



**EXPANDING
 INTO NEW
 FRONTIERS**

**IsDB
 STRATEGIC
 PILLARS**



**ISLAMIC
 FINANCE ADVISORY
 AND TECHNICAL
 ASSISTANCE**

DIGEST



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"THE DEVELOPMENT OF ISLAMIC FINANCIAL SERVICES HAS BECOME INCREASINGLY EMBEDDED AND FORMALIZED IN ISDB'S STRATEGY OVER THE YEARS. THE PRINCIPLES OF ISLAMIC FINANCE ARE WELL-SUITED TO THE PURSUIT OF THE SDGs – AND TO DEVELOPMENT IN THE BROADEST SENSE – BECAUSE INCLUSION, FAIRNESS, ACCOUNTABILITY, AND SUSTAINABILITY ARE ALL EMBEDDED IN ITS PRINCIPLES. THE ISDB IS COMMITTED TO SUPPORTING ITS MEMBER COUNTRIES IN REALISING THEIR AMBITIONS TO DEVELOP SOUND, RESILIENT AND EFFECTIVE ISLAMIC FINANCE INDUSTRIES"

DR BANDAR M. H. HAJJAR
CHAIRMAN, ISLAMIC DEVELOPMENT BANK GROUP



ISLAMIC FINANCE: AN ESSENTIAL TOOL FOR DEVELOPMENT

The Islamic Development Bank fosters innovative and sustainable solutions to the world's development challenges. As we work towards achieving the UN's Sustainable Development Goals (SDGs) by 2030, it has become clear that securing sufficient financial resources to deliver on the SDGs is itself a challenge.

The financing gap to achieve the SDGs in developing countries is estimated to be US\$ 2.5 trillion per year. Meanwhile, Islamic finance is one of the fastest growing sectors in the global financial industry. From a market size of US\$ 200 billion in 2003, it grew to an estimated US\$ 1.8 trillion in 2014, and is expected to reach US\$ 2.7 trillion in 2021. This growth presents a valuable opportunity to fill the development financing gap.

Islamic finance is uniquely suited to the pursuit of the SDGs – and to development in the broadest sense – because inclusion, fairness, accountability and sustainability are all embedded in its principles. Moreover, a key principle of Islamic finance is to avoid excessive leverage and speculation in favor of providing financial support to real economic activity.

These principles make Islamic finance particularly useful for value chain development, which underpins much of IsDB's work. The Organization of Islamic Cooperation's (OIC) member countries are home to 40% of the world's poorest people, living on US\$ 1.25 a day or less. In these countries, greater participation by the poorest people in local and global value chains could have transformative poverty-reducing impacts. But in order to unlock that potential, a strong financial services industry needs to be in place. A well developed Islamic finance sector could help make that happen.



ISLAMIC FINANCE IN ISDB'S STRATEGY

The development of Islamic financial services has become increasingly embedded and formalized in IsDB's strategy over the years. The provision of technical assistance and advisory programmes accelerated from 2007, and in 2013 the IsDB Board of Governors confirmed a special allocation of 2% of the Bank's net income towards Islamic finance Technical Assistance programs.

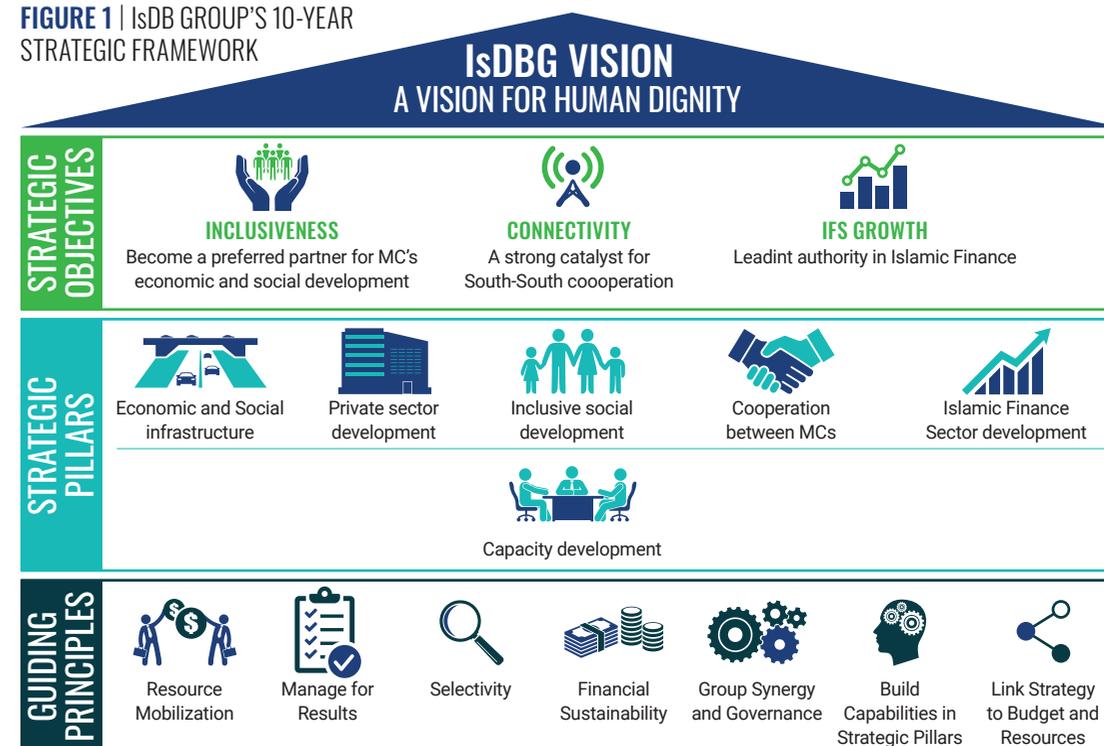
Since the approval of this special allocation in 2013, IsDB has approved over US\$ 14 million for more than 120 technical assistance, advisory and capacity building projects for the development of the Islamic financial services industry in Member and non-Member Countries. IsDB has also been instrumental in providing technical expertise in kind to various Islamic finance infrastructure institutions, which has resulted in the publication of over 125 standards of best practice for the global Islamic finance industry.

These interventions have contributed to the increasing formalization and reach of the industry. At least 12 countries have domestically

significant Islamic financial sectors and more than 40 countries have specific regulations in place to cover Islamic financial activities. The maturation of the Islamic financial services sector and the increasing recognition of its important role in development is reflected in its inclusion as one of IsDB's three strategic objectives and as a strategic pillar (see Figure 1).

Within IsDB, the Islamic Finance Advisory and Technical Assistance (IFATA) division of the Islamic Financial Sector Development Department (IFSDD) serves as a focal point for Islamic finance advisory services and technical assistance to member and non-member countries. The IFATA division also focuses on building an enabling environment for Islamic finance by assisting in the development of legal, regulatory and supervisory frameworks. In addition, the division acts as an interface between IsDB and other multilateral institutions, governments and public/private-sector organizations involved in the development of Islamic finance.

FIGURE 1 | ISDB GROUP'S 10-YEAR STRATEGIC FRAMEWORK



WHAT IS ISLAMIC FINANCE?

Islamic finance refers to financial activities conducted through a variety of financial contracts that comply with Shari'ah (Islamic law) rules and principles. These include the requirement for financial activities to be interest-free, to have underlying assets, and to avoid uncertainty and gambling.

Modern Islamic finance emerged in the 1970s and 1980s, became increasingly internationalized in the 1990s, and has seen rapid global growth in the first two decades of the 21st century, particularly since the global financial crisis of 2007-08. It has evolved from a marginal alternative economy to an increasingly mainstream field of financial activity, with an estimated US\$ 2 trillion dollars in assets.

The industry consists of three main sectors: Islamic banking, Islamic capital markets, and takaful (Islamic insurance). Additionally, there is a fast-growing social sector comprising Islamic microfinance, awqaf (endowments), Zakah and Sadaqah which are penetrating into mainstream economic development activities. Banking is the largest sector, with Islamic banks and conventional banks with Islamic 'windows' holding 77% of all Islamic financial assets. Commercial banking is a significant driver of growth in Islamic finance: Morocco saw eight Islamic banks begin operations in 2017 and 2018, and South America's first Islamic bank opened in Suriname in 2018. Of the other sectors, Islamic capital markets holds a 19% share of total assets of which Sukuk is the key driver, with Malaysia dominating the global market. The takaful sector represents 4% respectively.

ISLAMIC FINANCE HAS EVOLVED FROM A NICHE FINANCIAL SYSTEM TO AN INCREASINGLY MAINSTREAM FIELD OF FINANCIAL ACTIVITY, WITH AN ESTIMATED

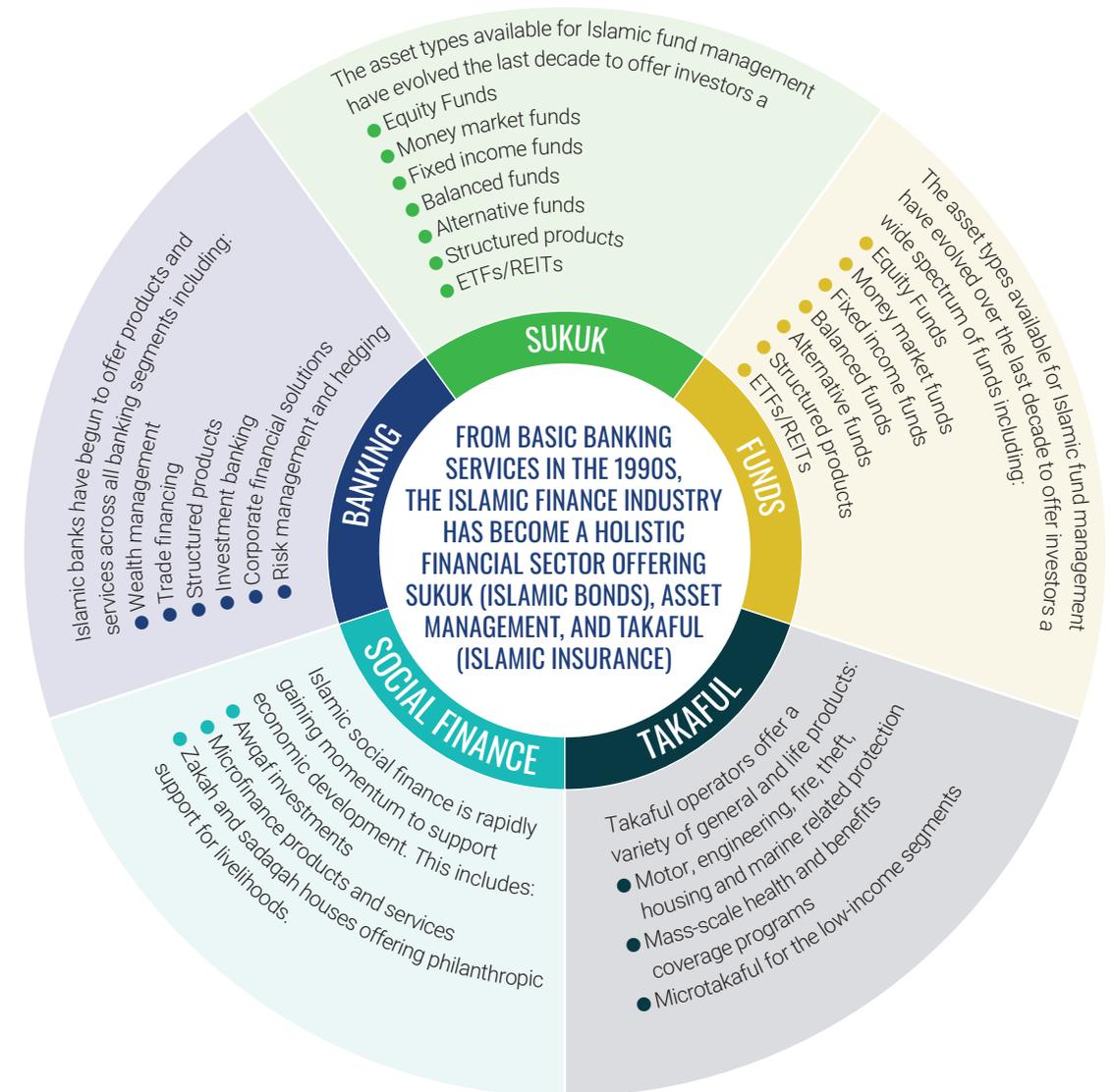
**US\$ 2 TRILLION
IN ASSETS**

As Figure 2 shows, the Islamic finance sector has evolved from basic and more informal banking services to offer an increasingly diverse and sophisticated range of products.

One of the most important factors in the growth of Islamic finance has been the introduction of more sophisticated regulatory frameworks that have slowly built the confidence of customers, leading to an increased demand for Shari'ah compliant financing. As the following pages will reveal, IsDB, in its capacity as the only Shari'ah-compliant Multilateral Development Bank in the world, has played a key role in developing those frameworks and in building the capacity of those who work in the Islamic finance sector as a whole.

Meanwhile, although it is still small in comparison to the conventional global financial system, Islamic finance has also become an increasingly recognized element of that system, acknowledged by major global institutions such as the World Bank and IMF. Major international ratings agencies have started to rate Islamic financial instruments and entities for their financial creditworthiness, and big conventional market players, including the global megabanks, are becoming important providers of Islamic financial products both in Muslim countries and in Western, non-Muslim countries.

FIGURE 2 | THE MAIN SECTORS OF ISLAMIC FINANCE

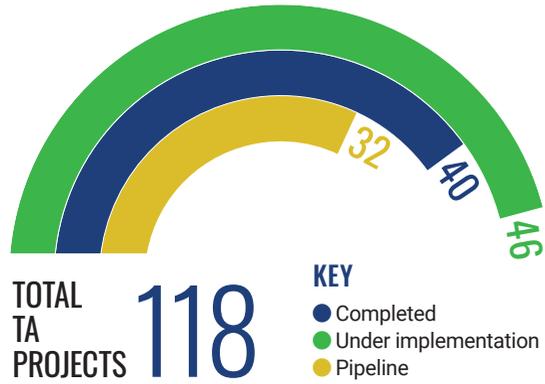


IFATA IN NUMBERS

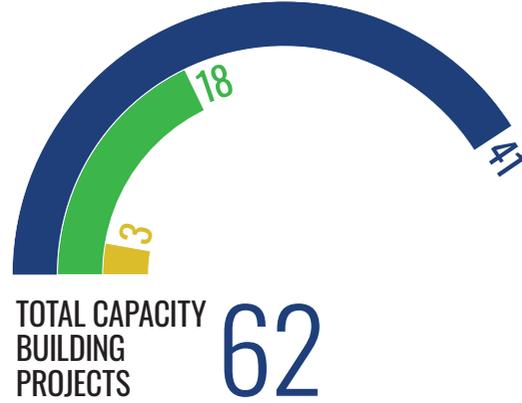
TECHNICAL ASSISTANCE & CAPACITY BUILDING PROGRAMMES COMBINED | DEC 2019



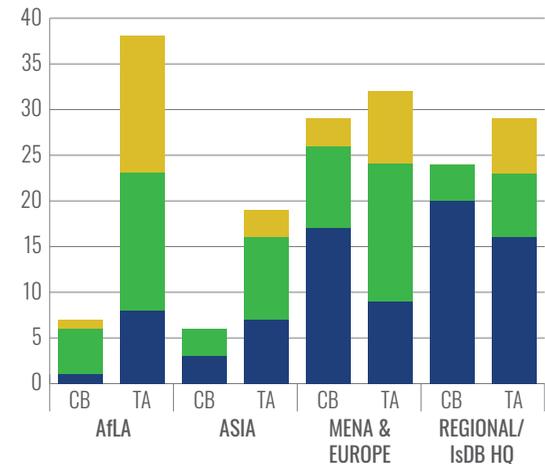
TECHNICAL ASSISTANCE | DEC 2019



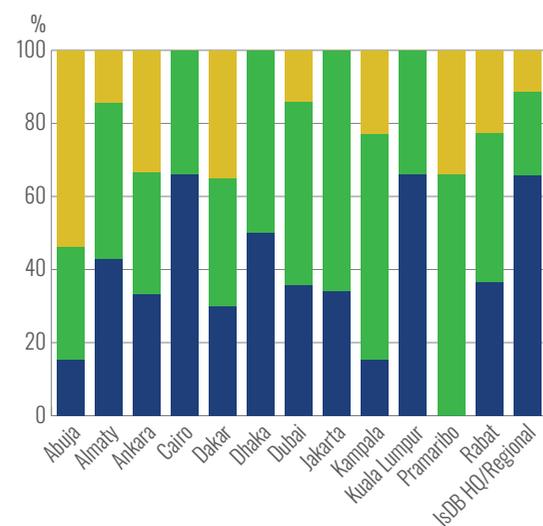
CAPACITY BUILDING | DEC 2019



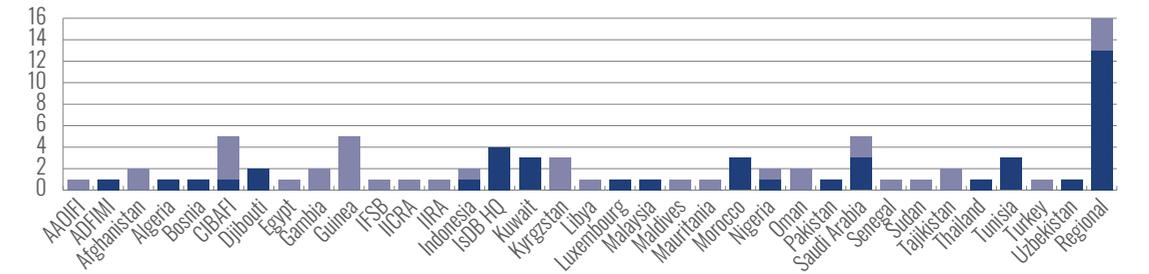
REGIONAL DISTRIBUTION OF RESPECTIVE NO. OF TECHNICAL ASSISTANCE (TA) & CAPACITY BUILDING (CB)



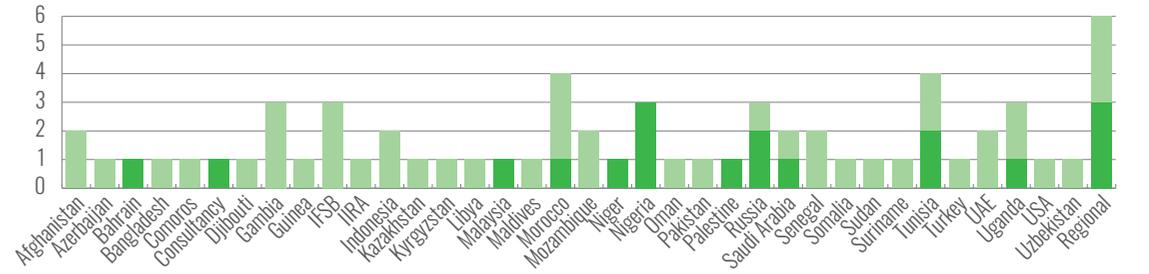
HUB WISE TOTAL NO. OF TECHNICAL ASSISTANCE AND CAPACITY BUILDING



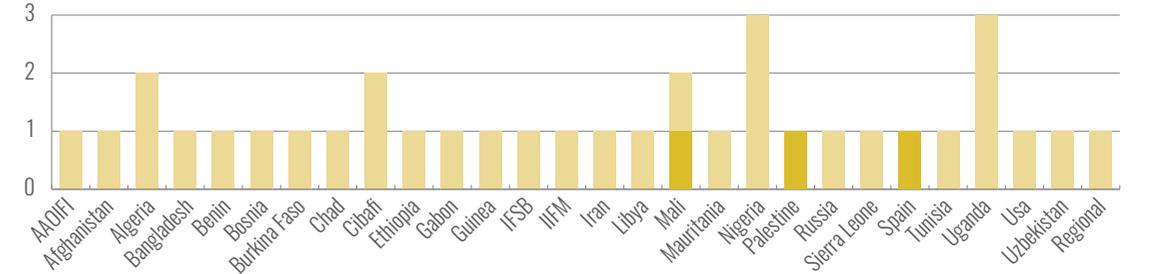
DISTRIBUTION OF TA AND AWARENESS SUPPORT COMPLETED | TECHNICAL ASSISTANCE & CAPACITY BUILDING



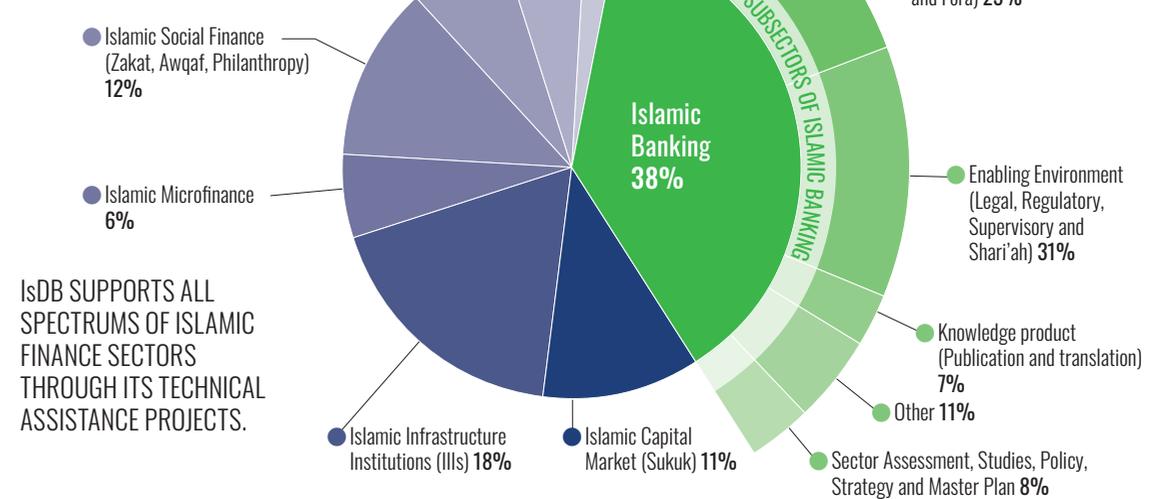
IMPLEMENTATION | TECHNICAL ASSISTANCE & CAPACITY BUILDING



PIPELINE | TECHNICAL ASSISTANCE & CAPACITY BUILDING



BREAKDOWN OF ISDB TECHNICAL ASSISTANCE PROJECTS BY ISLAMIC FINANCE SECTOR



IFATA DIVISION AND ITS MAJOR WORK PROGRAMS

The Islamic Finance Advisory and Technical Assistance (IFATA) Division is part of IsDB's Islamic Financial Sector Development Department (IFSDD).

IFATA division provides advisory and technical assistance on Islamic finance to Member and non-Member Countries. It has three main work programs, which are outlined briefly below. Over the following pages, each of these three work programs are described in more detail.

COUNTRY WIDE DISTRIBUTION OF TA AND AWARENESS SUPPORT

KEY
 No. of projects
● Completed
● Under implementation
● Pipeline



1. TECHNICAL ASSISTANCE

The Technical Assistance program helps countries create an enabling environment for the provision of Islamic financial services. This grant activity typically includes the provision of technical expertise, advisory services and other types of assistance to financial institutions, regulatory bodies, government departments and other key stakeholders in order to help develop legal and supervisory frameworks. It also includes training on Islamic finance products and support mechanisms.

2. CAPACITY BUILDING AND AWARENESS

The aim of the Capacity Building and Awareness program is to raise the profile and acceptance of Islamic finance around the world and to place IsDB as a leading institution supporting the development of the Islamic finance industry. The sector has seen rapid growth and diversification over the past two decades, and through this program, IFATA division is ensuring that the potential of Islamic finance to contribute to development objectives is fully recognized.

For the above and the Technical Assistance program, IsDB usually also partners with other international organisations and MDBs such as the World Bank, Asian Development Bank, United Nations Development Programme, International Monetary Fund, Organisation of Islamic Cooperation and many others.

3. ENABLING INSTITUTIONS

The rapid expansion of the Islamic Finance sector also exposed an absence of appropriate international standards of best practice. Many countries relied on adapting conventional finance standards, resulting in a lack of harmonization across jurisdictions. IsDB helped to establish six new Islamic Finance infrastructure institutions to resolve this, and IFATA division provides on-going support to those institutions.

1. TECHNICAL ASSISTANCE

AIMS OF THE TECHNICAL ASSISTANCE PROGRAM

Demand for Islamic financial services is growing, but many countries lack an appropriate legal, fiscal, regulatory, and supervisory framework. In many cases, the frameworks that do exist were developed for conventional financial systems and are not equipped to consider the particular characteristics of Islamic finance.

The absence of supportive regulatory frameworks typically goes hand in hand with limited expertise in Islamic finance. Together, these limitations act as a constraint on the sector, preventing investment in the country from Islamic financial services providers, even though there may be strong market potential.

Conversely, good regulatory architecture creates confidence and attracts investment. Countries that do have a strong ecosystem for Islamic finance – such as Malaysia and Bahrain – have seen accelerated growth in the sector. This robust ecosystem puts them on a stronger footing when it comes to pursuing broader development objectives.

HOW TECHNICAL ASSISTANCE WORKS

Member Countries can approach IsDB with a request for Technical Assistance. The organizations that actually make the request can vary from Central Banks to Ministries of Finance, Capital Market Authorities, commercial banks, and national standard-setting bodies.

In the majority of cases, Technical Assistance is about helping to develop legal, regulatory, and supervisory frameworks to enable the provision of Islamic finance in that particular jurisdiction. Training in Islamic finance is also provided, building the capacity of staff within these organizations to provide and advise on products and services.

The precise nature and scope of Technical Assistance will vary, depending on how developed the Islamic finance sector already is and what gaps exist.

For every request received, IsDB assigns a project officer to evaluate it and ensure it fits within the mandate of the Bank. If the request is accepted, a Technical Assistance proposal is prepared and presented to the IsDB Management for approval. Subsequently, a Technical Assistance agreement is signed, and IsDB supports the implementation of the assistance program to ensure it achieves its intended objectives. Where required, external consultants may be hired to help deliver assistance. Once a project is completed, a report is prepared to assess whether the assistance achieved its objectives.

By the end of 2019, IsDB'S IFATA division had fully completed a total of 40 Technical Assistance projects, with a further 46 still being implemented, and 32 requests waiting in the pipeline.

The global growth of the Islamic finance industry and its assets is a measure of the impact of this work. In the early 2000s, the provision of Islamic finance was still relatively patchy, informal, and undeveloped. Today, Islamic financial products and services are available on all six continents, with more than 1,000 Islamic financial institutions around the world offering a variety of products and services. The sector as a whole is worth an estimated US\$ 2 trillion and continues to grow.

IsDB'S Technical Assistance has helped establish the conditions for this growth. More than 40 countries now have specific Islamic finance regulations in place, and it is the provision of these stronger legal, regulatory and supervisory frameworks – as well as local capacity and knowledge – that has created the enabling environment for Islamic finance to flourish.

THE VALUE OF A TYPICAL ISDB TECHNICAL ASSISTANCE GRANT SIZE IS AROUND

US\$ 200,000

WAQF Regional
Conférence Régio
16-17 January 2019 | Cona
16-17 Janvier 2019 | Cona



2. CAPACITY BUILDING AND AWARENESS

AIMS OF THE CAPACITY BUILDING AND AWARENESS PROGRAM

The Islamic finance sector has seen significant growth, but it still has a lower profile than conventional finance. In countries with Muslim minorities, awareness and acceptance can be particularly low. Even in Muslim-majority countries, much more could be done to increase levels of understanding of Islamic Finance.

IsDB's Capacity Building and Awareness program aims to raise the profile of Islamic finance throughout the world. Like the conventional finance sector, Islamic finance is continually diversifying and developing innovative new products and services, from technology platforms (FinTech) to blockchain and 'green' financial products. Through participation in workshops, seminars and conferences, IsDB is communicating this and improving the visibility of Islamic finance in new and existing markets to ensure that consumers and policymakers fully understand all its features and potential benefits.

HOW THE CAPACITY BUILDING AND AWARENESS PROGRAM WORKS

The Capacity Building and Awareness program is based on maximizing the value of real-life interaction and knowledge exchange. By organizing and participating in workshops, seminars, conferences and other events, IsDB is ensuring that as many people as possible have the opportunity to hear from experts on Islamic finance and to discuss the opportunities it offers.

In 2019 alone, the Capacity Building and Awareness program gave financial and technical support to 17 events attended by more than 2,500 participants. Examples from that year include:

- International Conference on WAQF (Conakry – Guinea) which was inaugurated by H.E. Dr. Bandar Hajjar, President of the IsDB along with several heads of state, including H.E. Dr. Ibrahim Boubacar Keita, President of Mali, H.E. Professor Alpha Conde, President of Guinea, and H.E. Mr. Mohammed Boun Abdallah Dionne, Prime Minister of Senegal. The conference was organised by the Islamic Development Bank (IsDB) from 16-17 January 2019 in order to discuss and address challenges facing waqf institutions, and discussed potential innovative solutions for the development of this sector.

The Conference was attended by more than 400 participants including all Ministers in Guinea, Chief Justice of the Supreme Court and heads of many state-owned and private institutions.

Speakers from the West African region and beyond participated in the conference.

THE VALUE OF CAPACITY BUILDING AND AWARENESS FUNDING CAN RANGE FROM

US\$ 5,000 To
US\$ 100,000
PER PROJECT

- The Islamic Financial Services Board (IFSB) Summit 2019, themed "Islamic Finance for Sustainable Development in the Era of Technological Innovation" which aimed to bridge the significant gap of the Islamic Financial Services Industry (IFSI) and global technological advancement to provide greater opportunity for inclusive financial development. The Summit comprised six sessions with World Class Speakers and Industry Leaders and Led by Keynote Speeches by H.E. Dr. Perry Warjiyo, the Governor of Bank Indonesia and Chairman of IFSB Executive Committee, Dr. Zeti Aziz recipient of Royal Award for Islamic Finance and former Governor Bank Negara Malaysia and a Special Keynote message from the Prime Minister of Malaysia, Honourable Tun Dr. Mahathir bin Mohamad

The program has also previously supported a summit on sukuk held in Luxembourg, and a Global Waqf Conference in Bangkok, amongst many others.

For all of these events, the nature of the support given varies: it can be financial sponsorship, in-kind support in the form of presentations by IFATA staff, or sponsoring the participation of an expert from an external organization. A number of new jurisdictions have approached IsDB for Islamic Finance Technical Assistance since the Capacity Building and Awareness program was formalized in 2015.



3. ENABLING INSTITUTIONS



AIMS OF THE ENABLING INSTITUTIONS PROGRAM

The Islamic finance industry entered a period of rapid expansion from the early 2000s. Because there were no established international standards of best practice for the industry, countries with emerging Islamic finance sectors had to rely on standards that were actually designed for conventional finance.

These standards – set by organizations such as the Basel Committee on Banking Supervision (BCBS) and the International Association of Insurance Supervisors (IAIS) – were not necessarily applicable to the Islamic finance sector. As a result, various interpretations of those standards were being used, leading to a lack of harmonized standards for Islamic finance across different jurisdictions.

The IsDB has played an important role in addressing this challenge by helping to establish six Islamic finance infrastructure institutions with a remit to set internationally recognized standards for different areas of the sector. The Bank supports these institutions by providing technical assistance and nominating representatives on their boards and committees. Through the standardization of best practice in Islamic finance, these institutions are ensuring that the sector has a strong foundation for growth as part of the global economy.

MORE THAN
125 STANDARDS
OF BEST PRACTICE FOR THE GLOBAL ISLAMIC FINANCE INDUSTRY HAVE BEEN PUBLISHED

A CLOSER LOOK AT THE SIX INSTITUTIONS

ACCOUNTING AND AUDITING ORGANIZATION FOR ISLAMIC FINANCIAL INSTITUTIONS (AAOIFI)

AAOIFI, based in Bahrain, was founded in 1991. It is primarily responsible for the development and issuance of standards for the global Islamic finance industry and has issued a total of 100 standards in the areas of Shari'ah, accounting, auditing, ethics and governance for international Islamic finance.

IsDB is a founding member and is represented on the Board of Trustees, Technical Boards and Sub-Committees.

GENERAL COUNCIL FOR ISLAMIC BANKS AND FINANCIAL INSTITUTIONS (CIBAFI)

CIBAFI, founded in 2001, is headquartered in Bahrain and affiliated with the Organization of Islamic Cooperation (OIC). It represents the Islamic financial services industry globally, promoting the role of the sector and driving cooperation among 130 members from 34 jurisdictions.

IsDB is a founding member of CIBAFI and is represented on its Board of Directors and Working Groups.

INTERNATIONAL ISLAMIC FINANCIAL MARKET (IIFM)

The IIFM was founded in 2002 and is hosted by the Central Bank of Bahrain. Its mandate is to develop standardized Shari'ah-compliant Financial Documentation, Product Confirmations and Guidelines for the Islamic financial services industry.

IsDB is a founding member of IIFM and is represented on the Board of Directors.



ISLAMIC FINANCIAL SERVICES BOARD (IFSB)

The IFSB, based in Kuala Lumpur, was founded in 2002. Since its inception, the IFSB has issued 32 Standards, Guiding Principles and Technical Notes for the Islamic financial services industry.

IsDB is a founding member and is represented on the IFSB Council, Technical Committee, Working Groups and Task Forces.

ISLAMIC INTERNATIONAL RATING AGENCY (IIRA)

IIRA, founded in 2005, is headquartered in Bahrain. Its focus is on the development of local capital markets, primarily within the Organization of Islamic Countries (OIC) region. One of its core objectives is the application of ratings to improve transparency in markets.

IsDB is a prominent shareholder and is represented through its nominated Chairman and an additional member at the Board of Directors.

INTERNATIONAL ISLAMIC CENTRE FOR RECONCILIATION AND ARBITRATION (IICRA)

IICRA was founded in 2005 and is headquartered in the UAE. It is an international platform for the settlement of banking, financial, commercial, industrial, investment and real estate disputes through mutual reconciliation and arbitration, in accordance with global standards and Shari'ah principles.

IsDB is a founding member of the organization and is represented at the Board of Directors.

LOOKING FORWARD

Over the next three years, IsDB looks forward to building on the success of existing programs while also proactively launching new initiatives to raise the profile and impact of Islamic finance around the world.

THESE NEW INITIATIVES WILL COMPLEMENT THE EXISTING WORK OF THE DIVISION, WHICH WILL CONTINUE TO GROW.

One such initiative will be the launch of an Islamic Finance Country Assessment Framework (IF-CAF). This framework will enable IsDB to use a prioritization matrix to identify the most high-impact opportunities for its programs. IF-CAF will provide an early indication of the strengths and weaknesses of a country's Islamic finance ecosystem. This analysis might relate to existing laws, regulations, supervision, tax, governance, financial inclusion, or other issues. It will ensure that Technical Assistance funds are targeted where they are most needed, and where they will have the greatest impact.

IFATA division will also proactively support the adoption of innovative financial products and services. This includes Islamic financial technology platforms (FinTech), the use of distributed ledger technologies for Islamic finance transactions (i.e., blockchain), green Islamic finance (i.e., green Sukuk), and Islamic social finance models such as awqaf and zakah. Technical Assistance and Awareness funding will be made available specifically to help raise awareness of how these products work, and the benefits they can bring.

A third new initiative will be the launch of a platform to align the six Islamic finance infrastructure institutions supported by IsDB. This platform – the Consultative Group for Islamic Finance Infrastructure Institutions (CGIFII) – will help achieve synergies and avoid duplication by the six institutions. It will bring them together to discuss ideas and to ensure that their work plans are harmonized for the greater good of the Islamic finance industry.

ALL OF IFATA DIVISION'S CURRENT AND FUTURE WORK WILL CONTINUE TO BE GUIDED BY THE PRESIDENT'S FIVE-YEAR PROGRAM AND THE BANK'S TEN-YEAR STRATEGIC FRAMEWORK. IN DOING SO, IFATA DIVISION WILL ENSURE THAT THE ISLAMIC FINANCE INDUSTRY FULFILLS ITS POTENTIAL OF HELPING ISDB ACHIEVE A SUSTAINABLE FUTURE FOR ALL.

CONTACT IFATA DIVISION

CONTACT IFATA DIVISION TO EXPLORE HOW WE CAN SUPPORT YOUR ISLAMIC FINANCE INDUSTRY'S DEVELOPMENT

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This IFATA Digest has been prepared internally by the IFATA Division Team, led by Dr. Gaffar Khalid – Manager IFATA Division and implemented by Mr. Syed Faiq Najeeb (project officer) and fully supported by all IFATA division team members. It has also benefited from useful review and feedback provided by Dr. Mohamed Ali Chatti, Acting Director IFSD as well as inputs from other IsDB colleagues and clearances by Senior Management of IsDB.