysia	2. Saudi Arabia	3. UAE	4. Indonesia	5. Pakistan
6. Kuwait	7. Bahrain	8. Iran	9. Qatar	10. Türkiye

Top IFDI Countries and Global Average Score for 2024

Ranking	Country	IFDI Score	Financial Performance	Governance	Sustainability	Knowledge	Awareness
1	Malaysia	144	157	101	128	147	200
2	Saudi Arabia	119	146	72	96	90	177
3	UAE	88	77	85	39	68	200
4	Indonesia	85	63	79	33	200	107
5	Pakistan	75	40	78	24	119	200
6	Kuwait	70	55	80	28	24	191
7	Bahrain	68	45	85	28	37	185
8	Iran	65	123	55	-	10	5
9	Qatar	45	30	65	27	15	101
10	Türkiye	45	41	63	22	58	28
11	Bangladesh	41	33	85	23	20	17
12	Oman	35	14	75	24	23	46
13	Brunei Darussalam	29	11	71	14	23	24
14	Jordan	29	15	50	46	37	6
15	Nigeria	28	7	68	22	18	27
Global Average		**12**	**8**	**21**	**8**	**9**	**13**

*The scores are rounded up, except for 200 which is the maximum attainable score

Financial Performance Indicator

Average Score for the Indicator | 8

Top Performing Countries for the Indicator

Rank	1	2	3	4	5
Country	Malaysia	Saudi Arabia	Iran	UAE	Indonesia
Score	157	146	123	77	63

Sub-Indicator	Underlying Metric
Islamic Banking	Islamic Banking Assets (USD Million)
	Number of Islamic Banks and Windows
	Number of Listed Islamic Banks
Takaful	Takaful / Retakaful Assets (USD Million)
	Number of Takaful / Retakaful Operators
	Number of Listed Takaful / Retakaful Operators
Other Islamic Financial Institutions	Other Islamic Financial Institutions Assets (USD Million)
	Number of OIFIs (Excluding FinTechs)
	Number of Islamic FinTechs
	Number of Listed Other Islamic Financial Institutions
Sukuk	Number of Sukuk Issued
	Number of Outstanding Sukuk
	Value of Sukuk issued (USD Million)
	Value of Outstanding Sukuk (USD Million)
	Number of Listed Sukuk
Islamic Funds	Number of Islamic Funds
	Net Asset Value of Islamic Funds (USD Million)
	Number of Islamic Funds launched
	Number of Islamic Asset Managers

While the largest Islamic finance markets top the Financial Performance indicator, there is still a lot of room for other large IF markets to grow and diversify their local industries to attain better scores

The IFDI is overweight on the Financial Performance (FP) indicator that accounts for 40% of the total IFDI score. This means that the better a country's performance for FP, the more likely it will score higher on the overall IFDI. The components that constitute FP are the main five sectors and asset classes of the Islamic finance industry. These are broken down into number of institutions / instruments as well as their assets and their listing. The global FP average score is nine, which only 16% of countries exceed.

For the FP indicator, rationalising coefficients normalise the scores according to the country's size (GDP, population, banking assets). For example, while the UK and Oman are among the 15 largest Islamic finance markets by assets, they are not in the top 15 ranking for FP.

Malaysia does not have the highest value of assets or the biggest number of institutions but it tops the FP indicator on the strength of its Islamic Capital Market (ICM) components, of which Sukuk and Islamic funds performed better compared to other countries.

Saudi Arabia hosts some of the world's largest Islamic banks and windows by assets. The Kingdom is also home to an expanding pool of OIFIs that include financing and investment companies as well as FinTechs, which have been flocking to the country especially since the launch of the Financial Sector Development Program in 2018.

Trailing Malaysia and Saudi Arabia, Iran's high FP score is mainly driven by Islamic banking and supplemented by the other sectors of its Islamic finance industry.

Governance Indicator

Average Score for the Indicator | 21

Top Performing Countries for the Indicator

Rank	1	2	3	4	5
Country	Malaysia	UAE	Bahrain	Bangladesh	Kuwait
Score	101	85	85	85	80

Sub-Indicator	Underlying Metric
Regulations	Islamic Banking Regulations
	Accounting and Auditing Regulations for Islamic Finance Institutions
	Shariah Governance Regulations for Islamic Finance Institutions
	Takaful and Retakaful Operators Regulations
	Sukuk Regulations
	Islamic Funds Regulations
	FinTech Sandbox
Other Governance	Centralised Shariah Committee
	Number of Scholars with SSB Memberships
	Number of Scholars with More Than 5 SSB Memberships
	Number of Institutions with 3 SSB Members or More
	Disclosure Index Score

Malaysia leads Governance, three countries in tight race for second

Half of the Governance score come from the Regulations sub-indicator while the other half considers Other Governance metrics (that are Shariah-related) as well as the FRDI. The average score for the Governance indicator is 21. 38% of all countries score higher than the global average on the strength of their regulations and the number of Shariah board members serving their local institutions.

With the exception of Malaysia and the UAE, the largest Islamic financial markets are not necessarily among the countries with the best Governance scores.

Malaysia is the global leader on the Governance indicator. It has all the regulations defined by the IFDI methodology, the highest FRDI score by its Islamic banks, and a large number of scholars and IFIs with three Shariah scholars or more.

Decimal points separate the UAE, Bahrain and Bangladesh. The two GCC countries have the full set of regulations as well as a large number of Shariah scholars. Bangladesh has the most Islamic financial institutions with five Shariah board members or more.

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Sustainability Indicator

Average Score for the Indicator | 8

Top Performing Countries for the Indicator

Rank	1	2	3	4	5
Country	Malaysia	Saudi Arabia	Jordan	UAE	Indonesia
Score	128	96	46	39	33

Underlying Metric
Disclosed Funds Distributed to Charity, Zakat and Qard Al Hasan (USD Million)
Number of ESG Sukuk Outstanding
Value of ESG Sukuk Outstanding
Number of ESG Islamic Funds Outstanding
Value of ESG Islamic Funds Outstanding
Sustainability Guidelines
Sustainability Reporting Index

61% of countries scored zero for Sustainability

The Sustainability indicator is composed of three metrics. The first measures the amount and number of sustainability-related Islamic capital market (ICM) asset classes such as Sukuk and Islamic funds. The second looks into IFI contributions towards sustainability in terms of charity, Zakat and Qard Al Hasan amounts as well as their commitment through the sustainability reporting index that takes into account 22 items defined by the IFDI methodology. The third looks at the regulatory side through sustainability guidelines.

Considering these metrics, the global Sustainability average score is eight. 38% of countries in the IFDI universe scored higher than this average.

61% of the countries studied scored zero, which dragged down the global average. For the countries that scored higher than zero, 91% of them posted above global average scores.

A couple of key factors explain the low scores. Firstly, while some countries practise Islamic finance, they did not have sustainability-related guidelines. Secondly, only ten countries had ESG Sukuk and seven countries had ESG funds.

For the leading countries on this indicator, different factors drove them to the top. Malaysia scored high on sustainability disclosures and number of ESG Sukuk, Saudi Arabia is strong on CSR funds distributed (as part of Zakat and Qard al Hasan) and value of ESG Sukuk. While Jordan had no ESG Sukuk and ESG Islamic funds, its Islamic financial institutions disbursed a high amount of CSR funds for a country its size (as rationalising coefficients normalise the scores according to the country's GDP, population and banking assets). The UAE had a large number of ESG Sukuk and also disbursed a high value of CSR funds. Indonesia struck the right balance between all metrics to come in fifth for the indicator.

Knowledge indicators

Average Score for the Knowledge Indicator | 9

Top Performing Countries for the Indicator

Rank	1	2	3	4	5
Country	Indonesia	Malaysia	Pakistan	Saudi Arabia	UAE
Score	200	147	119	90	68

Awareness indicators

Average Score for the Awareness Indicator | 13

Top Performing Countries for the Indicator

Rank	1	2	3	4	5
Country	Malaysia, UAE and Pakistan	Kuwait	Bahrain	Saudi Arabia	Indonesia
Score	200	191	185	177	107

Same five countries dominate Knowledge and Awareness indicators

Underlying Metric
Number of Institutions Offering Training Courses on Islamic Finance
Number of Institutions Offering Degrees in Islamic Finance
Number of Published Research Papers on Islamic Finance
Number of Islamic Finance Journals

Islamic finance knowledge covers education and research related to the industry. The former ensures that the industry's professionals are well-versed in Islamic finance principles and Islamic commercial jurisprudence while the latter supports their development through substantive knowledge. The global average score for the indicator is nine. 21% of countries scored above the global average.

Indonesia is the only country to reach the 200 maximum score. The country has a large number of education providers that contribute towards its many journals and journal articles. The other top countries also have large numbers of education providers, with many of them publishing journal articles related to the industry.

Underlying Metric
Number of In-Person Events
Number of Online Events
Number of Islamic Finance News

Awareness activities aim to improve consumer protection and understanding of Islamic finance. The IFDI counts in-person attendance and online events such as roadshows, conferences and seminars. News coverage on Islamic finance also qualifies as raising awareness about the industry. The global average score is 13, with 11% of countries above this level. The average score is largely driven by news, whose contribution to the indicator outweighs events for most countries.

Three countries share the top spot with a maximum score of 200. Kuwait comes in second with the highest number of online events while Indonesia was driven by in-person events. Considering its size, Bahrain has a good number of news and events.

International Islamic Infrastructure and Liquidity Corporation (IIILC): A Proposal to Concurrently Secure Development Financing and Effective Liquidity Management in the OIC Region

The significance of effective liquidity management cannot be overstressed in the global Islamic financial industry. Unlike the conventional financial system, liquidity management in Islamic finance requires both of meeting short-term obligations and complying with Shariah principles, which dictate the nature of permissible financial transactions. On the other hand, regulatory and Shariah-compliance challenges including scarcity of Shariah-compliant high-quality liquid assets (HQLA) to meet Basel III requirements and other structural issues such as the nature of the Islamic financial contracts direly necessitate innovative Shariah-compliant liquidity management mechanisms and products.

Securing adequate and non-debt-creating financing for the development projects, especially infrastructure projects, in the OIC region is another challenging issue for the Islamic financial institutions domestically and on a global scale. Of the 57 OIC member countries, a large number of them have chronic budget deficits. The governments in these countries typically resort to interest-based and/or foreign currency denominated borrowing to meet their budget shortfall by making these economies leveraged and exposed to a host of risks over which they have little control. Notwithstanding their impressive growth over the last 40 years, Islamic financial institutions (IFIs) have not been able to rise to the challenge of providing adequate financing for the vast development needs of the OIC member countries. Structural issues that impede the widespread use of risk-sharing contracts by the IFIs, including provision of effective liquidity risk management mechanisms, have played a consequential role in this development.

Given the aforementioned two structural issues of the global Islamic financial industry, the Participation Finance Strategy Document (2022-2025) launched by Finance Office of the Presidency of the Republic of Türkiye (CBFO) proposes establishment of the International Islamic Infrastructure and Liquidity Corporation (IIILC) and includes the implementation of the proposal as one of its action items. It should also be noted that the IIILC process featured as an action item in the Medium-Term Program (2025-2027) recently released by the Turkish government.

The IIILC refers to an international organization and an embedded online platform that provide member countries and institutions with access to liquidity based on the securitization of development (especially infrastructure) projects and enable these securities to be traded in the secondary market via an international online trading platform. Stemming from a dire need for effective, adequate, and continuous liquidity provision to IFIs, various initiatives have already been taken. The International Islamic Liquidity Management Corporation (IILM) is a concrete realization of these initiatives. However, there is still a considerable supply shortfall for Sharia-compliant liquidity on a global scale. Another initiative was the Islamic Megabank project. The idea of establishing an international Islamic Megabank was first raised in 2009, though there is still no progress for more than a decade. The IIILC proposal rests on the idea of establishing a multilateral institution with well-defined and narrow mandate which will effectively complement and support the IsDB and the IILM.

The IIILC proposal concurrently aims to address the dual problems of i) providing an enabling environment by which IFIs can better manage their liquidity risks and participate in the development finance ecosystem, and ii) securing a non-debt-based alternative to development financing for the IIILC member countries.

Fulfilling these goals, the proposed “IIILC ecosystem” is composed of the IIILC as the mother entity, the International Islamic Electronic Trading Platform (IIETP), the Asset Leasing Company (ALC), the Sukuk Asset Fund (SAF), the Project Evaluation Committee (PEC), and the Shariah Advisory Board (SAB). Specifically,

- **The Asset Leasing Company (ALC)** establishes and manages the sukuk funds (similar to the investment funds established by the portfolio management companies), protects the stakeholders’ rights on their behalf, intermediates in sukuk issuances, and executes other tasks regarding the transaction flow needs.
- **The Sukuk Asset Fund (SAF)** is a subsidiary special purpose vehicle (SPV) of the IIILC with its standalone legal personality and managed by the ALC. The main function of the SAF is to initiate and manage funds for securitized and/or pooled sukuk issued by the IIILC based on the approved development projects by the PEC, raise capital from the investors, and transfer the sukuk proceedings to the “project SPVs” of the member countries.
- **The International Islamic Electronic Trading Platform (IIETP)** provides a globally accessible online trading platform for the sukuk issued by the IIILC, other sukuk placements by pre-approved IFIs and public institutions of the IIILC member countries.
- **The Project Evaluation Committee (PEC)** carries out evaluation and selection of the projects submitted to the IIILC by the member sovereigns. The PEC works directly under the Board of Governors of the IIILC and guarantees that only viable projects are securitized by the IIILC.

As a prospective game-changer in Islamic finance, expected key contributions of the IIILC are juxtaposed below:

- IFIs can easily buy and sell the securitized or non-securitized sukuk in order to manage their liquidity risk,
- Thanks to price discovery process stemming from continuous trading of sukuk, IFIs can determine their real cost of funds and thereby price their products accordingly,
- Over time, risk-sharing sukuk will partake much higher share in IFIs' balance sheets,
- As the securitized sukuk have a tangible underlying asset (project) anchored in real sector with continuous market trading, the majority of the listed sukuk can qualify as HQLA,
- IFIs can use traded instruments to manage currency and country risks arising from cross-border transactions by contributing to intra-OIC trade with low-cost and effective hedging.
- The most important and obvious benefit is that the IIILC member countries can have access to development finance without debt.

Regarding the way forward, the Department of Participation Finance at CBFO has finalized the project document that includes the mandate, business model, institutional structure, financial products, and other details of the IIILC proposal. Over the next several months, further details of the project document will be finalized and the other stages of the process will be initialized.

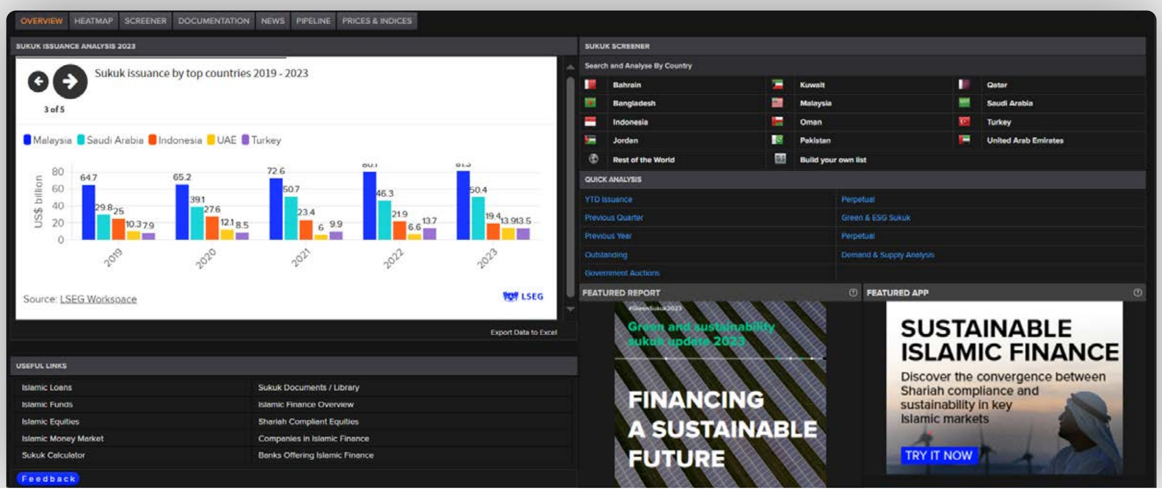
Tarık Akın (PhD.)

Head of the Department of Participation Finance

Finance Office of the Presidency of the Republic of Türkiye.

Tarık Akın (PhD.) is the Head of the Department of Participation Finance at Finance Office of the Presidency of the Republic of Türkiye. Previously, Tarık Akın worked at the Undersecretariat of Treasury, Islamic Financial Services Board (IFSB), World Bank, UNDP, Silatech-Qatar, and Center for International Development (CID) at Harvard University. He was SC–OCIS Visiting Fellow in Islamic Finance at University of Oxford for the academic year 2019–2020. He earned his bachelor's degree in economics from Bilkent University, master's degree from Harvard University and PhD. degree from INCEIF. His main areas of expertise are Islamic finance, capital markets, macro-financial linkages and redistribution policies.

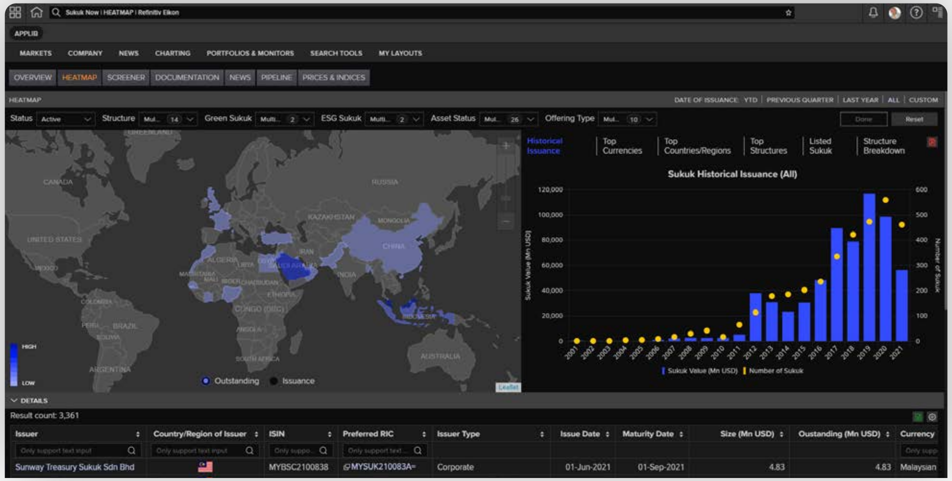
Never miss a Sukuk beat



Sukuk Now is an app on LSEG Workspace offering a 360° overview of the Sukuk market. Via an easy-to-use interface, users can perform quick analysis of the market size and trends; gain deep knowledge about the market and its various structures and transactions; and make informed decisions when it comes to investment in the most sought-after asset class in the Islamic finance industry.

Key features:

- Simplified screener with advanced analytics: list, charts and breakdown views (new)
- Interactive world heat map for outstanding and issued Sukuk (new)
- All charts and results are customisable and exportable to PDF and Excel (new)
- Breakdown analysis allows for comparison with previous period (new)
- Real-time news feed
- Research, compliance and legal documents
- Price discovery, tradability and liquidity
- League tables, indices and industry benchmarks
- Pipeline and announced Sukuk



Find out more: **Sukuk Now/LSEG**

LSEG DATA & ANALYTICS

Building on 60 years of growth: Establishing Islah through Islamic finance

Reflecting on the pioneering journey of Islamic finance in Malaysia, it is with a deep sense of pride and responsibility that I share our nation's role as an innovator and leader in this industry. Malaysia's six-decade Islamic finance journey started in 1963 with the creation of the Malaysian pilgrims board, Tabung Haji, and the country's first Islamic bank, Bank Islam, 20 years later. These institutions were followed by many innovations in Islamic finance, driven by the strategic vision and dedicated execution of our forefathers and contemporary leaders alike. All of these have elevated Malaysia from a mere participant to a global standard-bearer in the realm of Shariah-compliant finance. This journey speaks volumes not only of financial innovation but also of our collective commitment to ethical, inclusive, and sustainable development in line with the principles of Islam.

The MIFC Leadership Council (MLC) Position Paper was unveiled on the 28th of May 2024 during the Global Forum on Islamic Economics and Finance in Kuala Lumpur. It represented a pivotal moment in our history as this document is not merely a recount of our past achievements but a bold declaration of our future direction. It commits us to a path of continuous reform — or Islah — to ensure that Islamic finance remains at the forefront of addressing the dynamic challenges and opportunities presented by the global financial landscape.

As articulated within the Position Paper, the true essence of Islamic finance transcends mere adherence to Shariah-compliant transactions. Our ambition is to lead Malaysia towards a future where finance is not only compliant, but also embodies the broader objectives of Shariah (Maqasid al-Shariah), promoting social equity, economic inclusion, and environmental stewardship. This commitment positions Islamic finance as a tool for good, aligning with our long-held values of justice, ethics, equity, and dedication to the betterment of society across the world.

The 'Islah Curve', introduced in the Position Paper, represents a visionary step towards achieving outcomes that are truly based on Shariah principles, in our view - revolves around reform, and how to improve and restore things to their original state of fitrah, of a natural authentic and good position. This Islah framework, complemented by scholarly insights such as the 'Scholar Review of Tayyib Concept', an accompanying publication commissioned by the MLC, delineates a clear trajectory for integrating deep-rooted Islamic values into our financial offerings. The journey towards outcome-based Shariah compliance is not merely a conceptual evolution; it is a practical roadmap aimed at enhancing the socio-economic well-being of our communities and the global society.

Moreover, the Position Paper lays out actionable recommendations and extends an invitation to all stakeholders within the Islamic finance ecosystem to contribute towards its next phase of growth. Initiatives such as the initial 18 MLC Impact Projects (MIPs) under 10 MLC Key Focus Areas are a testament to our commitment to leveraging Islamic finance as a catalyst for positive socio-economic change.

As we stand poised to further elevate Malaysia's status and impact on the global stage, the vision encapsulated within the Position Paper underscores our aspiration to be a model state. In this vision, finance, inspired and guided by Islamic ethics, emerges as a potent force for equitable wealth distribution and sustainable global development.

The journey of Islamic finance is undeniably ongoing. Yet, the resolutions adopted in the MLC Position Paper, born from over 100 dialogue and collaboration sessions with key stakeholders, herald a new era of concerted effort and shared ambition.

It is my sincere hope and prayer that as a nation, and indeed, as a global fraternity, we can unite in the spirit of Islah to bring about transformative change. The MLC Position Paper is more than a call to action - it is an invitation to be part of a transformative journey toward ethical and responsible finance that champions the welfare of humanity in accordance with the divine guidance of Islam. I encourage stakeholders from all sectors to engage with the vision and recommendations laid out in this document, accessible on our website at mifclc.com, and join us as we forge a future that reflects our shared values and aspirations.

May this shared journey be one of continued success and blessing, as we strive to uphold the principles of Islamic finance not just as an alternative, but as the leading light for ethical and responsible finance across the globe.

Tan Sri Azman Mokhtar

Chairman

Malaysia International Islamic Finance Centre (MIFC) Leadership Council

wTan Sri Azman Mokhtar is also the Chairman of the Board of Directors of Universiti Teknologi Malaysia (UTM) and the Chairman of INCEIF University (The International Centre for Education in Islamic Finance). Between June 2004 and July 2018, he was the Managing Director of Khazanah Nasional Berhad, Malaysia's strategic investment fund. Between December 2021 and December 2023, he was the Chairman of Lembaga Tabung Haji Malaysia (Hajj Pilgrims Fund Board).

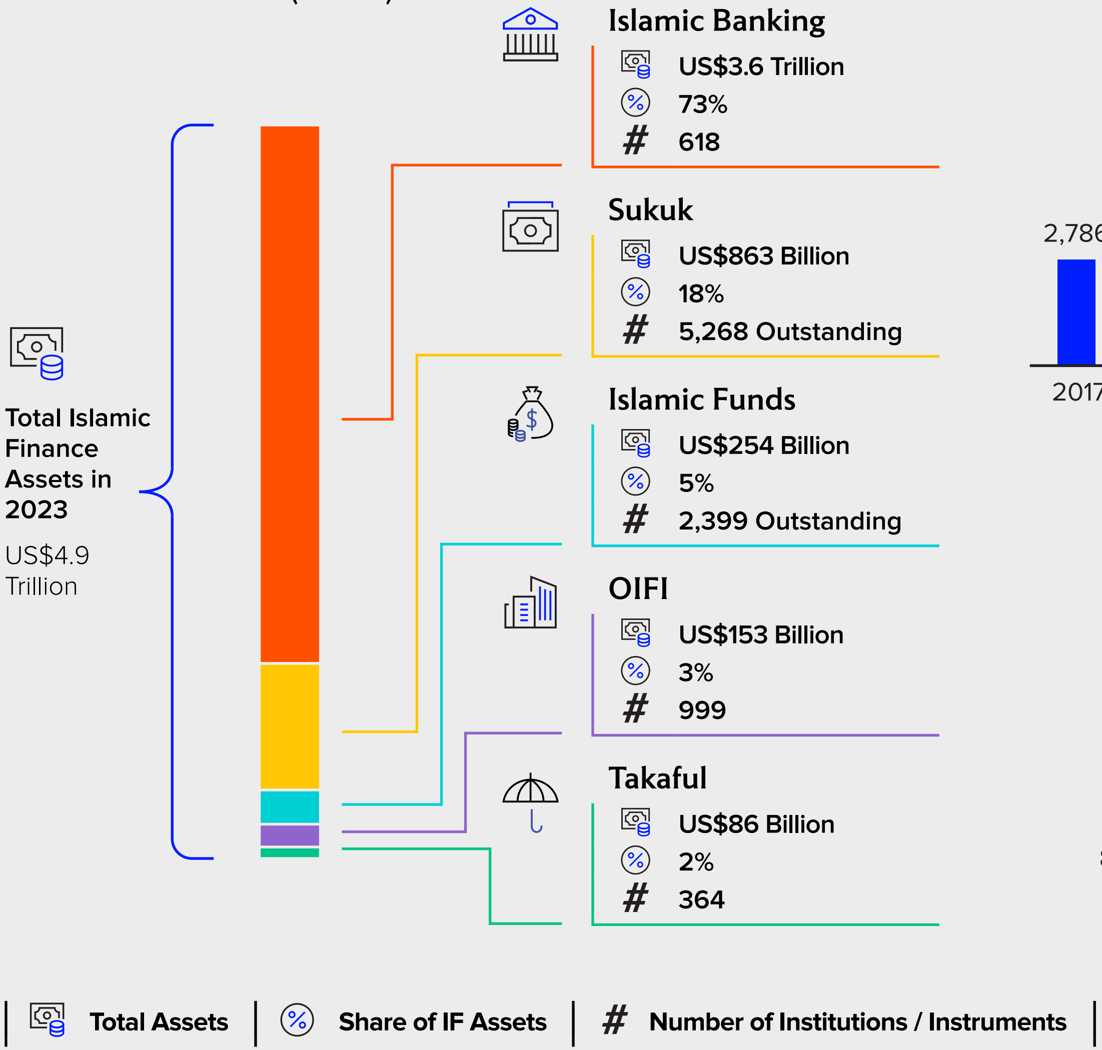
His other current affiliations include being a member of the Global Future Council on Investing of the World Economic Forum, the Steering Committee of the Global Ethical Finance Initiative (GEFI), a Development Leadership Dialogue Fellow at the School of Oriental and African Studies (SOAS) of the University of London, the Investment Advisory Council of the Kingdom of Saudi Arabia, the Advisory Board of the University of Oxford's Technology & Management Centre for Development, the Advisory Board of the College of Islamic Studies, Hamad Bin Khalifa University, Qatar and the board of the international humanitarian relief organisation, MERCY Malaysia.

Azman obtained an M.Phil in Development Studies from Darwin College, Cambridge University, as a Chevening scholar, and a Diploma in Islamic Studies from International Islamic University Malaysia. He is also a CFA Charter Holder and a Fellow of the Association of Chartered and Certified Accountants (ACCA). Between 2019 and 2022, Azman was a Bye-Fellow of Darwin College, Cambridge and the Distinguished Visiting Fellow at the Centre of Development Studies, University of Cambridge.

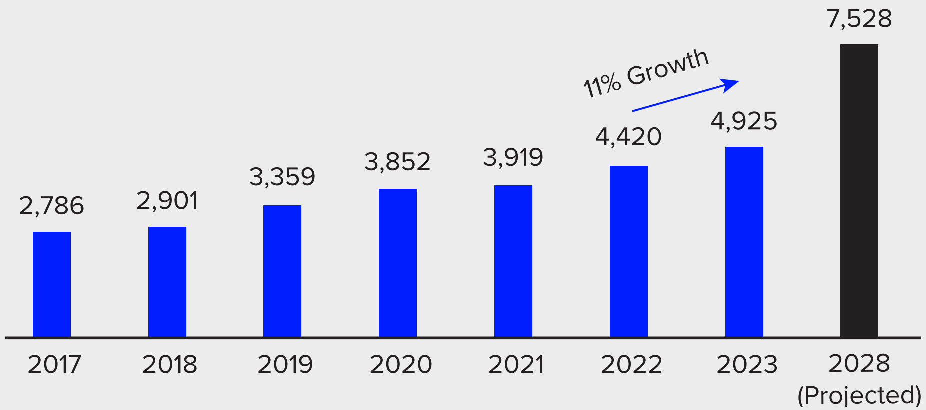
CHAPTER 2:
FINANCIAL PERFORMANCE

Global Overview of the Islamic Finance Industry

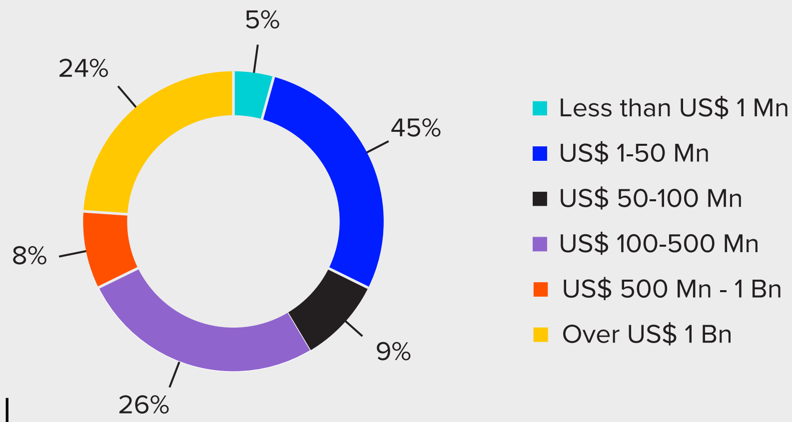
Islamic Finance Industry Breakdown
(2023)



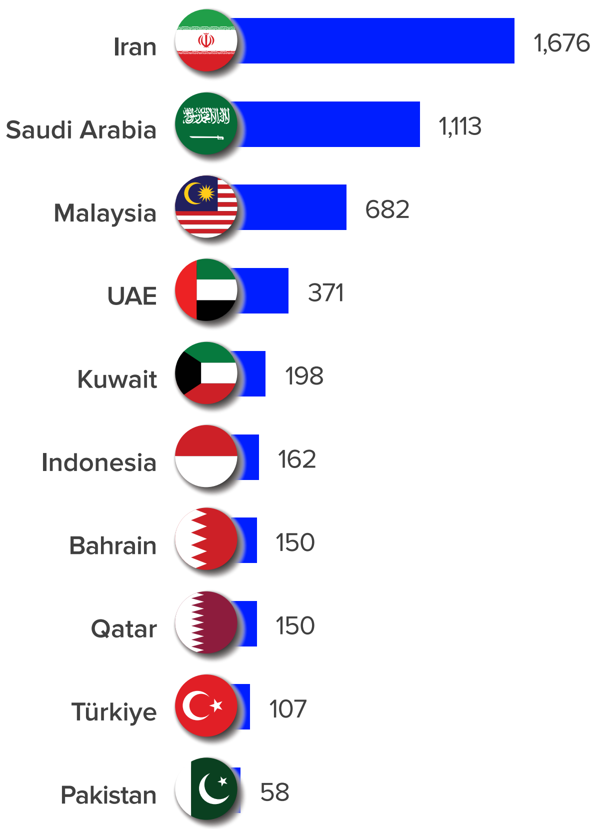
Islamic Finance Assets Growth
(2017 – 2023, USD Billion)

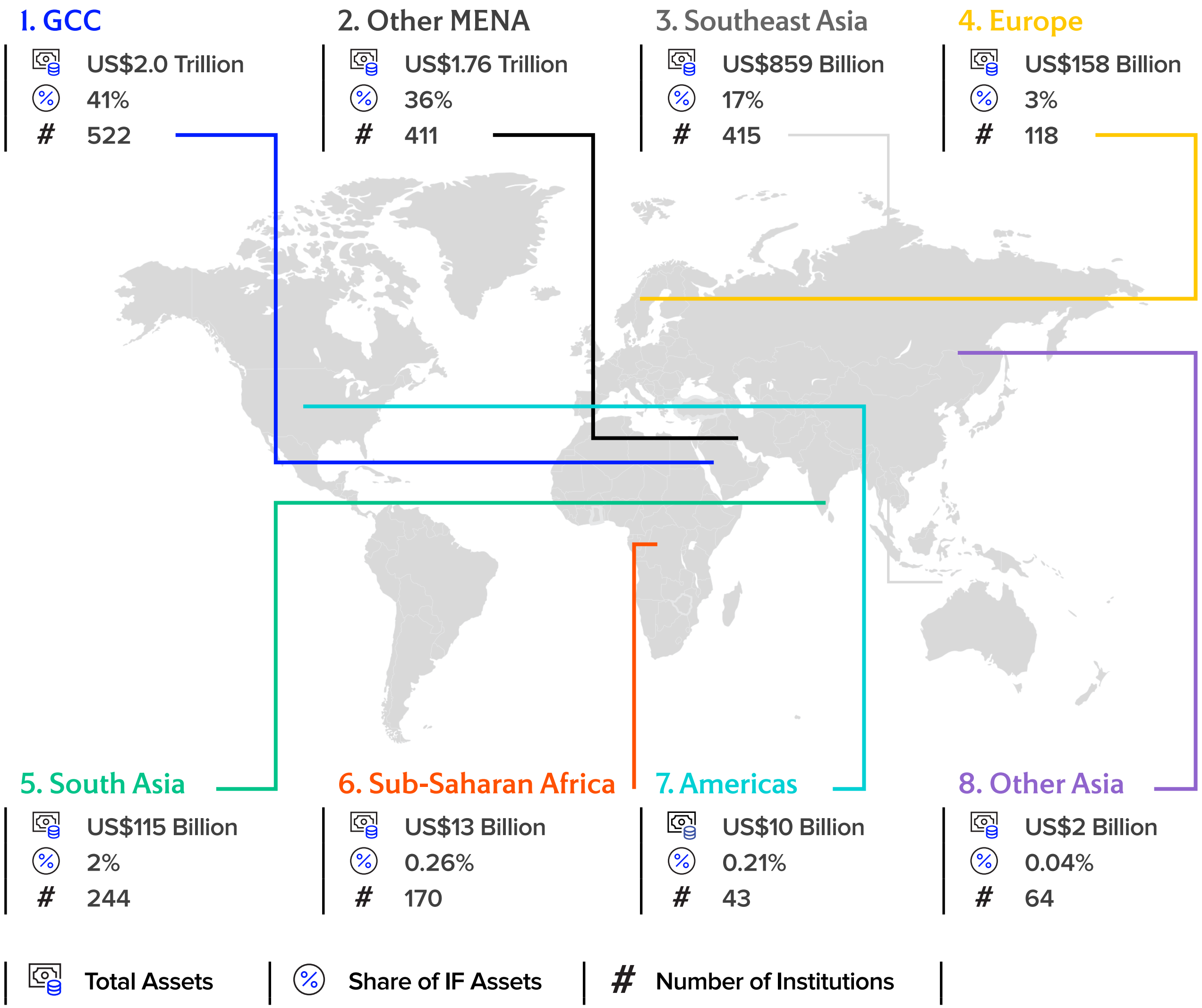


Breakdown of IFIs by Total Reported Assets
(2023)



Islamic Finance Assets by Top Countries & Regions
(USD Billion, 2023)





Islamic finance assets close to US$5 trillion mark

Islamic finance assets posted double-digit growth of 11% to hit US$4.9 trillion in 2023. This growth is slower compared to the 13% registered in 2022. In 2023, growth slowed across all sectors except Islamic funds. Iran, Saudi Arabia and Malaysia are still the world's largest Islamic financial markets.

Among the Islamic finance sectors, Islamic banking returned the highest growth, of 12%, in 2023. Sukuk also had an outstanding year, growing by 9% for the same period. However, the countries with the highest growth in Islamic finance assets in 2023 were mainly driven by Islamic funds. These countries include India, the US and Canada where Islamic funds invested in equities saw strong gains in 2023. The details of the performance of each sector can be found in their relevant sections.

We project the industry to surpass US$7.5 trillion in assets by 2028 based on the different developments highlighted throughout this report. In addition, with the expectation of further easing of monetary policy, there will be improved performance in the financial markets, including Islamic finance. This is already noted in some metrics so far this year such as growth in Sukuk issues and improvement in the performance of Shariah-compliant equities. Yet, downside risks such as geopolitical tensions, natural disasters, trade fragmentation and the effects of high interest rates are impacting financial markets globally, including Islamic finance. Rising tensions in the Middle East are adding economic uncertainties and could play a role in impacting Islamic finance industries in the main markets in the region.

Islamic finance as an alternative financing option revised by governments in some non-OIC countries

Non-OIC countries accounted for 2% of total Islamic finance assets in 2023. The largest non-OIC markets are the UK (US$42.6 billion), the US (US$9.7 billion) and South Africa (US$4.9 billion).

These same countries continue to strengthen their Islamic finance industries in 2024. In April 2024, Canada referenced Shariah-compliant, or "Halal" mortgage products in its Federal Budget. The mortgage products target Muslim communities as part of the Canadian government's intention to expand access to alternative finance products. Muslims account for 5% of the Canadian population, according to the 2021 Canadian census, and there are a few financial institutions in different provinces in the country that offer such mortgage products that adhere to Canadian law and are Shariah-compliant. As it stands, there aren't enough providers to meet the high demand, so the inclusion of Halal mortgages in the Budget will at least help to reduce the costs associated with such mortgages. New measures could include changes in the tax treatment of these products or the introduction of a new regulatory sandbox for financial service providers to ensure sufficient consumer protections are in place.

In the UK where there has been a level playing field for Islamic and conventional mortgages with regards stamp duty since 2003, the government in 2023 announced the Alternative Student Finance (ASF) as an option for students who want to take on student loans for their university studies. Students will be able to access the ASF without incurring additional costs compared to the standard student loan system.

The financing scheme is based on the principle of takaful, a group-based mutual scheme. In January 2024, the HM Treasury also published a consultation on reforms that address the capital gains tax when a commercial or residential property is financed through Shariah-compliant means, seeking a tax simplification for it.

[1] The previous years' total Islamic finance assets were restated as some companies restated their financials, in addition to improved coverage.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Islamic Banking

US$3.57 Trillion

Total Islamic Banking Assets in 2023

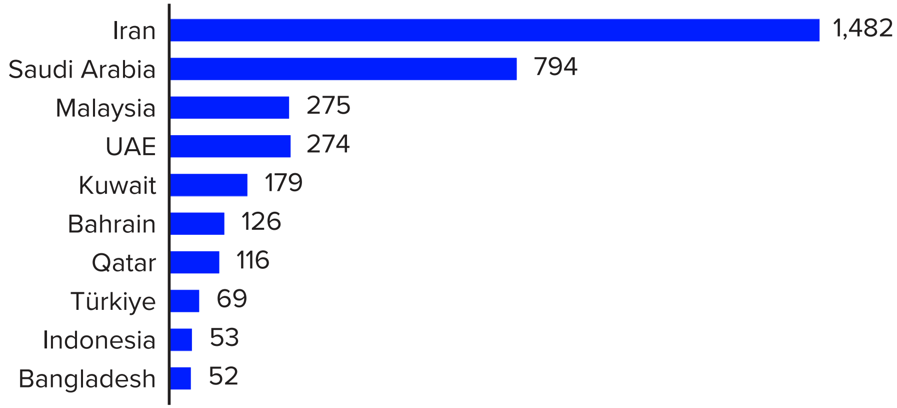
12%

Growth in Islamic Banking Assets in 2023

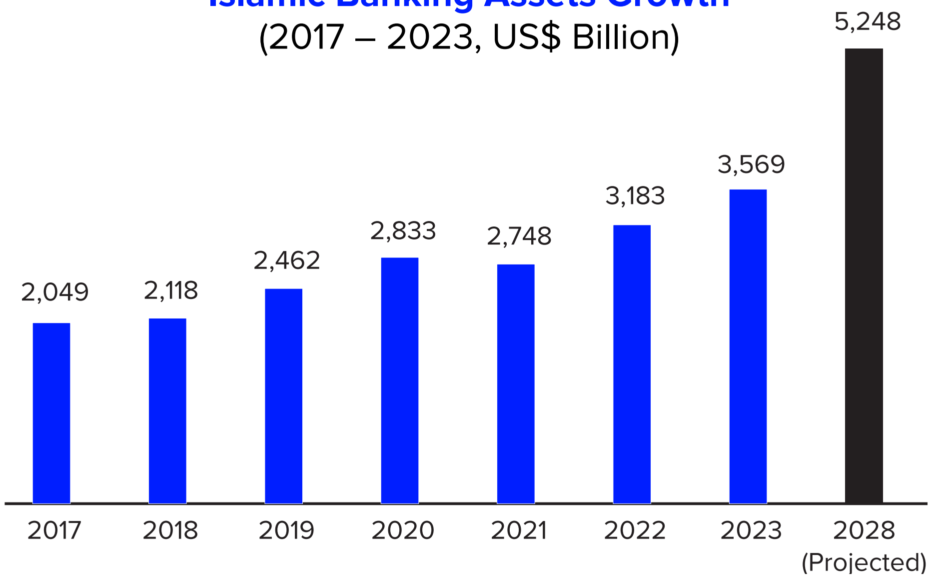
618

Total Islamic Banks

Top Countries in Islamic Banking Assets
(USD Billion, 2023)



Islamic Banking Assets Growth
(2017 – 2023, US$ Billion)



Islamic Banking Assets by Region
(2023, US$ Billion)

Other MENA	1,557
GCC	1,506
Southeast Asia	337
South Asia	85
Europe	78
Sub - Saharan Africa	4
Americas	0.75
Other Asia	0.61

Islamic banking universe expanding with new countries entering the fold

Islamic banking grew by 12% from 2022 to 2023. The GCC and Other MENA regions accounted for 86% of the assets of the world's Islamic banking sector. A small margin separates the two regions, with Other MENA holding US$1.56 trillion versus the GCC's US$1.51 trillion. The Other MENA region had the highest growth rate among all regions for Islamic banking, at 21%. Between the GCC and Other MENA regions, Afghanistan, Iraq and Bahrain posted the highest growth. Afghanistan is seeing an uptick in Islamic banking assets as the country heads towards a full-fledged Islamic financial system while Iraq's Islamic banks have been promoting financial inclusion as well as benefiting from digitalisation. For Bahrain, the conversion of Ahli United Bank to become a full-fledged Islamic bank following a merger with Kuwait Finance House greatly boosted the country's Shariah-compliant banking assets.

A few jurisdictions welcomed their first Islamic banks, which pushed up the number of countries with Islamic banks to 75. This is expected to grow in 2024 as in March, Salaam Bank, part of Djibouti-based Salaam Group, became Uganda's first Islamic bank to serve the 14% of the population who are Muslims. Malawi is another African country that notched up an Islamic finance milestone when FDH Bank introduced its Islamic banking window FDH Salama, the country's first Islamic bank.

GCC-based digital Islamic banks growing

There has been an acceleration of the introduction of new digital Islamic banks globally. According to a 2024 survey by Mambu, a software as a service (SaaS) cloud banking platform, 85% of Gen Z Muslims, who are tech-savvy, are interested in banking with Islamic financial institutions. In addition, 80% of those who were surveyed mentioned that the non-availability of online banking is a dealbreaker for them. The survey covered Malaysia, Indonesia, the UAE, Saudi Arabia, the UK and South Africa.

More recent digital Islamic banks include Ruya Bank, the digital Islamic community bank in the UAE launched in the first quarter of 2024 that prioritises financial inclusion and innovation. Ruya Bank adds to the 29 Islamic banks and windows operating in the country that were licensed by the Central Bank of the UAE in 2023. Another digital Islamic bank launched in the UAE, Nomo Bank, led to the allowance of UK banking for residents in the UAE. The bank, a subsidiary of Kuwait's Boubyan Bank and the UK's Bank of London and the Middle East in partnership with Al Hilal Bank and Abu Dhabi Commercial Bank of the UAE, offers an international banking experience to its consumers, including saving and financing options. In Türkiye, two new digital participation banks, Hayat Finans and Dünya Katılım Bankası, started operations in 2023.

The digital transformation will continue into 2024 and beyond. By the end of 2024, Saudi Arabia is expected to see the public launch of STC Bank, a Shariah-compliant bank that is being transformed from a licensed FinTech company, stc pay. The launch of this bank also contributes to the ambitious goal of the Kingdom of becoming a cashless society as part of Vision 2030. Outside the GCC, in May 2024, AEON Bank officially became Malaysia's first Islamic digital bank while Turkish authorities granted an operational licence to Adil Katılım Bankası.

Takaful

US$86 Billion

Total Takaful Assets in 2023

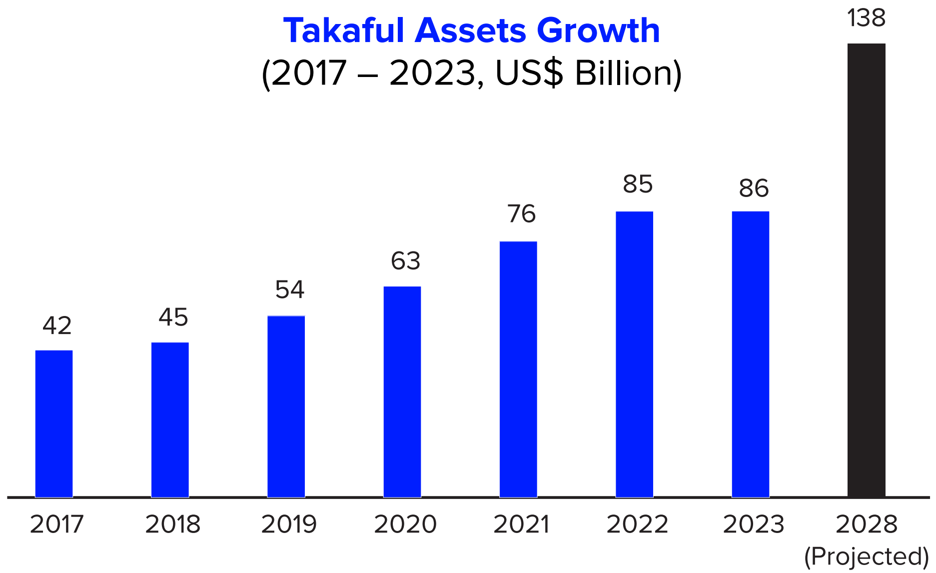
1%

Growth in Takaful Assets in 2023

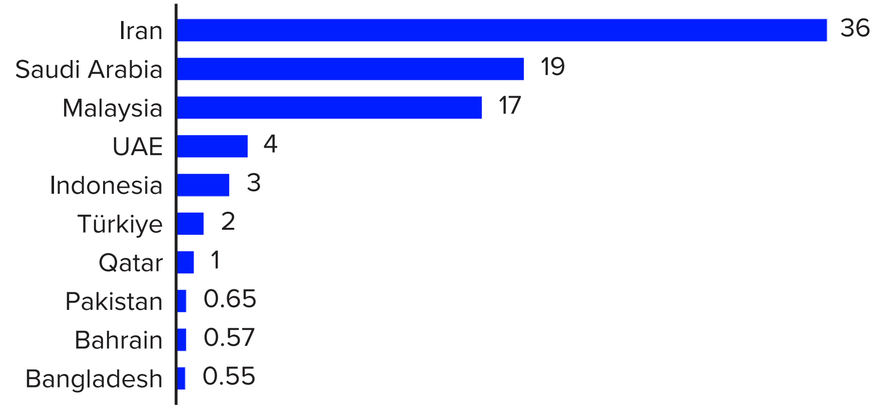
364

Total Takaful Operators

Takaful Assets Growth
(2017 – 2023, US$ Billion)



Top Countries in Takaful Assets
(US$ Billion, 2023)



Takaful Assets by Region
(2023, US$ Billion)

Other MENA	36
GCC	25
Southeast Asia	20
Europe	2
South Asia	1
Sub - Saharan Africa	0.01
Other Asia	0.00

Takaful is being introduced in the Philippines and Tanzania to supplement local Islamic banking sectors

The takaful sector posted a slight uptick in total assets in 2023, nudging up by 1% from 2022. The overall insurance sector, comprising Islamic and conventional operators, faced pressures from monetary tightening policies that resulted in increased claims from businesses facing losses. Takaful also faced competition from the conventional insurance sector in some countries while intra-industry, the sector still had to contend with limited Shariah-compliant investment options. In order to compete with conventional insurance and achieve greater scale to lower costs, consolidation through several mergers took place especially in the GCC, which is one of the world's largest takaful regions.

There were 52 countries with takaful operations in 2023. This number is set to increase. Among the countries that have pledged to introduce takaful operations is the Philippines, whose Insurance Commission issued guidelines for takaful windows in June 2024 after the circular on takaful in 2022. Filipino authorities and industry stakeholders will also collaborate with and learn from countries such as Malaysia, Thailand and Indonesia with regards their takaful frameworks. Another aspect that is being explored is micro-takaful given that a substantial proportion of the Filipino population cannot afford traditional insurance or takaful products. The Insurance Commission also mentioned that two insurance operators are preparing to offer takaful products in the country.

In North Africa, Tanzania welcomed its first takaful operator, ZIC takaful, in September 2023. Beyond 2023, First United Takaful started operations in February 2024. The start of takaful operations in the country will go some way to help Tanzania meet its goal of increasing health insurance coverage. Another country that is working towards supporting its insurance sector though takaful is Pakistan, where the Securities and Exchange Commission (SECP) has positioned takaful as a key pillar in its "Insured Pakistan 5-year strategic plan". The country held US$645 million in takaful assets in 2023.

Hurdles facing recently-established takaful operators in North Africa

Morocco had four takaful providers and a retakaful provider operating in 2023 since the establishment of the first takaful operator in 2022 to complement the country's participatory finance ecosystem. The takaful contribution volume in the country reached MAD65.8 million (US$6.58 million) and accounted for 0.12% of the insurance sector in 2023, according to data compiled from the Moroccan Insurance Federation. Most of these were individual takaful offerings and family takaful products such as death takaful, followed by fire takaful. In addition, according to the central bank Bank Al-Maghrib, most of the financing extended by participatory banks have takaful coverage. Despite the growth from 2022 to 2023 of 558%, Morocco's takaful sector faces hurdles, chief of which is a non-diversified product offering compared to the insurance sector.

Next door to Morocco, Algeria had four takaful providers in 2023 that started operations in February of the same year following the introduction of takaful in its insurance law in 2021. The country is set to introduce a bill to update its insurance law that will focus on increasing financial inclusion through takaful. The takaful sector's contributions reached DZD214.8 million (US$1.6 million) in 2023, most of which were driven by general takaful products such as motor and fire coverage, according to a report by Atlas Magazine. Among the issues facing the sector are the absence of adequate accounting standards for takaful operators, the lack of skills for auditors to present the required financial data, taxation treatment of takaful contributions, and the absence of Sukuk, according to the takaful operators in the country.

Other Islamic Financial Institutions

US$153 Billion

Total OIFI Assets in 2023

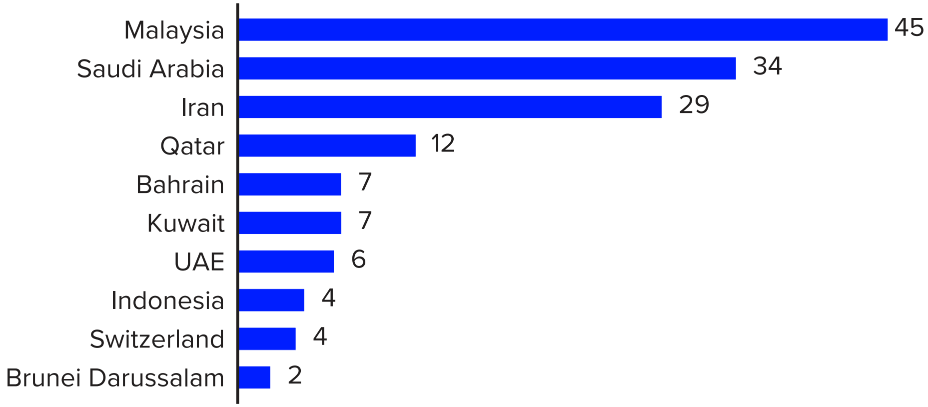
5%

Growth in OIFI Assets in 2023

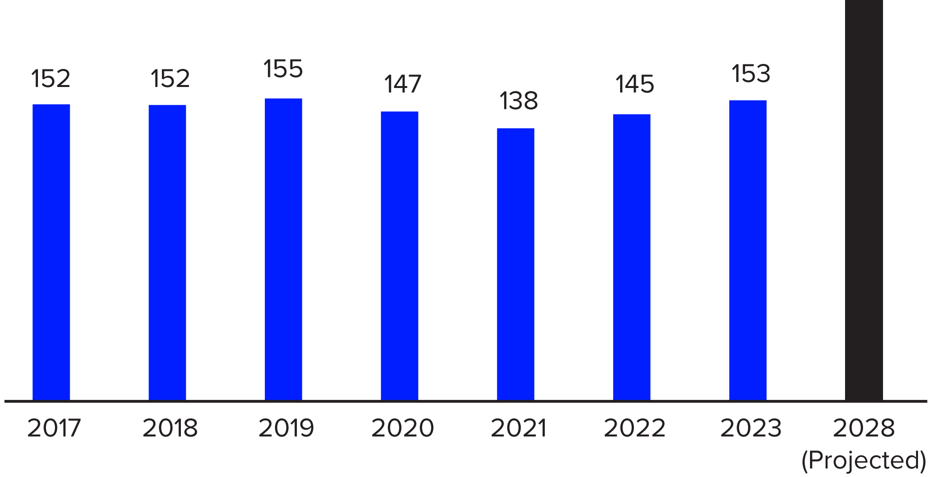
999

Total OIFIs

Top Countries in OIFI Assets
(US$ Billion, 2023)



OIFI Assets Growth
(2017 – 2023, US$ Billion)



OIFI Assets by Region
(2023, US$ Billion)

GCC	66
Southeast Asia	51
Other MENA	30
Europe	4
South Asia	1
Other Asia	0.17
Americas	0.01

OIFIs expanding in several countries to meet their Islamic finance needs

Other Islamic Financial Institutions (OIFIs) comprise Islamic financial institutions that exclude Islamic banks and takaful operators. OIFIs contributed to 3% of the world's Islamic finance industry assets in 2023, after growing by 5% to US$153 billion. In 2023, there were 999 OIFIs globally, outnumbering Islamic banks and takaful operators combined. In several countries, many OIFIs were set up to complement their local Islamic finance industries, with some of them established as subsidiaries of local Islamic banks. OIFI assets and institutions are concentrated in the GCC and Southeast Asia.

Efforts to digitalise Sukuk set new benchmarks for innovation in the industry

136 FinTechs factored among the OIFIs serving the Islamic finance industry in 2023. Islamic FinTechs offer a unique business proposition that allows digital transactions in a Shariah-compliant manner. This channel for digitalisation has been widely embraced by the global Islamic finance industry, prompting financial centres such as Labuan to introduce a masterplan to position itself as a Shariah-compliant blockchain hub. Malaysian authorities also introduced significant tax incentives in May 2024 to encourage Islamic digital players to base themselves in the offshore financial centre.

Among notable segments for FinTechs to digitalise are Sukuk. For instance, Malaysia's Fusang Exchange, a stock exchange in the digital securities market, tokenised and listed a digital Sukuk in 2023. This was the world's first digitalisation of an institutionally issued Sukuk, from the International Islamic Liquidity Management Corporation (IILM). The digital Sukuk, which went through the Fusang Depository Receipt structure, met the needs of financial intermediaries through a regulated ecosystem while supplying them with high-quality liquid assets (HQLA) that were necessary to ease liquidity issues amid the high interest rate environment. The full tax exemption on Islamic finance transactions in Labuan was undoubtedly a big consideration.

In Saudi Arabia where debt-based crowdfunding is gaining traction for SMEs as an alternative to traditional bank loans, Rakeez Capital, launched in 2023, debuted a platform that allows the issuance of Sukuk based on the Murabaha structure. This allows the Sukuk units to be traded, settled and transferred by retail and SME investors while being Shariah-compliant at the same time.

Digitalisation will increase moving forward, as there are other similar companies launched in 2024 that automate Sukuk issuance. In Saudi Arabia, Emkan Alarabiya, an automated Sukuk platform, launched in February 2024 and Mekyal Financial Technologies Company received Shariah approval in May of the same year.

In 2024, Nigeria's The Alternative Bank is working towards its US$500 million digital Sukuk initiative. A statement by the bank stated that it is partnering with TK Tech Africa to use blockchain technology to issue, trade and settle Sukuk. It also envisions that the initiative will allow anyone to invest in commodities through tokenised alternative assets that will support the Sukuk initiative, including agricultural products and precious metals.

Sukuk

US$863 Billion

Total Sukuk Value Outstanding in 2023

9%

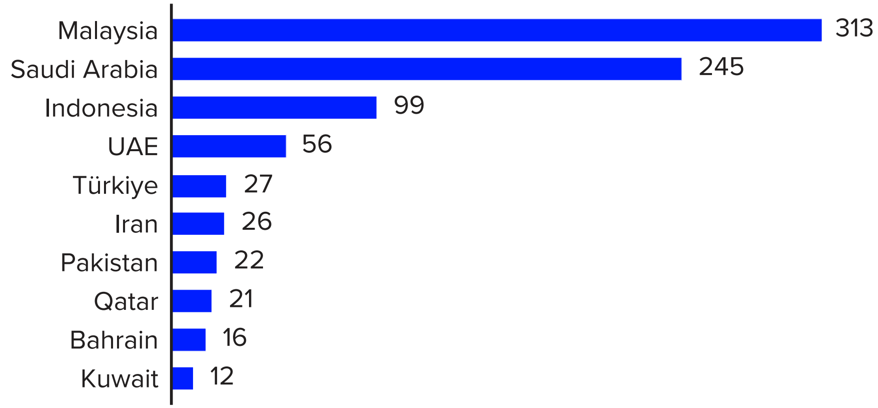
Growth in Sukuk Value Outstanding in 2023

5,268

Number of Sukuk Outstanding

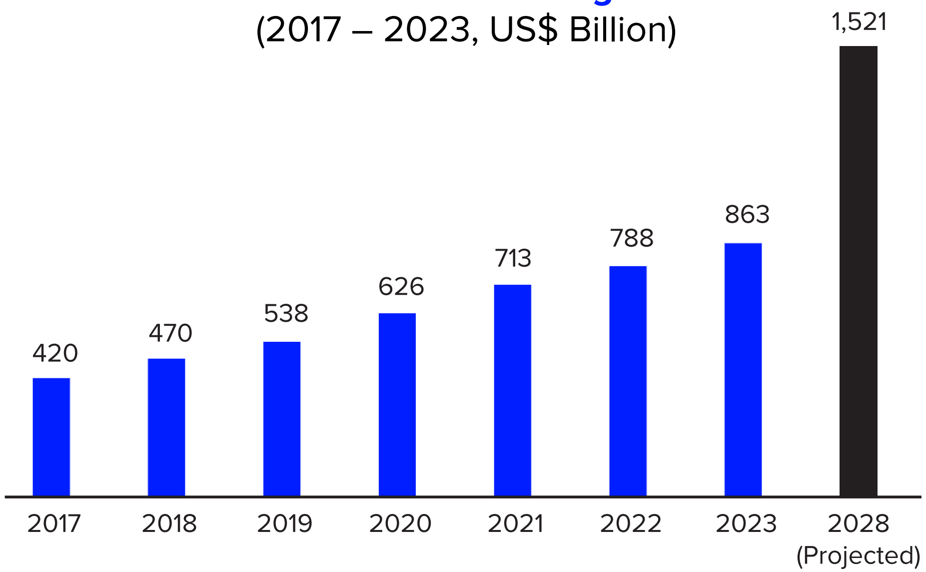
Top Countries in Sukuk Value Outstanding

(US$ Billion, 2023)



Sukuk Value Outstanding Growth

(2017 – 2023, US$ Billion)



Sukuk Outstanding by Region

(2023, US$ Billion)

Southeast Asia	414
GCC	359
Other MENA	30
Europe	28
South Asia	25
Sub - Saharan Africa	5
Other Asia	1
Americas	0.85

Sukuk issuance surpasses US$200 billion

Global Sukuk issuance reached a new high of US$228.5 billion in 2023, marking an 18% rise from the previous year. This high followed a deceleration in 2022 due to several rate hikes by central banks and fluctuations in the global capital markets. The surge in issuance in 2023 can be attributed to a variety of factors. These include an increase in sovereign issuances to maintain yield curves in key markets, sizeable offerings from non-traditional markets, and a significant increase in the issuance of green and sustainability Sukuk.

Sovereigns continued to lead Sukuk issuance, with their contribution rising from 60% of total Sukuk issued in 2022 to 64% in 2023. Most notably, the Saudi government undertook a series of refinancing activities during the year to refinance US$9.6 billion of its domestic Sukuk that were due to mature between 2024 and 2026. This was part of a broader strategy to maintain the Kingdom's ongoing presence in debt markets, manage upcoming debt repayments, and facilitate the financing of capital expenditures and infrastructure projects.

UAE gains ranking among top Sukuk issuance bases

Malaysia, Saudi Arabia and Indonesia were the top three issuance bases for Sukuk, collectively contributing 66% of total Sukuk issued in 2023, a drop from 76% in the previous year. At the same time, the UAE saw a significant increase in Sukuk issuance, doubling from the previous year, following the launch of the UAE Treasury Sukuk (T-Sukuk) and a record-breaking issuance of green and sustainability Sukuk.

In April 2023, the UAE's Ministry of Finance, in partnership with the Central Bank of the UAE, initiated the issuance of the dirham-denominated T-Sukuk, with a benchmark auction size of AED1.1 billion. This move was aimed at developing a local currency bond market, diversifying financing sources, enhancing the local financial and banking sector, and offering secure investment options for both local and international investors. Further, the UAE emerged as the leading issuer of ESG Sukuk in 2023. This was due to a surge in ESG financing frameworks initiated or accelerated by numerous issuers based in the UAE. This increase was in line with the region's intensified focus on the energy transition agenda, particularly in the lead-up to COP28 that opened at the end of November 2023.

Sukuk expands further into non-traditional markets

A number of non-traditional Sukuk markets witnessed significant debuts during 2023, garnering substantial investor interest. Egypt's Sukuk market reached a significant milestone in January 2023 with the issuance of the country's eagerly awaited debut sovereign Sukuk. The Sukuk raised US$1.5 billion and was oversubscribed four times, attracting bids worth over US$6 billion. This robust demand, especially from regional Shariah-compliant investors, highlighted the confidence of capital markets and investors in the Egyptian economy.

Towards the end of 2023, the Philippine government issued the country's first Sukuk, raising US$1 billion. The offering was nearly five times oversubscribed. This issuance was part of the country's agenda to promote the development of Islamic banking and finance. It also marked the establishment of an active, liquid benchmark curve for other Philippine issuers considering entering the Sukuk market in the future.

In Africa, Kenya saw the launch of the country's first Sukuk, the Linzi Sukuk, in September 2023. Through this issuance, property developer Linzi Finco Trust raised KES3 billion, with proceeds earmarked for funding the development of 3,069 institutional housing units, aligning with the government's Transformative Agenda. After a nine-year hiatus, the South African government returned to the market with its second Sukuk issuance. The debut domestic Sukuk, issued in November 2023, raised ZAR20.4 billion and was oversubscribed 1.77 times.

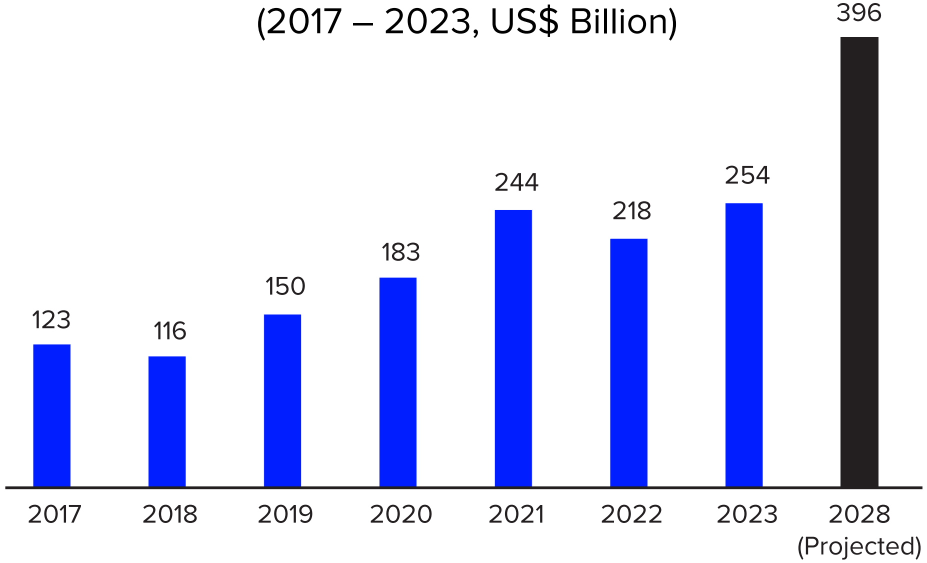
Islamic Funds

US$254 Billion
Total Islamic Funds AuM Outstanding in 2023

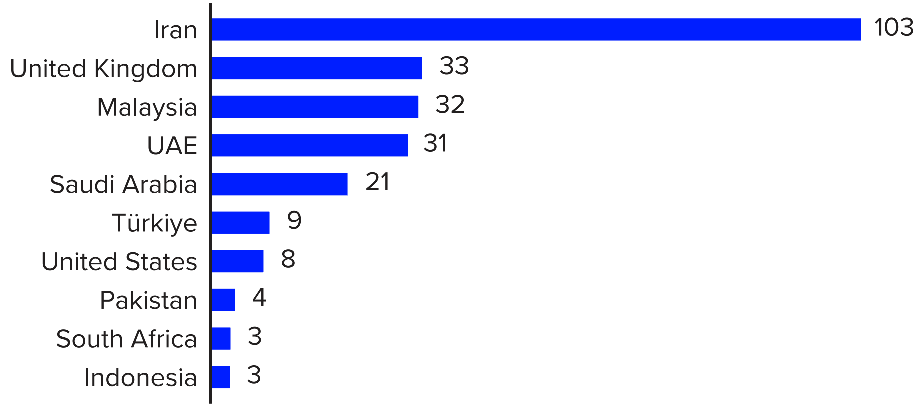
16%
Growth in Islamic Funds Outstanding in 2023

2,399
Number of Islamic Funds Outstanding

Islamic Funds AuM Outstanding Growth
(2017 – 2023, US$ Billion)



Top Countries in Islamic Funds AuM Outstanding
(US$ Billion, 2023)



Islamic Funds Outstanding by Region
(2023, US$ Billion)

Other MENA	103
Europe	46
GCC	54
Southeast Asia	36
Americas	9
South Asia	4
Sub - Saharan Africa	3
Other Asia	0.3

Islamic funds market recovering given improved economic sentiment

Total global AuM of Islamic funds reached US$254.5 billion at the end of 2023. This represents an annual increase of 16% as opposed to the annual decline in 2022 from 2021. This growth was driven by the launch of 239 new Islamic funds during 2023, bringing the total number of active Islamic funds to 2,399.

Global equities that registered strong gains in 2023 were another key contributor to the growth of Islamic AuM. This reflects the growth that was seen in some indicators such as the S&P 500 index that rose 24% during the year. 2023 also saw earnings beating forecasts, while optimism about an economic soft landing in certain markets bolstered positive investor sentiment.

Iran, Malaysia and the UK are the largest markets for Islamic funds, accounting for 75% of the global segment in 2023. For Malaysia, nearly 70% of Islamic funds domiciled in the country invest in the domestic market, complemented by a global investment approach. Malaysia is keen to continue to facilitate the growth of Islamic funds and enhance the capital market's accessibility. In January 2024, the federal government exempted unit trusts from capital gains tax for the next five years and foreign-sourced income tax for the next three years.

Achieving scale remains an issue for the Islamic asset management sector

More than 79% of Islamic funds manage less than US$50 million in assets with the largest share comprising funds managing US$1 million or less. Most of these funds are domiciled in Malaysia, Indonesia and Pakistan.

The relatively small size of Islamic funds contrasts with strong demographics favouring Shariah-compliant investments. Although global Islamic capital markets have seen impressive growth in the past five years, funds are still challenged by a limited supply of eligible Shariah-compliant investments.

Meanwhile, only 42 Islamic funds exceeded US$1 billion in value by 2023. These larger funds —such as pension funds, government entities and semi-government bodies—are primarily domiciled in Saudi Arabia, Türkiye, and the US. Institutional investors drive demand.

Islamic pension funds gaining traction in non-OIC markets

Although mutual funds dominate the Islamic funds landscape, Islamic pension funds are gaining more attention and also saw a higher growth of 22% compared to 6% for mutual funds during 2023. There has been increased focus on Shariah-compliant pension funds in non-OIC countries to meet the retirement savings needs of Muslim populations residing in those geographies.

A number of these pensions were established during 2023, such as Hejaz Group that introduced Australia's first Shariah-compliant pension product in 2023. Outside of the 2023 IFDI period of study, the Halal Workplace Pension was launched in the UK in February 2024 by Smart Pension and Wahed Invest.

ISLAMIC FINANCE DEVELOPMENT INDICATOR

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Islamic Finance Development Indicator (IFDI) is composite weighted index that measures the overall development of the Islamic finance industry. The information is comprehensively gathered from a universe of 136 countries and measured across more than 10 key metrics, including Knowledge, Governance, Sustainability and Awareness.

The database provides Islamic finance markets stakeholders with:

10+ years
Islamic finance industry financial data

560+
Islamic banks profiles across 76 countries

330+
Takaful operators data across 47 countries

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

1,900+
Islamic funds data from 29 jurisdictions

1,200+
Shariah scholars data and their board representation

880+
Islamic finance education providers

1,000+
Islamic finance events information

To access the IFDI page and the global Islamic finance database in Workspace, visit http://bit.ly/IFDI-Eikon

New users can contact IFG@lseg.com to request access.

For more information, please visit the LSEG Islamic finance website: https://lseg.com/en/islamic-finance. .

LSEG DATA & ANALYTICS

CHAPTER 3:
ISLAMIC FINANCE ECOSYSTEM

Governance

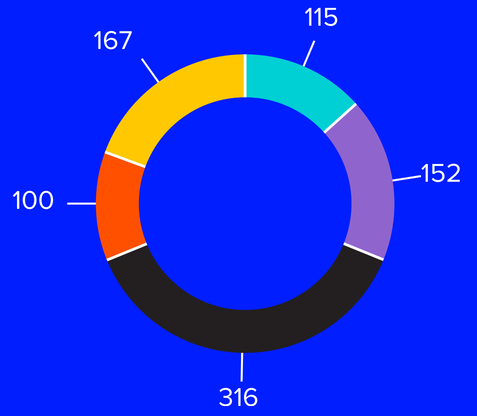
23
Number of Countries with Centralised Shariah Committee in 2023

1,512
Number of Shariah Scholars with Institutional Representation

73%
Scholars Representing Single IFI

69%
Average Disclosure Index by Public Islamic Banks

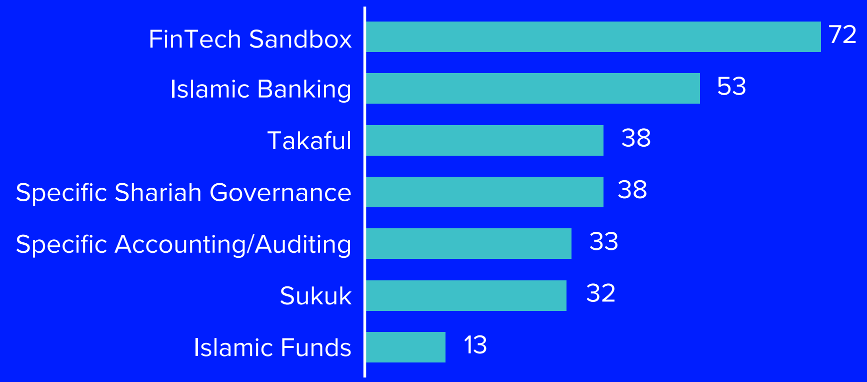
Number of IFIs per Number of Shariah Board Representatives (2023)



Top Countries in Governance Metrics (2023)

Ranking	Number of Scholars with at Least 1 Board Membership: Country	Number of Scholars	Number of Institutions with More than 3 SSB Members: Country	Number of IFIs	Disclosure Index for Public Islamic Banks: Country	Disclosure Index Score
1	Bangladesh	247	Bangladesh	57	Malaysia	93%
2	Indonesia	175	Malaysia	54	Indonesia	86%
3	Malaysia	173	Saudi Arabia	53	Bahrain	86%
4	Pakistan and Saudi Arabia	101	UAE	44	Nigeria	85%
5	Sudan	81	Kuwait	35	Kuwait	85%

Number of Countries per Regulation (2023)



Shariah governance continues to be the focus for capital markets regulators

In 2023, 102 countries had at least one type of regulation, most of which cover the Islamic banking sector. The newest jurisdictions to introduce Islamic banking regulations during this period were Russia and Uganda. Uganda's neighbour, Kenya, which already has six Islamic banks and windows, is still mulling a separate regulation for Islamic banks. Among its proposals is the establishment of a central Shariah council.

A component of the Islamic finance industry that is gaining more attention is the Islamic capital markets, which have seen new regulatory initiatives in different parts of the world, such as in the GCC and Asia. For instance, the Bangladesh Securities and Exchange Commission (BSEC) announced in early 2023 that it will form a separate capital market for Shariah-based securities such as Sukuk and Islamic mutual funds. This prompted the formation of a Shariah advisory board.

In Malaysia, the Securities Commission introduced the principles-based Maqasid Al-Shariah Guidance for its Islamic capital market in October 2023. The Guidance lists six aspirations: humanity, justice and benevolence, clarity and transparency, flexibility and innovation, fiduciary and accountability, accessibility and inclusivity. Each of these aspirations has its own principles, culminating in 15 principles in total.

New countries regulating, boosting Sukuk

Tanzania is another country that introduced Sukuk regulation in 2023 under the Capital Markets and Securities (Corporate and Subnational Sukuk Bonds) Regulations made under Government Notice No. 731 of 2023 (the Regulations).

Another African nation that has been active recently in the Sukuk market is Egypt, where the Cabinet amended its Capital Market Law in August 2023 to allow multiple issuance of Sukuk after obtaining a single regulatory approval from the Financial Regulatory Authority. Another amendment is the waiver of credit rating that helped lower issuance costs.

Strengthening of the Sukuk market continues in 2024. Malaysia provided regulatory flexibility from May 2024 for multilateral development banks, such as the Islamic Development Bank, to issue MYR-denominated Sukuk without approval from the central bank.

One country that intends to establish its own Islamic capital market is Sri Lanka, which aims to introduce Sukuk products in its local stock exchange, the Colombo Stock Exchange, by making amendments to the existing rules governing debt securities. This follows the technical assistance provided by the Asian Development Bank. Ethiopia is another nation looking to introduce Sukuk by instituting laws following the establishment of the Ethiopian Capital Market Authority and the Ethiopian Securities Exchange (ESX). The ESX issued a draft rulebook in April 2024 for public consultation and includes requirements for the listing of Sukuk securities on the exchange. As reported in the second half of 2024, Syria is also finalising a legislative project towards issuing Sukuk, whether these target public projects or private institutions. This follows a study by the Syrian Commission on Financial Markets and Securities on Sukuk and its importance.

Islamic finance market outlook and AAOIFI's role in developing the industry

The Islamic finance industry has come a long way and has developed to be a workable engine towards sustainable future growth of economies around the globe but it is equally important to recognise and acknowledge the achievements and strengths of the conventional financial industry. Therefore, AAOIFI as an institution has been aiming towards standardisation and harmonisation of its standards with conventional standards.

Whereas harmonisation aims for convergence of Islamic finance industry practices with its conventional counterparts, standardisation on the other hand establishes minimum benchmarks and good practices using principles and rules of Islamic finance. This helps Islamic financial institutions (IFIs) remain steadfast in the Shariah compliance of their transactions, products, services, governance structures, accounting and reporting etc.

Standardisation for IFIs leads to comparability, transparency, reliability, understandability as well as accountability to their stakeholders. This in turn benefits the economy, investors and IFIs themselves. Economic benefits of Islamic finance standards include attracting foreign investments, better resource allocation, increased wealth, improved international reputation, as well as attracting foreign talent and technology. Standardisation also helps investors to better forecast their business plans and support decision-making. It also helps IFIs to have better governance, lower cost of capital, costs reduction, high productivity, legal security, uniformity of processes, appropriate risk management, in addition to having higher adaptability and interoperability of their products and services across different jurisdictions.

As per S&P , the global Islamic finance industry continues to rapidly grow its assets but only in a few core markets. The ratings agency expects positive contributions from all the Islamic finance industry components to sustain this growth throughout 2024. It forecasts that the Sukuk market might face hurdles with the expected adoption of an AAOIFI Shariah standard on Sukuk. It further predicts that albeit with a slow start, sustainability and digitalisation are emerging sources of growth.

In this context, AAOIFI has played an important role with its primary objectives of the development, advocacy, and promulgation of Shariah, accounting, auditing, governance and ethics standards for IFIs and Islamic finance transactions and structures, including Waqf and other ancillary institutions, in line with Shariah principles and rules. As an institution, AAOIFI operates strictly in accordance with Shariah principles and rules. AAOIFI also works on creating awareness in respect of its primary objectives through, but not limited to, conferences, public hearings of its standards, seminars, publications, and advisory and assurance services. AAOIFI also aims to develop human resources and build capacity at institutional levels through offering professional development, educational and training programmes in furtherance of its primary objectives.

There are certain prerequisites to understand before developing, strengthening and safeguarding the integrity of the Islamic finance market, including:

a. aiming to develop a financial system that is free from all Shariah prohibitions and aims at fulfilling the Maqasid Al Shariah;
b. understanding that Islamic and conventional finance are fundamentally different and that the former possesses unique risks that cannot be addressed by conventional systems and standards; and
c. Islamic finance is rapidly expanding, and practices greatly vary from institution to institution and market to market, which could create severe trust deficit amongst its stakeholders.

II. Key challenges in the adoption of AAOIFI standards

The global Islamic finance market has a promising track record over the years as demonstrated by the 11% growth in its total global assets as reported by the IFDI, and its outlook looks promising. However, there remains certain strategic and operational challenges that need to be overcome on a continuous basis. Some of the key strategic challenges in the adoption of AAOIFI standards are discussed in the next page:

[2] Islamic Finance 2024-2025: Resilient Growth Anticipated Despite Missed Opportunities

a. Political will / mandate: There seems to be a lack of commitment from key decision-makers to undertake actions to prioritise Islamic finance (e.g. passing of laws, establishing infrastructure, creating incentives, etc. within their jurisdictions). Even where there is a presence of political will, the mandate may be found wanting, which does not allow for the prioritisation of Islamic finance.
b. Industry and individual mindset:
    i. Seeing no difference between conventional and Islamic banking systems: This is one of the major challenges in today's financial realm. However, material differences between conventional and Islamic banking have already been established at a global level, including by the International Monetary Fund (IMF), World Bank, European Central Bank (ECB), Bank of International Settlement (BIS) etc.
    ii. Not being fully convinced about the benefits of standardisation. Islamic infrastructure institutions such as AAOIFI, Islamic Development Bank (IsDB), Islamic Financial Services Board (IFSB), International Islamic Financial Market (IIFM) etc. must endeavour to collectively promote the idea of standardisation.
    iii. Standards incompatible with the official school of thought (Madhab) of the jurisdiction. It is unrealistic to assume that Islamic finance can entirely be based on a single school of thought.
c. Approach: It is noted that different regulators have different approaches to Islamic finance. It may either be to facilitate the faith-based needs of their citizens, facilitate economic growth by attracting foreign investment or establish a financial system that does not conflict with Shariah principles and rules. Whereas all the approaches have their respective benefits, the implications may vary. Those jurisdictions which do not prioritise Islamic finance end up giving minimum level support to the industry for its development and growth, which in turn affects the quality of adoption / implementation of the AAOIFI standards.
d. Perception: It may be perceived that the standards developed by Islamic standards-setting bodies are not of high quality. However, this may not be true. All these institutions adopt robust mechanisms to ensure that their standards pass through rigorous process, including public hearings, roundtables, expert comments, regulators' opinion wherever needed. AAOIFI standards are developed by leading Shariah scholars, regulators, practitioners and consultants, from different Islamic finance markets to ensure they are of high quality and adoptable by different jurisdictions and markets. AAOIFI standards are adopted in various levels by more than 40 jurisdictions around the globe.
e. Lack of awareness and advocacy: Despite having sustained efforts to spread awareness of principles and rules of Islamic finance there still exists sustained awareness among international stakeholders and pressure to undertake promotion of the Islamic finance market. This is equally true for academia, scholars, accountants, politicians and other industry players.
f. Incompatibility: The local institutional framework may either be weak, incompatible or non-existent (e.g. enforcement systems) with Islamic finance standards. This is further exacerbated when the standards are not written in the form of law or regulation, and where there is no flexibility or exemptions from the requirements of the standards. The regulatory and supervisory authorities (RSAs) must endeavour to spend resources to provide for their respective industry players flexible approach so that Islamic finance market develops to its potential.
g. Lack of capacity and expertise: There is lack of sufficient Islamic finance experts both in quantitative and qualitative terms to support various regulatory functions, mainly with respect to supervision and surveillance of Islamic financial institutions in the implementation of standards. It is also observed that some RSAs are reluctant to invest in their human resources, technology, supervision for proper adoption and implementation of standards.

Implementing AAOIFI standards may pose several operational challenges for IFI. These may include the following:

a. Human resource: There are certain quantitative and qualitative gaps in terms of demand and supply of Islamic finance human resources. In this context, AAOIFI offers professional fellowship programmes and workshops for capacity building and human resources development for the industry.
b. Financial considerations: Cost of implementation may be high as the requirements of the standards increase the cost of doing business. Compliance with AAOIFI standards may involve additional costs related to training, auditing, and system upgrades.
c. Adaptation to local regulations: Harmonising AAOIFI standards with local regulatory frameworks can be challenging, as they may have different requirements or interpretations of Islamic finance principles and rules. Also ensuring effective risk management such as Shariah compliance and financial reporting, requires robust internal controls and monitoring mechanisms aligned with local regulations.

d. Technical support: Operational guidance for proper implementation of standards is not available. There can also be lack of understandability (due to complexity and ambiguity) of standards. Another technical challenge can be lack of AAOIFI-compliant / compatible IT systems. AAOIFI has started compliance testing of major core Islamic banking systems with AAOIFI standards and Shariah in general.

e. Language barrier: Standards are not available in the official language of some of the countries, which impedes their understanding and leads to misinterpretation and misapplication at the implementation level.

III. Specific issues and challenges in adoption of AAOIFI standards

a. AAOIFI Shariah standards

i. There is often non-availability of trained Shariah scholars in the country, especially those who also have technical understanding of finance and banking.

ii. AAOIFI Shariah standards are at times seen as competition to the official Islamic school of thought (Madhab) being followed in a given country, which creates resistance and skepticism among its stakeholders.

iii. At times the legal framework of the country conflicts with the requirements of the AAOIFI Shariah standards. Although this can be tackled to a larger extent by giving neutral treatment to financial institutions willing to adopt them.

iv. Incapacity of the judicial system of the country to handle legal cases involving Islamic finance.

b. AAOIFI Financial Accounting Standards (FAS)

In certain jurisdictions their accounting framework may not allow adoption of AAOIFI FAS. To counter this challenge AAOIFI has taken the following strategic approaches for development and implementation of its FAS.

i. AAOIFI endeavours to have no overlapping with IFRS standards.

ii. Terminologies used in AAOIFI FAS and their treatment to be aligned to IFRS standards.

iii. AAOIFI FAS to make corrections in IFRS where there is a Shariah imperative.

iv. AAOIFI FAS will fill the gap in IFRS standards which does not address a Shariah imperative.

c. AAOIFI Governance and Ethics standards

It is widely believed that there is significant overlapping with the conventional corporate governance framework issued by IFSB, Basel, OECD, RSA, etc. However, it should be noted that conventional corporate governance frameworks do not necessarily address or cater to Shariah imperatives and specific characteristics of Islamic finance. Moreover, AAOIFI has a collaborative approach with other players in the market such as IIFM and works to avoid duplication in their mandates and frameworks which address the issue of overlapping. In addition, AAOIFI standards give reference to other non-AAOIFI standards, including conventional standards, wherever applicable.

IV. The way forward and roadmap for transitioning to Islamic financial system

a. Providing legal and regulatory infrastructure for Islamic finance: This may include repealing and replacing existing laws to make way for adoption and implementation of AAOIFI standards. This may also mean developing and updating current regulations, including amending the jurisdictions' tax and other relevant laws to align with global standards.

b. Elimination / reduction of Riba from the banking system: Many newer jurisdictions entering the Islamic finance market are in the process of converting their conventional banks to become Islamic. They have to step up their capacity building initiatives for the banking sector, capital markets, Takaful and social finance sector. In addition, they can set up monitoring and supervision plans and develop a robust response mechanism for conversion challenges, including availability of liquidity instruments, IT infrastructure, and adoption of Shariah compliance and fiduciary ratings mechanisms.

3 AAOIFI Footprint Report 2022 - https://aaoifi.com/download-2022/?lang=en

c. Elimination / reduction of Riba from the central banking operations: In line with the respective conversion plans, the conversion of dealings with federal / provincial governments needs to be planned. In addition, Sukuk and liquidity arrangements need to be made in line with respective monetary and economic policies, along with introduction of Shariah-compliant benchmark and discount rates.

d. Elimination / reduction of Riba from government borrowings: Bonds and Treasury bills need gradual conversion or adoption of Sukuk and / or similar Shariah-compliant instruments for government borrowings. Conversion of the national savings schemes, borrowing ceiling against assets, placement in Islamic modes, and planning for foreign debt conversion are also some of the suggested measures in this direction.

e. Capacity building: This needs to be done not only for the general industry staff, but also for bureaucracy and other relevant high-ranking staff. This will ensure correct understanding of the Islamic financial system (and AAOIFI standards) at all levels.

f. Development of Islamic capital market: Apart from developing the Islamic banking sector, the non-banking sector needs to be developed and provided support. This may include the insurance sector, Shariah-compliant stock market, commodities market, mutual funds, REITs, provident and pension funds, collateral management and electronic warehousing.

g. Development of Islamic FinTech: Turning towards digital banks, Islamic crowdfunding, FinTech companies and integration of FinTech into business practices is the need of the hour. These high-tech digital banking and technology firms are already challenging the existence of traditional brick and mortar financial institutions, leading digital transformation of the industry.

h. Development and integration of Islamic social finance: This includes improvements in the Zakat and Ushr system, use of Waqf as a social finance tool and supporting social microfinance. Encouraging innovation in Islamic social finance to address contemporary societal challenges could involve adapting traditional forms of social finance to modern contexts or exploring new avenues such as impact investing within Islamic finance principles. AAOIFI standards on Zakat and Waqf signify their role in promoting financial inclusion and sustainable development goals.

Syed Siddiq Ahmed

Senior Manager

Standards Implementation and Regulatory Authorities Relations at the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)

Syed Siddiq Ahmed joined AAOIFI in January 2018 and is responsible for coordination and communication with regulatory and supervisory institutions globally for implementation and adoption of AAOIFI standards. He is also responsible for industry-related research and AAOIFI's publication – Journal of Islamic Finance Accountancy – JOIFA. He also contributes to the development of AAOIFI standards, AAOIFI events, fellowships, public hearings, conferences and roundtables.

Sustainability

US$35.9 Billion	US$8.0 Billion	50	48%	US$1.3 Billion
Total Value of ESG Sukuk Outstanding in 2023	Total Value of ESG Islamic Funds Outstanding in 2023	Number of Countries with Sustainability Guidelines	Average Sustainability Reporting Index Score by Public Islamic Banks	Total CSR Funds Disbursed in 2023

Top Countries in Sustainability Metrics (2023)

	CSR Funds		Sustainability Disclosure Index by Public Islamic Banks		ESG Sukuk		ESG Islamic Funds	
Ranking	Country	Amount Disbursed (USD Million)	Country	Score	Country	Value Outstanding (USD Million)	Country	Value Outstanding (USD Million)
1	Saudi Arabia	804	Malaysia	91%	Saudi Arabia	10,131	United States	6,665
2	Jordan	219	Oman	74%	Malaysia	9,851	Malaysia	830
3	Qatar	74	Pakistan	72%	Indonesia	7,362	Saudi Arabia	243
4	UAE	65	Indonesia	72%	UAE	6,904	United Kingdom	93
5	Kuwait	51	Sri Lanka	70%	Bahrain	900	Türkiye	56

COP28 fuels another record year for green and sustainability Sukuk

Green and sustainability Sukuk issuance reached US$13.4 billion in 2023, exceeding the full-year total of US$9.4 billion for 2022. This marked the seventh consecutive record year of annual issuance since the market's inception in 2017.

By the end of 2023, ESG Sukuk constituted 1.6% of the total ESG bond issuance and 6.2% of the total Sukuk issuance.

Green Sukuk saw a rebound in issuance during 2023, making up 58% of the total value of ESG Sukuk issued. This was mainly driven by strengthening government commitment, especially among GCC countries, to mitigate climate change and achieve energy transition targets ahead of COP28.

In the lead-up to COP28 at the end of November 2023, many UAE-based issuers accelerated or initiated ESG financing frameworks amid an increased focus in the region on the energy transition agenda. UAE-based corporates issued a record US$4.4 billion worth of these Sukuk, which accounted for 33% of the world's sustainability Sukuk issued, making the UAE the largest issuance base for ESG Sukuk in 2023.

Several sovereign issuers in the region, including the Sharjah government, have initiated ESG financing frameworks amid a heightened focus on the energy transition agenda. In continuation of this trajectory, the governments of Qatar, Oman and Saudi Arabia have released their sustainable and green finance frameworks in 2024. This lays the foundation for the inclusion of green and sustainability bonds and Sukuk among their public finance tools.

In 2023, the Indonesian and Malaysian governments were the only sovereigns issuing ESG Sukuk, collectively raising US$12.9 billion, or 33% of cumulative issuance by the end of the year. This segment is expected to grow in the next couple of years as sovereigns in other traditional Sukuk markets develop ESG financing frameworks and conditions for debt issuance conditions begin to ease.

In April 2024, the London Stock Exchange Group (LSEG), in collaboration with the International Capital Market Association (ICMA) and the Islamic Development Bank (IsDB), published new guidance on the issuance of green, social and sustainability Sukuk. These guidelines aim to provide practical information for issuers and other market participants on how Sukuk can be labelled as green, social, or sustainability, and how they can align with the ICMA Principles. By demystifying the Sukuk asset class and establishing globally consistent standards, these guidelines contribute to the growth of sustainable finance instruments, including sustainable Sukuk, and play a crucial role in addressing climate funding gaps and supporting SDG targets.

In addition, ESG Islamic funds saw a rebound in 2023 with value outstanding reaching US$8 billion, up by 22.5% from 2022. The growth was driven mainly by positive fund flows from US-domiciled Shariah-compliant funds, which made up the majority of ESG Islamic funds in 2023.

Sustainability-linked Islamic financing gradually gathering pace

In January 2023, Gamuda Bhd obtained its first sustainability-linked Shariah-compliant financing facility totaling RM550 million with an added feature of a derivative solution to effectively manage financial risks. OCBC Malaysia was the sole sustainability structuring adviser for the deal.

In February 2024, mall operator Cenomi Centers secured a sustainability-linked Shariah-compliant financing agreement with a syndicate of top tier banks led by HSBC Saudi Arabia. The SAR5.25 billion facility consists of a 12-year sustainability-linked Murabaha facility in two tranches, in addition to a revolving four-year renewable Murabaha facility. The new facilities benefitted from improved pricing compared to previous financing facilities.

Meanwhile, OCBC Al-Amin Bank Berhad offered Malaysia's first foreign-currency green Islamic financing facility worth US$175 million to RHB Islamic Bank Berhad. The latter will use this bank-to-bank term facility to offer comprehensive environmental, social and governance (ESG) financing solutions to its clientele.

Interview with Omar Shaikh, Managing Director, Global Ethical Finance Initiative (GEFI)

I. What are the main challenges facing the development of Shariah-compliant investment products that aim to fulfil sustainability mandates? How does the Tayyib concept address these issues?

The main challenge is understanding the distinctions between sustainability and the current paradigm of Islamic finance, as there is a common misconception that Islamic finance is inherently green and sustainable.

Another challenge is understanding and accepting the urgency of prioritising environmental and social considerations in every financing decision, making these aspects central to business operations for both ethical and planetary reasons.

Additionally, navigating the landscape of sustainable finance can be challenging due to the presence of multiple frameworks; therefore, it is vital to focus on capacity building and seek expertise to guide necessary amendments to operational processes within financial institutions. This includes comprehending the implications of sustainability for the business, customers and clients, as well as assessing the operational competencies and capacity of the team. Identifying individuals with the requisite skill set and understanding to develop a sustainability framework or to provide third-party assessments within the organisation is also critical.

The Tayyib concept addresses those two main challenges. The principle of Tayyib helps align the concept of sustainable finance as practising conventional markets and global capital markets with principles embedded within Islamic finance ideology and philosophy. By using the language of Islamic finance, as the term Tayyib is mentioned in 46 verses in the Quran and often sits alongside the term Halal, it presents a paradigm within which to locate Islamic sustainable finance. This approach augments the existing Shariah compliance approach and encourages stakeholders to show that Islamic sustainable finance products can be commercially successful whilst also being more conscious about people and planet.

II. Tell us about the Islamic Sustainable Investing Platform (ISIP) and its main objective. How has the Tayyib concept inspired the development of this platform?

The Platform is a listing of independently assessed, validated and showcased Islamic investment products that are directly aligned to sustainability goals. The Platform is for Shariah-compliant asset managers and product originators, and focuses on four asset classes – Equity Capital Markets, Sukuk Capital Market, Real Estate and Impact Investing as reflected by Private Equity.

The main objective of the platform is to enhance choice for Islamic finance consumers with products that have enhanced sustainability considerations; empower asset managers by tactically aligning them to global agnostic liquidity pools seeking sustainability aligned deployment; and contribute the Islamic finance voice to global sustainability discussions by highlighting how Islamic philosophy can help navigate some of the tension points within mainstream ESG investing.

The Tayyib concept (pure, wholesome and impactful) inspired the development of the platform as it complements the existing "Halal" paradigm successfully built by the early Islamic finance pioneers and supports the development of the Islamic asset management sector. At its heart it seeks to reflect Shariah compliance coupled with enhanced focus on active sustainable (also referred to as ESG/Responsible) investing framed by Islamic values.

III. How are Islamic investments assessed and validated for inclusion in the platform?

Together with PWC Dubai, we will run an assessment process to confirm and validate these Islamic investments against the factors outlined below. The platform does not create yet another framework, as the approach taken is to check alignment with existing leading market frameworks. This means there is no extra burden for those signing up to the platform. Our assessment and validation include checking the formal Shariah compliance certificate, assessing engagement with or adoption of leading market sustainability frameworks and alignment and/or compliance with local applicable regulatory green and sustainability frameworks and international frameworks, including EU SFDR and UK SDR. We have also presented some fascinating additional considerations of "Tayyib inspired" factors that we use as a useful engagement tool with the product providers.

We will assess each case individually as ESG considerations can be subjective and maybe tailored and implemented differently for different reasons.

IV. How will ISIP support the growth of Shariah-compliant investment products that align with sustainability goals?

The platform seeks to showcase and promote Islamic financial products that align with sustainability across the Global Ethical Finance Initiative (GEFI), UK Islamic Finance Council (UKIFC) and other established networks of global events and convening forums. The intent here is to demonstrate to the world that it possible to achieve both commercial success in a Shariah-compliant manner in a way that takes into account people and planet.

GEFI and UKIFC together with our partners have a powerful platform, with strong global reach where we can genuinely showcase and undertake strong advocacy for the products listed. By showcasing these products across the extensive GEFI network of events from COP to the Ethical Finance Summit in Edinburgh, the ASEAN summit to our Dubai summits along with our 15,000+ global database, our ASSET TV partnerships as well as other global partnerships, we hope to inspire and encourage other stakeholders in the ecosystem to adopt this approach and methodology.

Omar Shaikh

Managing Director

Global Ethical Finance Initiative (GEFI)

A Chartered Accountant by profession, Omar specialises in ethical/responsible finance, Islamic finance and private equity. He has extensive experience in financial services and has advised multiple governments and regulators as a leading advocate for sustainable and Islamic finance and specialises in ecosystem building. His background includes working with EY London where he qualified as a CA and was the former Head of Islamic finance.

Through his work he has established a number of initiatives including the Path to COP, finance for nature project and SDG Financial products platform with UNDP which promotes innovative financing structures for the SDGs, the Global Islamic Finance and UN SDGs Taskforce launched with the UK Government and IsDB and the award-winning interfaith Edinburgh Finance Declaration the world's first shared values approach to finance between Islamic finance and the Church.

Omar received a BACC from the University of Glasgow and holds select board advisory roles including the UK Islamic Finance Council and The Prince's Trust Scotland.

Knowledge and Awareness

1,007	508	5,162	347	531	387	10,534
IF Education Providers in 2023	IF Degree Providers in 2023	IF Research Papers Produced between 2021 and 2023	IF Journals in 2023	IF In-Person Events in 2023	IF Online Events in 2023	IF News in 2023

Top Countries in Knowledge and Awareness Metrics (2023)

	Education		Degree		Research Papers		Journals	
Ranking	Country	Number of IF Education Providers	Country	Number of IF Degree Providers	Country	Number of IF Research Papers Produced	Country	Number of IF Journals
1	Indonesia	347	Indonesia	178	Indonesia	3,582	Indonesia	308
2	Pakistan	149	Pakistan	36	Malaysia	475	Saudi Arabia	9
3	Saudi Arabia	63	Malaysia	33	Türkiye	210	Malaysia	8
4	Malaysia	52	Saudi Arabia	32	Saudi Arabia	192	Türkiye and Pakistan	5
5	UAE	48	Türkiye	22	Pakistan	168	UK and US	3

	In-Person Events		Online Events		News	
Ranking	Country	Number of In-Person Events	Country	Number of Online Events	Country	Number of News
1	Pakistan	143	Kuwait	134	Pakistan	1,545
2	Indonesia	135	Malaysia	53	UAE	1,323
3	Malaysia	83	Indonesia	49	Saudi Arabia	1,184
4	Türkiye	20	Bahrain	38	Malaysia	752
5	United States	15	Saudi Arabia	29	Bahrain	642

Increased focus on awareness and education on Islamic capital markets

The recent upward trajectory of Islamic financial institutions such as Islamic FinTechs that focus on Islamic capital market investments imply a high demand for products such as Sukuk, Shariah-compliant equities, and Islamic funds. Increasing interest in these products require potential investors to learn their fundamentals. For instance, some Islamic financial institutions that offer services related to the Islamic capital markets, such as Saturna Capital and ETHIS, hosted awareness sessions on Islamic equities.

In Malaysia, which was home to 14% or US$32.0 billion, of the world's Islamic funds outstanding in 2023, awareness activities were carried out to meet the demand for Islamic investment opportunities. The efforts included 37 Bursa Academy sessions on Islamic capital markets that covered topics such as Islamic equities fundamentals and technical analysis, Shariah-compliant indices, Islamic social finance concepts in Islamic capital markets, and ETFs for retail investors. The sessions were conducted in Bahasa Malaysia and English.

In October 2023, Malaysia's Securities Commission launched a Shariah Mentorship Programme to increase the pool of Shariah professionals in the Islamic capital market. The programme aims to increase the number of professionals with regulatory expertise and technical knowledge of the Islamic capital markets. The first cohort graduated 15 participants and the second cohort of 15 started in July 2024. The programme encompasses topics like Islamic fund management, equity, Maqasid Shariah, and Sukuk markets. The programme is run in partnership with ISRA Consulting.

Indonesia, which was home to US$99.3 billion of Sukuk outstanding and US$3.0 billion of Islamic funds outstanding, has focused on educating audiences in several regions on Islamic capital markets through roadshows by the non-profit organisation Masyarakat Ekonomi Syariah along with the Indonesian Stock Exchange discussing current investment styles.

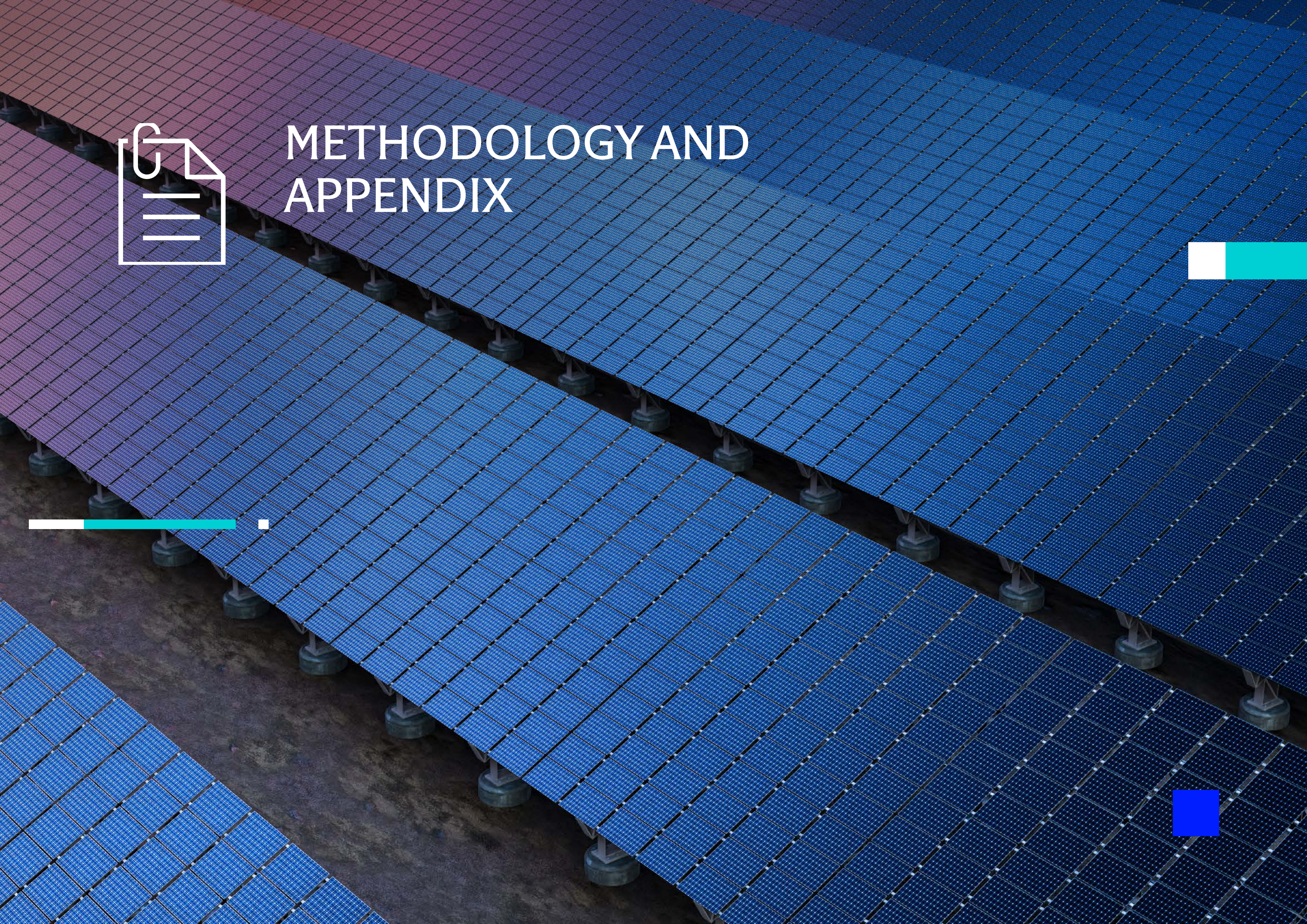
In Pakistan, the State Bank of Pakistan (SBP) and the Securities Exchange and Commission (SECP) in 2023 stepped up efforts to educate and increase awareness on Islamic finance as the country moves forward to become a fully Shariah-compliant financial system. In May 2023, the SECP and AAOIFI jointly hosted the country's inaugural Islamic Capital Markets Conference. Key challenges were highlighted throughout the conference, including the low 8% share of Sukuk outstanding of the total government debt obligations that must be converted. Another highlight is the need to raise awareness for corporates about the use of Sukuk given the low volume of corporate Sukuk as well as conventional debt, about 1% of the total GDP. This compares to 75% percent share of Sukuk to GDP in Malaysia, as estimated by IFDI.

Increased coverage on green and sustainable Islamic finance ahead of COP28

Ahead of the UAE hosting the 2023 edition of the United Nations Climate Change Conference (COP28) at the end of November, a large proportion of news coverage focused on the development of green Islamic finance, especially with regards Sukuk. A series of initiatives was announced during the event, such as the partnership between IsDB, the International Capital Markets Association (ICMA), and LSEG on the green Sukuk guidance for practitioners.

There was also an abundance of news ahead of the event carrying statistics and initiatives related to sustainable Islamic finance. There was also a lot of news covering the large number of green Sukuk that went on to contribute US$6.9 billion in amount outstanding in 2023. An enabling factor for this in the UAE was the exemption of registration fees for green or sustainability-linked Sukuk by the Securities and Commodities Authority of the UAE, a move that encouraged companies to issue such Sukuk.

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 needs to constantly advance and innovate to stay ahead of the curve and not merely maintain the strength of its core industry. Islamic financial institutions, market players, regulators and other authorities have made determined efforts to seek out one another 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 from 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 – Financial Performance, Governance, Sustainability, 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 score of 200.

The data employed in the Islamic Finance Development Indicator (when aggregating data and computing indicator scores) 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 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 2024 covers 136 countries and dependencies that practise Islamic finance either directly or in other metrics such as news, education, or events related to 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
Vietnam

South Asia

Afghanistan
Bangladesh
India
Maldives
Nepal

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
France
Georgia
Germany
Greece
Guernsey
Hungary
Ireland
Italy
Jersey
Latvia
Liechtenstein
Luxembourg
Macedonia
Malta
Netherlands
Norway
Poland
Portugal
Romania
Serbia
Slovakia
Slovenia
Spain
Türkiye
Ukraine
United Kingdom

Other Asia

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

Americas

Bahamas
Bolivia
Brazil
Canada
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
Mauritius
Mozambique
Namibia
Niger
Nigeria
Rwanda
Senegal
Seychelles
Sierra Leone
Somalia
Somaliland
South Africa
Tanzania
Togo
Uganda
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Zimbabwe

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Disclaimer

The data in this report is believed to be correct at the time of publication but cannot be guaranteed. Please note that the findings and conclusions that the report delivers are based on information gathered in good faith from both primary and secondary sources, the accuracy of which we are not always in a position to guarantee. The findings, interpretations, and conclusions expressed in this report do not necessarily reflect the views of LSEG.

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About Our Islamic Finance Offerings at LSEG

At LSEG®, we build on our expertise and knowledge of Islamic finance to address key industry challenges and transform them into growth opportunities. Our Islamic finance business will enable your organization to unlock its potential and explore strategic growth opportunities through our industry-leading market intelligence and customised solutions.

We offer tools and applications to capitalise on Islamic finance opportunities, including insights and analysis via Workspace, Shariah-compliant asset performance tracking, Islamic finance workflow solutions, and more. This includes over 13,800 active sukuk profiles, more than 30,000 stocks screened for Shariah compliance and profiles of over 1,700 Islamic finance entities.

Market data

We are the world's leading independent source of intelligent information and data. Through our platform, Workspace, we provide real-time data on Sukuk, money market, equities, indices and funds in addition to news, research and a comprehensive database of Shariah and legal content. We also provide exclusive access to the IFDI database, which includes underlying data covering different sectors and asset classes.

Market research and intelligence

Our award-winning research house delivers reliable insights and market intelligence by leveraging our human expertise and industry networks. Our experts produce more than 15 reports on an annual basis, covering various Islamic finance industries, markets and asset classes and offers in-depth analysis and insights.

Trading solutions

Our cutting-edge solutions are designed to address the entire trading cycle for Islamic finance instruments, including primary dealing and secondary markets. Our innovative workflow solutions include LSEG's post-trade solution Islamic Deal Connect (IDC), a comprehensive tool for key treasury functions including trading, bilateral transactions and portfolio management that supports Islamic finance institutions through their daily activities.

Content and events

We provide bespoke event content through our wide network of experienced professionals. Our coverage includes conferences, seminars, roundtables, awards, newsletters, social media and more

Sustainable finance

Our Islamic finance proposition provides access to exclusive market data, news and reports covering the latest trends on sustainability, including ESG data and scores for various asset classes covering funds, equities, banks, indices, green and ESG Sukuk.

Indices solutions

Through FTSE Russell, LSEG creates leading Islamic index solutions that allow Islamic institutions to benchmark their investment performance and create world-class index-based investment products, including Sukuk, equities, ESG, ETFs, mutual funds, etc.

For more information, visit us online at https://www.lseg.com/en/data-analytics/islamic-finance

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