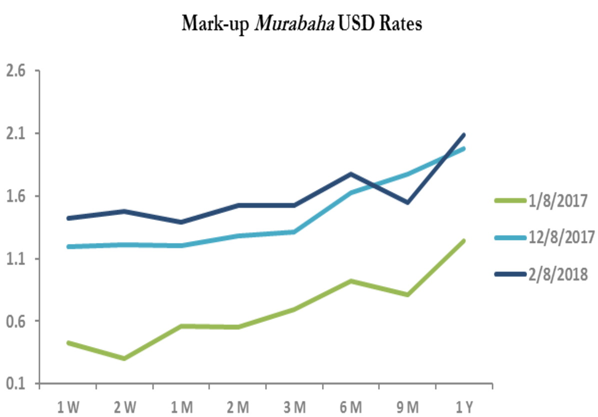
WORLD BANK GROUP
Finance, Competitiveness & Innovation
Global Islamic Finance Development Center

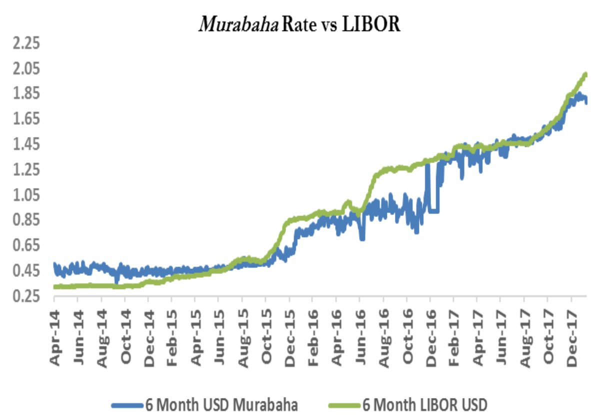
ISLAMIC FINANCE BULLETIN

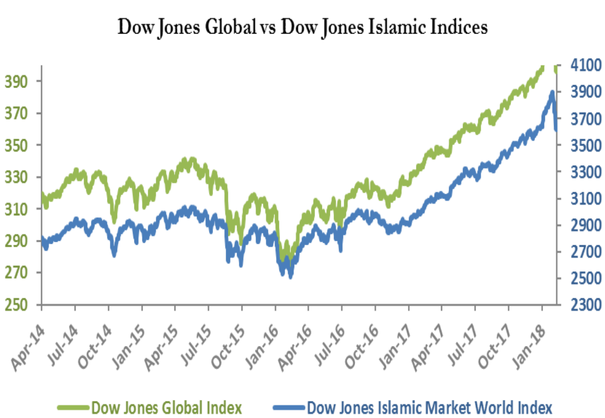
Issue 31, January 2018

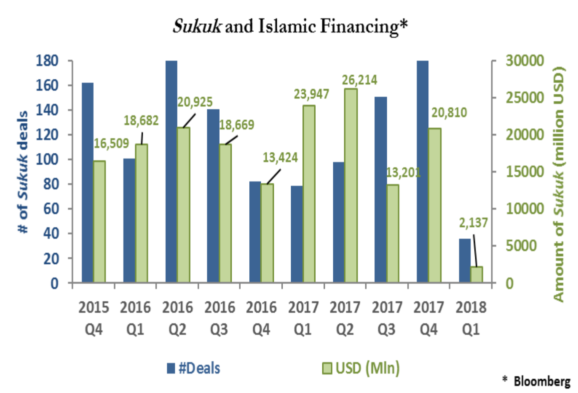
World Bank and IDB Launch Report on Mobilizing Islamic Finance for PPPs	2
Uganda to Publish Islamic Banking Rules	2
Indonesia to Revise P2P Lending Regulation to Include Shariah-Compliant Financing	3
UK Islamic FinTech Panel Launched	3
Islamic Finance Assets Seen at $3.8tn by 2022	4
Gulf Governments to Continue Tapping Global Debt Markets this Year	4
Uncertain Outlook for Sukuk Issuance in 2018	5
New Publications	6
Upcoming Events	6
Glossary	7

	Value	MoM	QoQ	YoY
	2/8/18	12/8/17	10/8/17	1/8/17
Equity				
Dow Jones Islamic Index	3616.96	▲1.13%	▲4.23%	▲22.20%
Dow Jones Global Index	396.34	▲1.69%	▲4.39%	▲19.36%
MSCI Islamic Index	1312.83	▲0.30%	▲1.79%	▲13.39%
MSCI World Index	2101.07	▲1.33%	▲4.32%	▲17.83%
MSCI Emerging Market Index	1173.38	▲5.64%	▲6.37%	▲33.17%
Fixed Income				
LIBOR 6 Month	1.9919	▲0.262	▲0.473	▲0.668
Murabaha USD 6 Month	1.7772	▲0.152	▲0.284	▲0.857
Dow Jones *Sukuk* Index	101.43	▼-1.16%	▼-1.80%	▼-0.65%









* Bloomberg

World Bank and IDB Launch Report on Mobilizing Islamic Finance for PPPs

On January 18, 2018, the Islamic Development Bank Group (IsDBG) and the World Bank Group officially launched the landmark PPIAF-funded report "Mobilizing Islamic Finance for Infrastructure Public-Private Partnerships" with an event in Washington, DC. The event illustrated how Islamic finance has already been applied in infrastructure projects through PPP schemes, what are the structural challenges and solutions, and what can be done to maximize the use of Islamic finance for this purpose.

The event aimed to raise awareness about potential infrastructure developments through PPP, especially in developing countries.

"The IDB, in partnership with the World Bank, will work to unlock the potential of the $1.9 trillion Islamic finance market to mobilize resources for infrastructure development projects using public-private partnership (PPP)," IDB vice president Dr. Mansur Muhtar said.

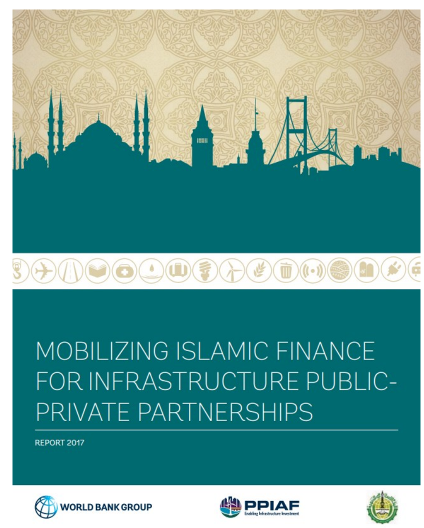
The vice president discussed issues included in IDB's report "Mobilising Islamic Finance for Infrastructure-Public Private Partnership."

Dr. Mahmoud Mohieldin, World Bank senior vice president on sustainable development goals, said: "One of the advantages that the IDB has in using Islamic finance is localization.

"The IDB has worked in many villages in its areas of operation, and has always demonstrated how localization helps in benefiting from Islamic finance."

Given our expertise in this niche space, our organizations have the unique ability to direct the funds that "both meet the needs of investors and the needs of ordinary people through infrastructure development…as well as develop Islamic finance knowledge, capacity, tools, and products to maximize its contribution to development," said Hartwig Schafer, Vice President of Global Themes at the World Bank Group.

The report can be downloaded by clicking the cover picture below:



Uganda to Publish Islamic Banking Rules

The Ugandan government has approved regulations regarding the provision of Islamic finance, while the country's central bank is expected to publish the rules in the coming months to improve financial inclusion.

Once published, the central bank will be looking for application from financial institutions wanting to offer Shari'ah-compliant financial services.

Uganda is the latest among a collection of African countries looking to offer interest-free banking products for their Muslim populations.

Despite small populations of Muslims, countries such as Uganda, Kenya and Ethiopia are also developing the sector to expand financial access and inclusion among rural communities.

In December 2017 the central bank became a member of the Islamic Financial Services Board.

Source: Salaam Gateway

Photo Credit: salaamgateway.com

Indonesia to Revise P2P Lending Regulation to Include Shariah-Compliant Financing


Photo Credit: salaamgateway.com

Indonesia's Financial Services Authority (OJK) will revise its regulation for peer-to-peer (P2P) lending in the second quarter of this year at earliest to accommodate the growing P2P Shariah-compliant financing sector, Hendrikus Passagih, its director of Fintech Supervision and Licensing Arrangement told Salaam Gateway.

According to Passagih, the regulation, issued on December 2016, only governs conventional P2P lenders. It stipulates that P2P lenders must be registered with OJK, have $200,000 in capital before they can be approved for an operating license, and cap loan values at $150,000.

"We will issue a new regulation as soon as possible this year. The existing regulation (POJK No.77/2016) is not related to Shariah-compliant products. It should be updated to meet current needs," he said.

The regulator is working with the National Sharia Board of the Indonesian Council of Ulema (DSN-MUI) on the new fintech regulation for Shariah-compliant P2P financing.

"We have already summarized every underlying Shariah contract that has been used by fintech, for example wakalah and murabahah," said Passagih.

300 billion Indonesian rupiah ($22.4 million) in Shariah-compliant financing by P2P platforms were disbursed to 22,000 customers as at January 29 this year, said Passagih.

Conventional P2P lending stands at 2.6 trillion rupiah to 250,000 people for the same period.

Total Shariah-compliant financing from non-bank financial institutions has reached 30 trillion rupiah.

Overall, bank lending in the country stands at around 500 trillion rupiah.

Passagih expects Shariah-compliant financing from P2P start-ups to grow three to five times this year.

Since OJK's December 2016 fintech regulation, the number of P2P start-ups has grown to more than 30 companies, representing 35 percent of all start-ups in the last year, according to OJK.

Source: Salaam Gateway

UK Islamic FinTech Panel Launched


Photo Credit: stephane-castellani.com

An independent group of Islamic Finance and FinTech practitioners came together on 24 January for the inaugural meeting of the UK Islamic FinTech Panel. The panel aims to create momentum in the Islamic FinTech sector by building on London's position as a global FinTech hub and as a recognised centre for Islamic Finance.

The Islamic FinTech Landscape published in December 2017, by RedMoney Group found that of the approximately 116 Islamic FinTech firms globally, 18 were founded in the UK, making it the second largest hub for Islamic FinTech after Malaysia with 21. Indonesia has 15 such firms, the UAE has 15 and the US has 14.

In its first year the UK Islamic FinTech Panel will seek to:

- identify the challenges in the sector
- explore tangible avenues to overcome these
- build cohesion in the community
- promote the Islamic FinTech sector
- drive the policy agenda

Source: The National Law Review

Islamic Finance Assets Seen at $3.8tn by 2022

Photo Credit: zawya.com

The Islamic finance industry is climbing to new heights on the back of strong global demand for sustainable and socially responsible investments, the newly released fifth edition of the Islamic Finance Development Report and Indicator, or IFDI, found. It states that growth in the industry is unabated despite a partial economic slowdown in a number of the industry's main markets caused by the decrease in oil revenues over the past years.

"The data makes it clear that the industry is continuing to grow and develop despite the slowdown," says Mustafa Adil, Head of Islamic Finance at Thomson Reuters.

"It is evident that Islamic finance can serve as a strategic tool for policymakers to cope with the slowdown, especially in the Middle East. This can be seen in the many steps taken by governments and regulatory authorities such as introducing new regulations for the Islamic finance sector, raising awareness of the industry among potential market players through hosting seminars, or building a roadmap to plot development of the overall industry."

In the view of those facts, the report estimates that the Islamic finance industry will reach a global asset volume of no less than $3.8tn by 2022, up from $2.2tn at the end of 2016, which translates into an expected compound annual growth rate of 9.5%.

The key measurement in the report is the Global Islamic Finance Development Indicator which provides rankings and profiles for different Islamic finance markets around the world, drawing on instrumental factors grouped into five broad areas, namely quantitative development, knowledge, governance, corporate social responsibility and awareness. The indicator does not just focus on the overall size and growth of Islamic finance sectors in different countries, it also evaluates the strength of the overall ecosystem that assists in the development of the industry.

Source: Gulf Times

Gulf Governments to Continue Tapping Global Debt Markets this Year

Photo Credit: khaleejtimes.com

The amount of bonds and sukuk issued in the Gulf region hit a record high of over $70 billion last year, fuelled by sovereign governments, who raised 70 percent of the total, according to a new study.

The figure represented a $10 billion (16.7 percent) increase on the amount of debt raised on capital markets in the previous year.

A white paper published by FischAsset Management/Emirates NBD Asset Management stated that 2017 represented the second year where sovereign governments had embarked on aggressive external debt issuance programmes as they seek to fill budget deficits caused by lower oil revenues.

However, it said there had been plenty of appetite among investors to purchase the debt instruments issued, with 75 percent sold to investors outside the Gulf Cooperation Council (GCC) area. The bulk of the debt was raised by conventional bonds, but $2.25 billion was raised via Shariah-compliant sukuk.

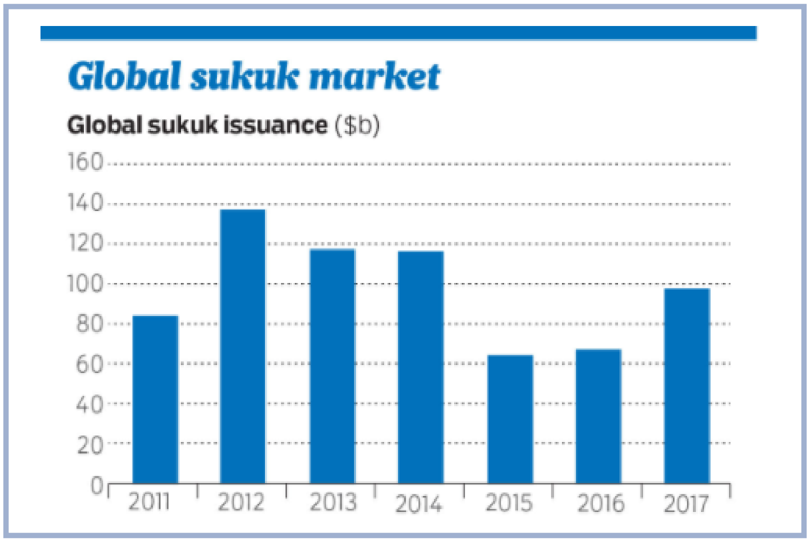
The report said that GCC issuers made up the lion's share of the hard currency market for bonds in the wider Central Eastern Europe, Middle East and African (CEEMA) market, which has traditionally been dominated by Russia and Turkey. Four out of five of the 'jumbo' ($5 billion-plus) bond issuances in this market last year came from Gulf sovereigns (two from Saudi Arabia, one from Abu Dhabi and one from Kuwait). It also argued that this trend was likely to continue throughout 2018.

Source: Zawya

Uncertain Outlook for Sukuk Issuance in 2018

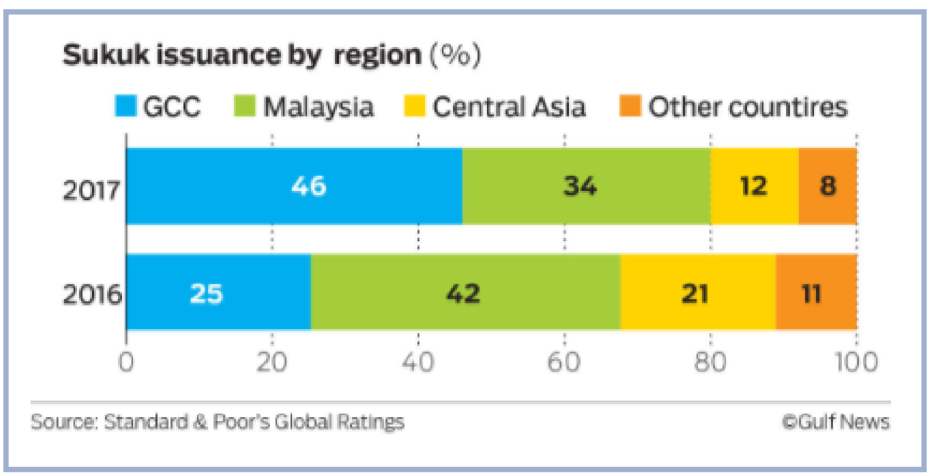
Outlook for global sukuk issuance appears uncertain in 2018 after strong performance in 2017, according to rating agency Standard & Poor's.

Sukuk issuance in 2017 increased by 45.3 per cent, reaching $97.9 billion (Dh359.58 billion), up from $67.4 billion in 2016, underpinned primarily by the jumbo issuances of some GCC countries and supported by strong liquidity conditions in the GCC and initiatives by some countries to develop Islamic financial services industry.



"While we still foresee significant financing needs for core Islamic finance countries, tighter global liquidity conditions, mounting geopolitical risks, and slow progress on the standardisation of Islamic finance products will continue to hold the market back from its full potential," said S&P's credit analyst Mohammad Damak.

Jumbo local and foreign currency issuance by some GCC sovereigns drove the sukuk market higher in 2017. The $9 billion sukuk issued by Saudi Arabia was the largest issued globally to date. The market also continued to attract some Islamic finance noncore countries, with Hong Kong tapping the market for the third time and the first issuance of a sukuk in Nigeria.



"We expect this trend to continue as Morocco and Tunisia plan to tap the market in 2018 and the UK announced its intention to go to the market again in 2019 upon the maturity of the sukuk it issued in 2014.

While we believe the financing needs of some Islamic finance core countries will remain high, we expect that total issuance will likely decline to $70 billion-$80 billion in 2018," said Damak.

Global liquidity is likely to tighten this year in contrast to easy liquidity conditions in 2017. While the federal funds' rates are expected to increase by 75 basis points (three hikes), central banks in the GCC countries are likely to mirror US rate increases due to the peg of their currencies with the US dollar.

In the same vein, the European Central Bank (ECB) has announced it will start reducing the pace of its asset purchases from January 2018, to €30 billion (Dh133.47 billion) a month, down from €60 billion. It will likely end its programme only in 2019 and start to raise rates by then.

"Overall, we think that the cost of funding for issuers will rise and that liquidity from developed markets channelled to the sukuk market will reduce or become more expensive. Liquidity conditions in GCC countries improved last year. The increase in oil prices, which we now expect to remain at about $55 per barrel, helped. At the same time, muted economic growth and declining lending activity shifted banks' focus from lending to capital market activities where they sought higher yields than for cash and money market instruments," he said.

Source: Gulf News

New Publications

GIES 2016 Review: Shaping a Better Future	Download Publication
Overview of Islamic Finance Development in UAE	Download Publication

Upcoming Events (Feb—April 2018)

Blockchain for Islamic Banking and Finance Summit	Dubai, United Arab Emirates	22 Feb 2018	Event Details
12th IFSB-INCEIF Executive Forum: Preserving Wealth and Generating Long-term Value through Islamic Finance	Kuala Lumpur, Malaysia	6-7 March 2018	Event Details
The 12th International Conference on Islamic Economics and Finance	Makkah, Saudi Arabia	18 March 2018	Event Details
The 1st International Congress on Islamic Economy and Finance: The Past and the Present (ICOIEF'18)	Safranbolu, Turkey	28-30 Apr 2018	Event Details

Description of Data:

Dow Jones Sukuk Index: The Dow Jones Sukuk Index is designed to measure the performance of global Islamic fixed-income securities—also known as sukuk. The index includes U.S. dollar-denominated investment-grade sukuk issued in the global market that have been screened for Shari´ah compliance according to the index methodology. The index was created as a benchmark for investors seeking exposure to Shari´ah-compliant fixed-income investments.

The Dow Jones Sukuk Index follows the same consistent, quantitative methodology as the Dow Jones Islamic Market™ (DJIM) Indices, which are monitored to ensure their continued adherence to Shari´ah principles.

Bloomberg USD Emerging Market Composite Bond Index: The Bloomberg USD Emerging Market Composite Bond Index is a rules-based, market-value weighted index engineered to measure USD fixed-rate securities issued in emerging markets as identified by Bloomberg. Emerging market issuers can be found at function EMWH . The major components of the index are the Bloomberg USD Emerging Sovereign Bond Index, Bloomberg USD Emerging Market Corporate Bond Index, Bloomberg USD Investment Grade Emerging Market Bond Index and Bloomberg USD High Yield Emerging Market Bond Index. To be included in the index a security must have a minimum par amount of 100MM.

LIBOR USD 6 Month: London - Interbank Offered Rate - ICE Benchmark Administration Fixing for US Dollar. The fixing is conducted each day at 11am & released at 11.45am (London time). The rate is an average derived from the quotations provided by the banks determined by the ICE Benchmark Administration. The top and bottom quartile is eliminated and an average of the remaining quotations calculated to arrive at fixing. The fixing is rounded up to 5 decimal places where the sixth digit is five or more.

Dow Jones Islamic Market World Index: The Dow Jones Islamic Market World Index is a global index of companies that meet Islamic investment guidelines. The index is quoted in USD.

Dow Jones Global Index: The index measures the performance of stocks that trade globally, targeting 95% coverage of markets open to foreign investment. It is float market cap weighted. It is quoted in USD.

MSCI World Islamic Index: The MSCI World Islamic Index is a free-float weighted equity index. It was developed with a base value of 1000 as of May 31 2007.

MSCI World Index: The MSCI World Index is a free-float weighted equity index. It was developed with a base value of 100 as of December 31, 1969. MXWO includes developed world markets, and does not include emerging markets.

MSCI Emerging Markets Index: The MSCI Em (Emerging Markets) Index is a free-float weighted equity index.

Bloomberg Takaful Index: Bloomberg Takaful Index is a capitalization-weighted index of all globally listed Takaful-recognised companies. Takaful is an Islamic term meaning mutual support, which is the basis of the concept of insurance or solidarity among Muslims. This is a form of insurance based on mutual assistance. The index was developed with a base level of 100 as of April 15, 2009

Murabaha Deposit Rates: Murabaha Deposit An agreement that refers to the sale and purchase transaction for the financing of an asset or project whereby the costs and profit margin (mark-up) are made known and agreed by all parties involved. The settlement for the purchase, which can be done in cash or in installments, will be specified in the agreement. Use all prices available in the terminal and updated within the last three working days. Banks that do not price for more than 3 days are excluded from the daily calculation. Islamic Market Reference Rate is calculated by Bloomberg using contributed rates from several local and international banks. Reference rates are calculated by taking the average bid & ask of the contributing banks, after eliminating the 4 highest and 4 lowest values.

Glossary Of Key Terms

Ijara	This is a lease contract wherein the Bank (lessor) leases the property to the customer (lessee) in return for a rental payment for a specified financing period. The Bank promises to transfer the title of the property to the customer at the end of the
Mudaraba	Trustee finance contract: One party contributes capital while the other contributes effort or expertise; profits shared according to a predetermined ratio; investor not guaranteed a return and bears any financial loss; no fixed annual payment; financier has no control on how venture is managed.
Murabaha	Sale with agreed mark-up: Financing purchase of assets for a profit margin; asset purchased on behalf of client and resold at a pre-determined price; payment could be lump sum or in installments; ownership of asset remains with bank till full payments made
Musharaka	Partnership; equity participation contract: Both parties contribute capital; profits shared by a pre-determined ratio, not necessarily in relation to contributions; losses shared in proportion to capital contributions; both parties share and control how investment is managed; each partner liable for the actions of the other
Shari'ah Board	An independent body set up by an Islamic bank with the mandate of ensuring that the Islamic bank achieves and maintains the mandate of *Shari´ah* compliance.
Sukuk	An Islamic financial certificate, similar to a bond in Western finance, that complies with *Shari'ah*, Islamic religious law. Because the traditional Western interest paying bond structure is not permissible, the issuer of a *sukuk* sells an investor group the certificate, who then rents it back to the issuer for a predetermined rental fee. The issuer also makes a contractual promise to buy back the bonds at a future date at par value.
Salam	*Salam* is a sale whereby the seller undertakes to supply some specific goods to the buyer at a future date in exchange of an advanced price fully paid at spot. The contract of Salam creates a moral obligation on the Salam seller to deliver the goods,. The Salam contract cannot be cancelled once signed.
Takaful	The term '*takaful*' is derived from an Arabic word which means solidarity, whereby a group of participants agree among themselves to support one another jointly against a defined loss. In a *takaful* arrangement, the participants contribute a sum of money as wholly or partially *taburru'* (donation) into a common fund, which will be used for mutual assistance for the members against a defined loss or damage, according to the terms and conditions of the *takaful*.
Istisna'	*Istisna'* s the kind of sale where a commodity is transacted before it comes into existence. It means to order a manufacturer to manufacture a specific commodity for the purchaser. If the manufacturer undertakes to manufacture the goods for him with material from the manufacturer, the transaction of *istisna'* comes into existence. But it is necessary for the validity of *istisna'* that the price is fixed with the consent of the parties and that necessary specification of the commodity (intended to be manufactured) is fully settled between them.
Wakala	*Wakala* is the agency contract which is used widely in Islamic Finance. The applications ranging from brokerages services in permissible activities, like certain stocks, as well as to be the agent in a *Murabaha* transaction. The client, who wants to be financed, acts as agent of the bank to acquire the asset, then sold to him on credit installments. Agents can be compensated for their assignment with a fixed, variable or performance model, which is frequently used to influence pay outs and cash flows in financial engineering.

Contact Info:
Ayse Nur Aydin
+90 212-385-3445
aaydin@worldbank.org