

# Islamic Finance: Values and Potential Growth

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# Today's Agenda

- Some conceptual clarifications on Islamic Finance
- Islamic Finance values and inherent benefits
- Impact of Islamic Finance on Society
- Potential growth of Islamic Finance, particularly in Africa
- What Africa can benefit from the potential growth of Islamic Finance



# What is Islamic Finance?

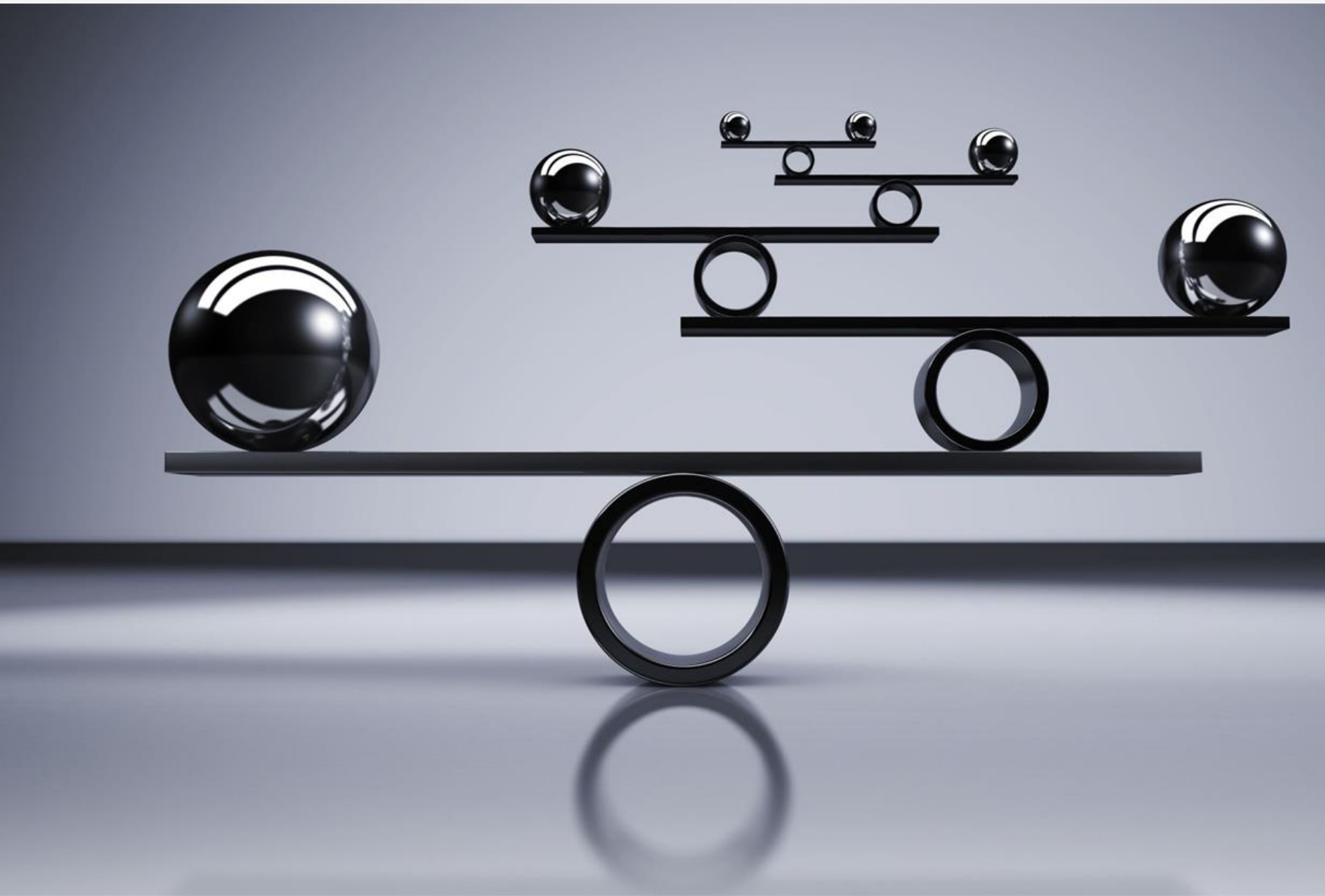
Islamic Finance is a financial system that is based on principles and guidelines derived from Islamic law (Shariah).

It is anchored on *"justice through profit, loss and risk sharing, prohibition of gambling, excessive uncertainty (gharar) and interest or riba."*<sup>1</sup>

Islamic Finance thus promotes ethical financial practices for the benefit of humanity at large.

*According to the Islamic Finance Development Indicator (IFDI), the Islamic finance industry reached almost US\$4.0 trillion in total assets in 2021 on a growth rate of 17% up from 14% in 2020*





*The Islamic Finance market has achieved a market size of about 4.2 trillion USD for the current year and is poised to register a CAGR of 10%.*

*In 2021, the total net income reported by Islamic financial institutions around the world went from USD 10.5 billion in 2020 to USD 32 billion.*

# Values of Islamic Finance

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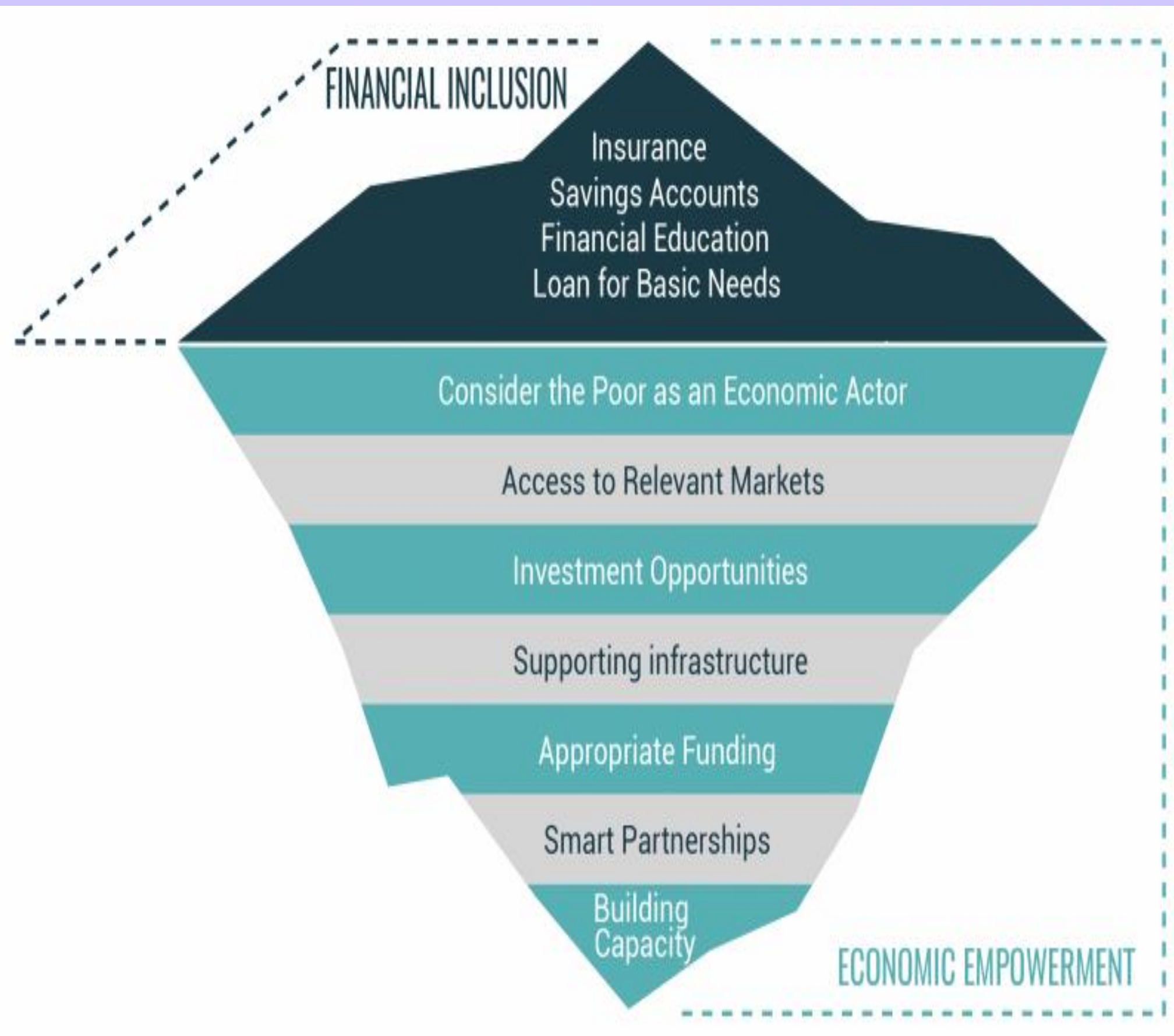
*Islamic finance is guided by core values derived from Shariah principles, which offer a range of benefits to individuals, businesses, and society at large.*

## 1. Socially Responsible Investments

- It prohibits investments in industries considered harmful or unethical, such as alcohol, tobacco, and gambling.
- By adhering to these principles, Islamic financial institutions attract socially conscious investors seeking to impact society positively.
- **Benefit:** Africa can expect increased investment in businesses and projects prioritising environmental sustainability, fair labour practices, and community welfare, leading to a more socially responsible and sustainable economy.

## 2. Risk-Sharing and Financial Stability

- Islamic Finance promotes risk-sharing contracts, such as Mudarabah and Musharakah, where both parties share profits and losses.
- Risk-sharing mitigates the impact on individual participants during economic downturns, making the financial system more resilient.
- The Islamic financial system is therefore rooted in the value of fairness.
- **Benefit:** By adopting risk-sharing principles, Africa can enhance financial stability, reduce the burden of vulnerable populations during economic crises, and promote a more equitable distribution of risk.



### 3. Financial Inclusion and Empowerment

- Islamic finance emphasises financial inclusion, ensuring that individuals from all socio-economic backgrounds can access financial services.
- Microfinance based on Islamic principles provides affordable and accessible financial solutions, empowering small businesses and low-income individuals.
- **Benefit:** Africa can expect increased economic participation from marginalised communities, fostering entrepreneurship and economic empowerment, and contributing to poverty reduction and inclusive growth.

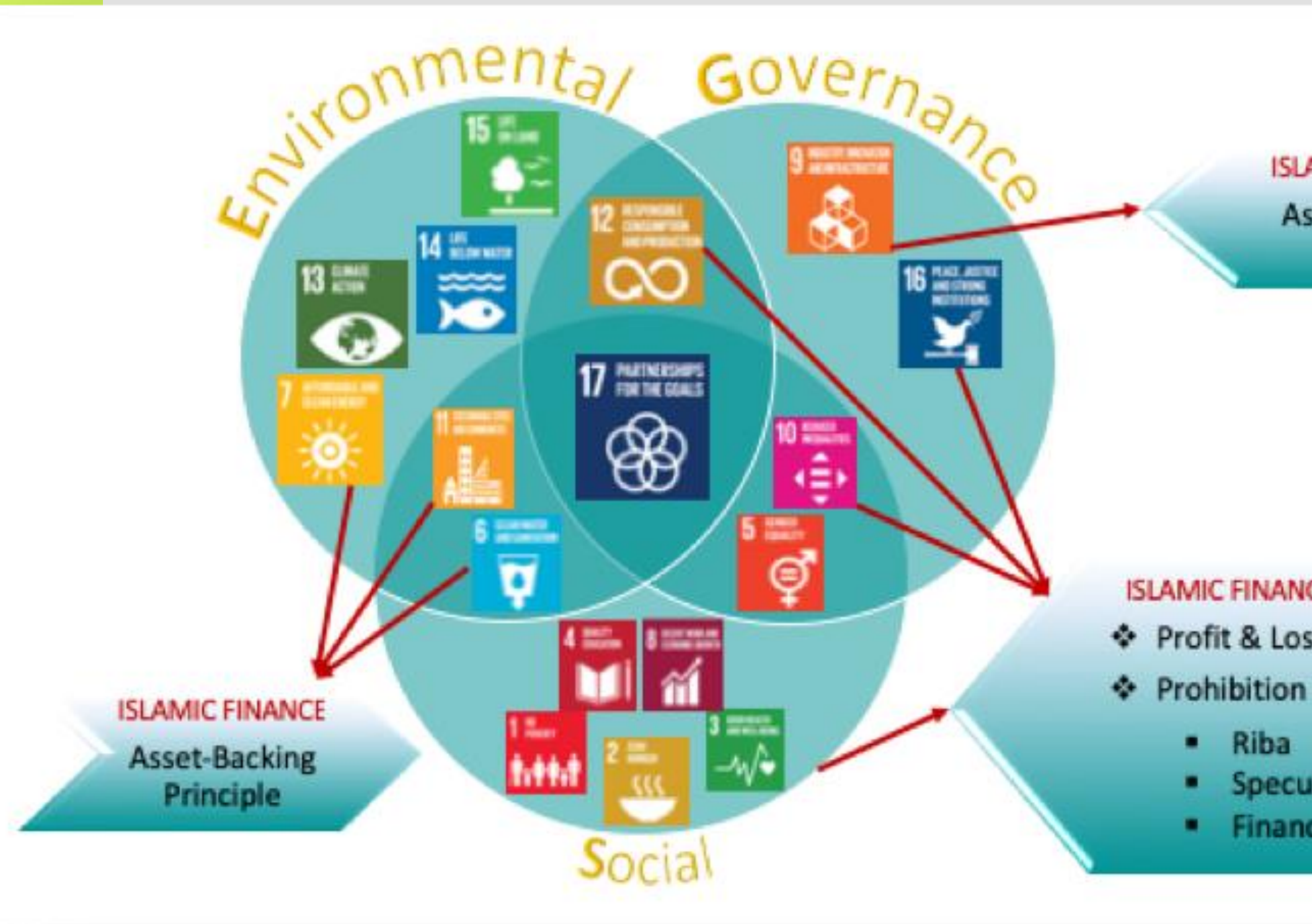
The relationships between economic empowerment and financial inclusion

Source: <https://www.isdb.org/economic-empowerment>



## 4. Sustainable and Ethical Investments

- Islamic finance considers the environmental and social impact of investments. This aligns with sustainable development goals, as investments are directed towards environmentally friendly and socially beneficial projects.
- **Benefit:** Africa can attract sustainable and responsible investments that address pressing environmental challenges and support projects with positive social impact, promoting a greener and more inclusive continent.



## 5. Prohibition of Riba (Interest)

- Islamic finance prohibits Riba (interest), which is deemed exploitative. This promotes equitable wealth distribution and discourages excessive debt accumulation.
- **Benefit:** By avoiding interest-based transactions, Africa can foster a more equitable financial system that reduces debt burden on individuals and businesses, ultimately contributing to economic stability.

*« All that we have borrowed up to 1985 was around US\$5 billion, and we have paid about US\$16 billion. Yet we are still being told that we owe about US\$28 billion. This came about because of the injustice in the foreign creditors' interest rates. If you ask me what the worst thing in the world is, I will say it is compound interest".*

Chief Olusegun Obasanjo GCFR, 2000



# **Impact of Islamic Finance on Society**

# 1. Poverty Alleviation and Social Welfare

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## Zakat

As a mandatory charitable giving in Islam, Zakat plays a pivotal role in poverty alleviation.

It redistributes wealth from the affluent to people in need, helping to address income inequality and providing essential support to vulnerable communities.

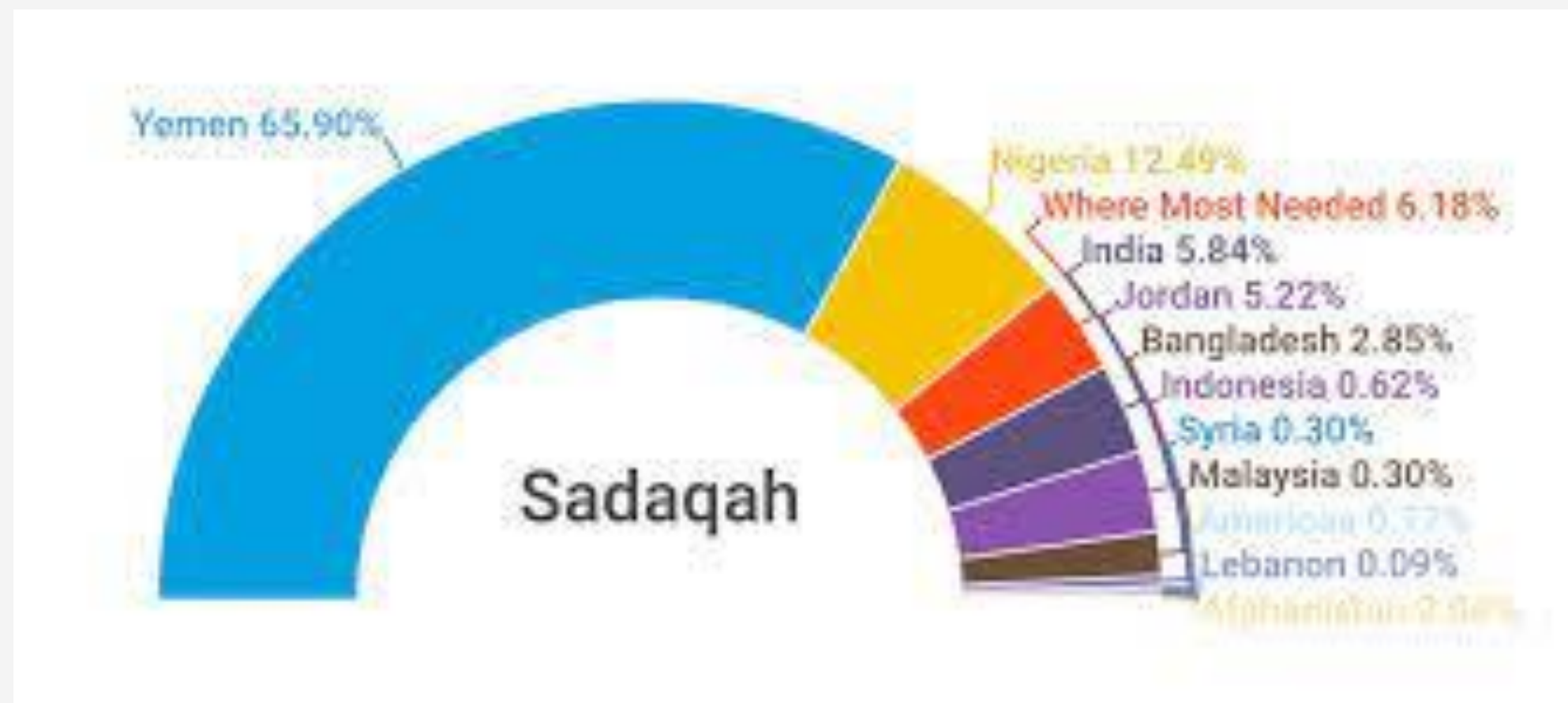
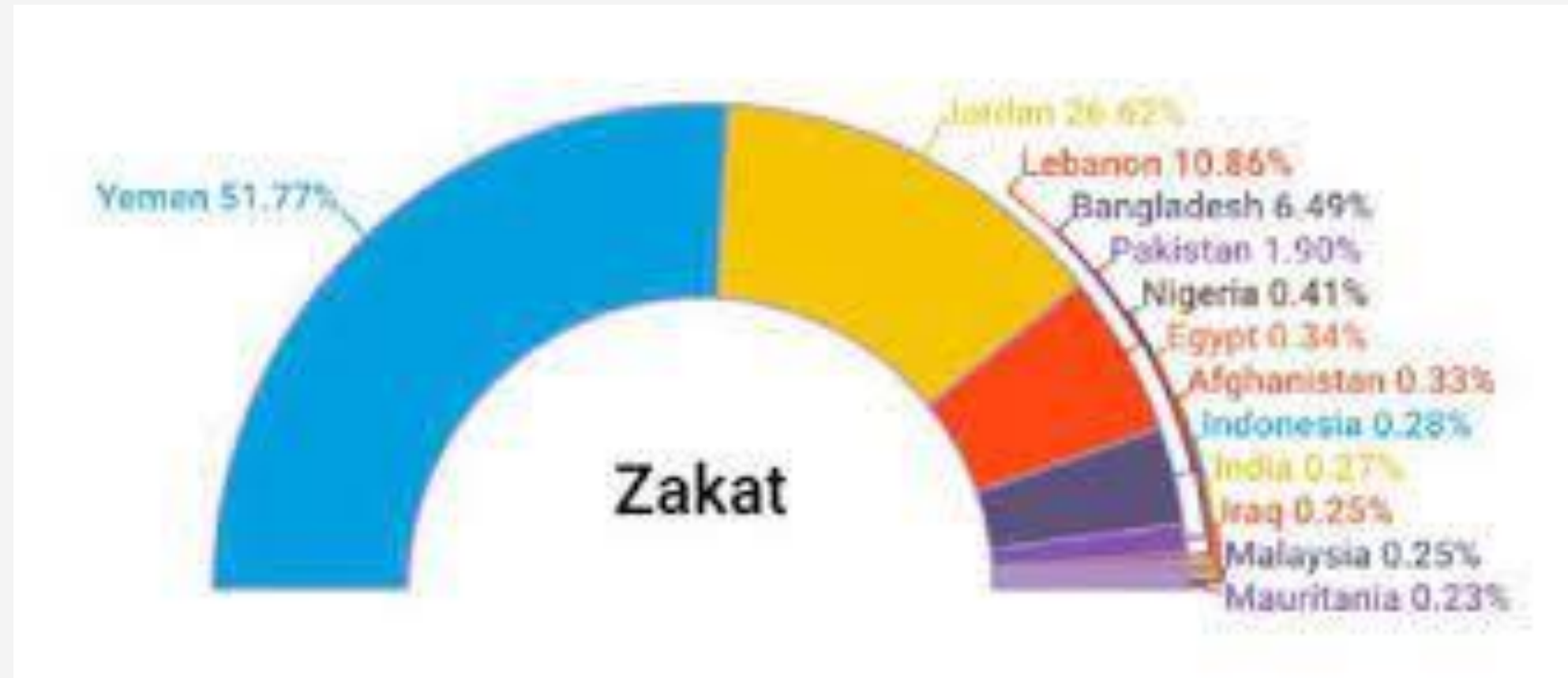
02

## Sadaqah

Voluntary charity (Sadaqah) complements Zakat, further enhancing social welfare initiatives.

By encouraging Sadaqah, Islamic finance institutions contribute to various humanitarian projects.

**"UNHCR assisted more than 1.5 million refugees and IDPs in 21 countries with Zakat and Sadaqah contributions received in 2022."**



Source: Islamic Philanthropy: Annual Report 2023

<https://giving.unhcr.org/wp-content/uploads/2023/04/Islamic-Philanthropy-Annual-Report-2023-English-.pdf>

## 2. Women Empowerment

Islamic microfinance, in particular, plays a significant role in providing interest-free loans and profit-sharing schemes, empowering women to start and grow their businesses.

*“Microfinance plays a significant role in providing sustainable livelihoods to disadvantaged groups worldwide. Although women make up the majority of clients of microfinance institutions (MFIs), they account for 56% of the world's 1.7 billion unbanked adults. Women are often excluded from accessing financial services as they face barriers to accessing opportunities in education, employment outside of the household, acquiring/inheriting assets and land ownership, and having control over their resources.”*

### **3. Education and Healthcare Initiatives**

Waqf: Islamic endowments (Waqf) are significant in funding education and healthcare projects.

Waqf assets are used to establish schools, universities, hospitals, and other institutions that benefit society.

### **Takaful for Healthcare**

Takaful (Islamic insurance) provides affordable and Shariah-compliant healthcare coverage, ensuring access to quality medical services for individuals and families.

Like other products of Islamic social finance (zakat, waqf, etc.), Takaful is consistent with African societal values such as solidarity and mutual help.

# 4. Support for Small and Medium Enterprises (SMEs)

**Islamic Trade Finance:** Shariah-compliant trade finance solutions, such as Murabahah and Wakalah, facilitate international trade for SMEs, promoting economic integration.

## FINANCIAL AND OPERATIONAL HIGHLIGHTS

2008-2022

AUTHORIZED CAPITAL

**US\$3  
BILLION**

SUBSCRIBED CAPITAL

**US\$857.7  
MILLION**

PAID-UP CAPITAL (PAR VALUE)

**US\$745.6  
MILLION**

CUMULATIVE TRADE  
FINANCE APPROVALS  
SINCE 2008

**US\$69  
BILLION**

CUMULATIVE  
DISBURSEMENTS  
(2008-2022)

**US\$57.5  
BILLION**

TRADE FINANCE  
APPROVALS FOR  
2022

**US\$6.8  
BILLION**

TRADE FINANCE  
DISBURSEMENTS  
FOR 2022

**US\$7.4  
BILLION**

### TRADE FINANCE APPROVALS FOR 2022 BY SECTOR



ENERGY

**US\$4  
BILLION**



FOOD &  
AGRICULTURE

**US\$1.85  
BILLION**



FINANCIAL

**US\$719  
MILLION**



OTHERS

**US\$268  
MILLION**

### CUMULATIVE TRADE FINANCE APPROVALS BY SECTOR (2008-2022)



ASIA & MIDDLE EAST

**US\$7.4  
BILLION**

AFRICA

**US\$3.4  
BILLION**



ASIA & MIDDLE EAST

**US\$35  
BILLION**

AFRICA

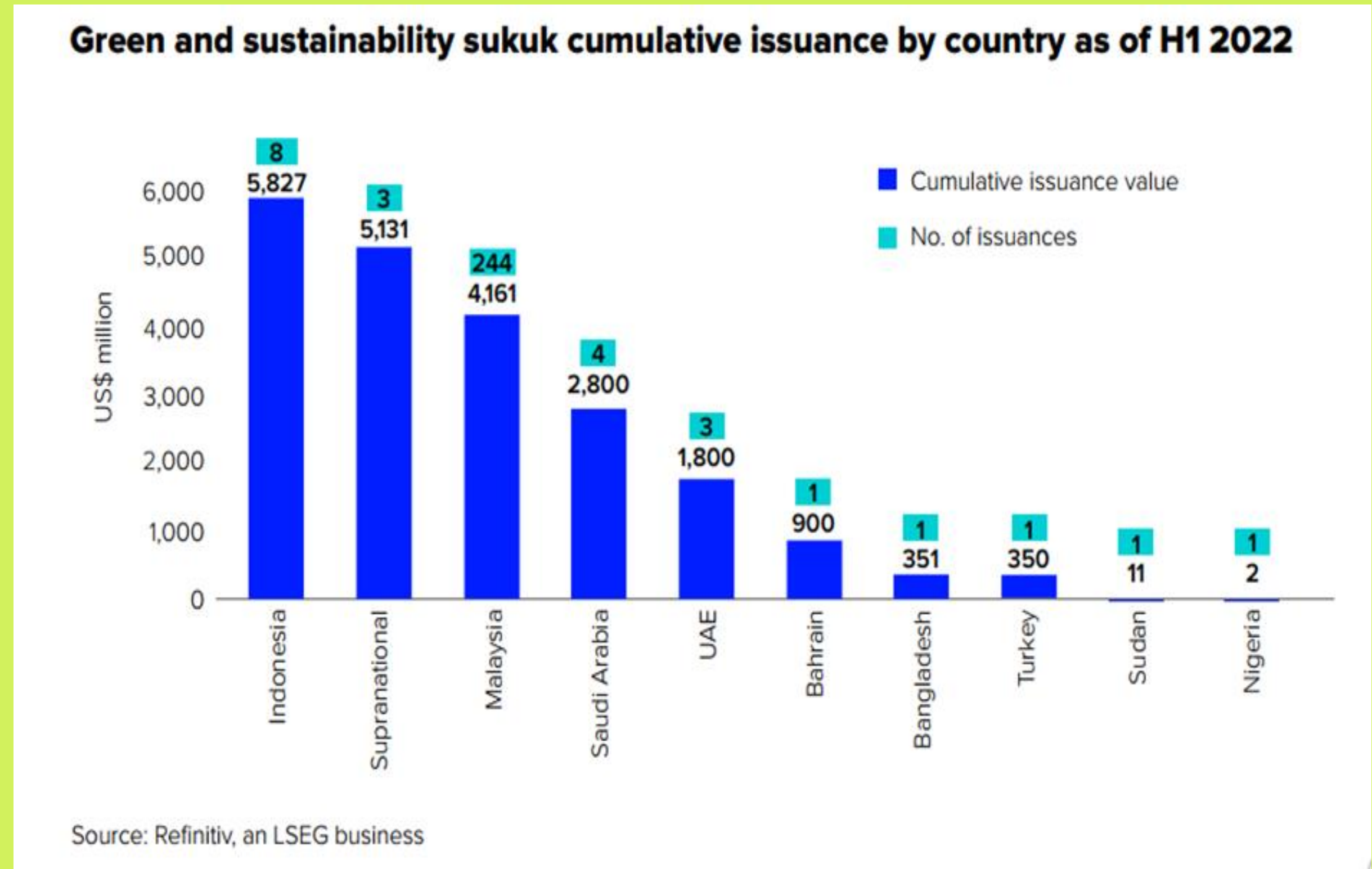
**US\$10.9  
BILLION**



# 5. Sustainable Development Initiatives

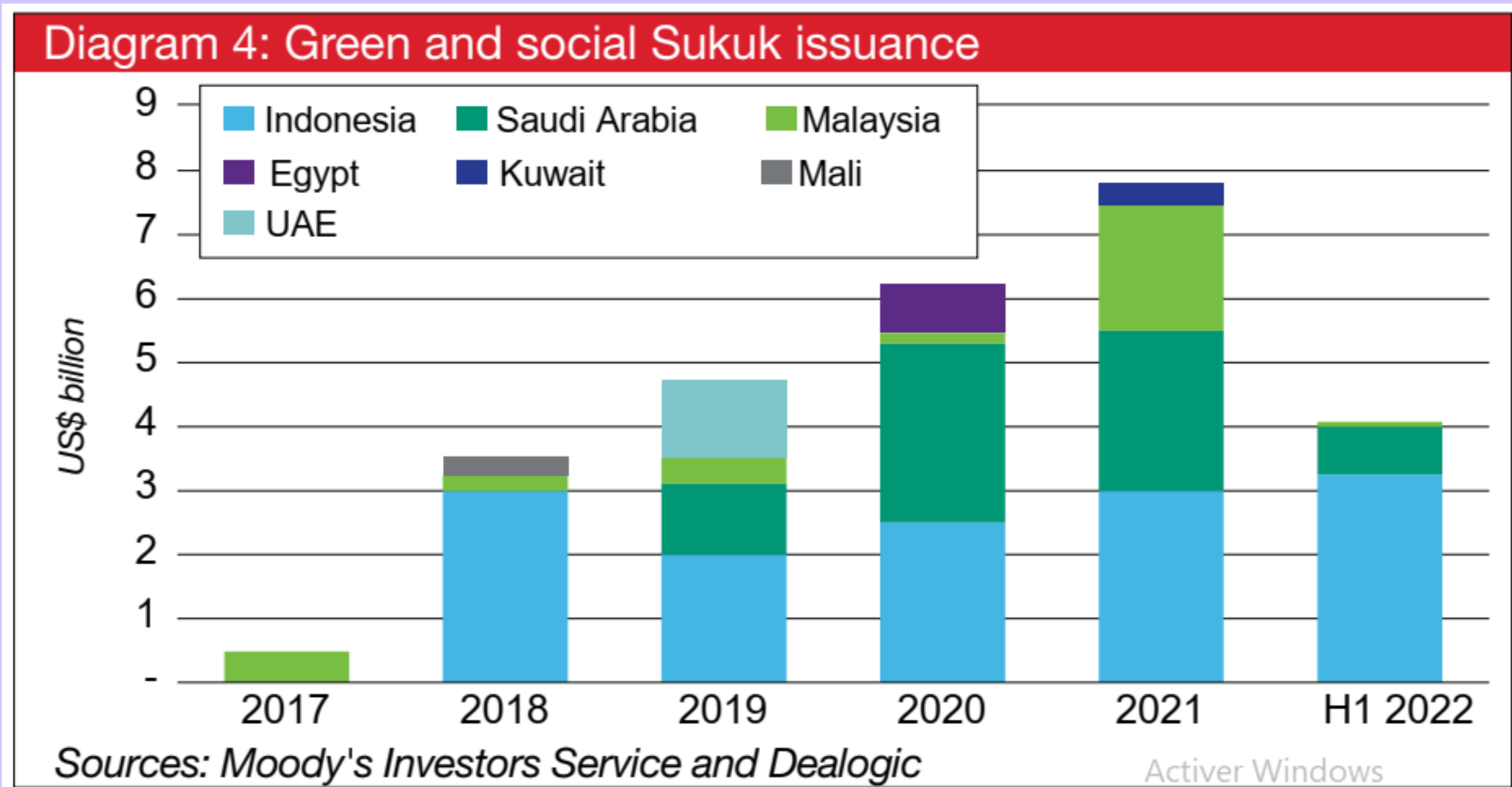
## Green Sukuk:

Islamic finance supports environmental sustainability through Green Sukuk, which funds eco-friendly projects such as renewable energy and clean water initiatives.



# Sustainable Development Initiatives (cont'd)

**Social Impact Sukuk:** Social Impact Sukuk finance projects that address social challenges, including affordable housing, clean water access, and poverty reduction.



In fact, a Social Sukuk of 500 million USD has recently been issued by the UK-Based firm Funding for Housing to *"build more social housing stock and address the affordable homes deficit"*<sup>1</sup> in the United Kingdom.

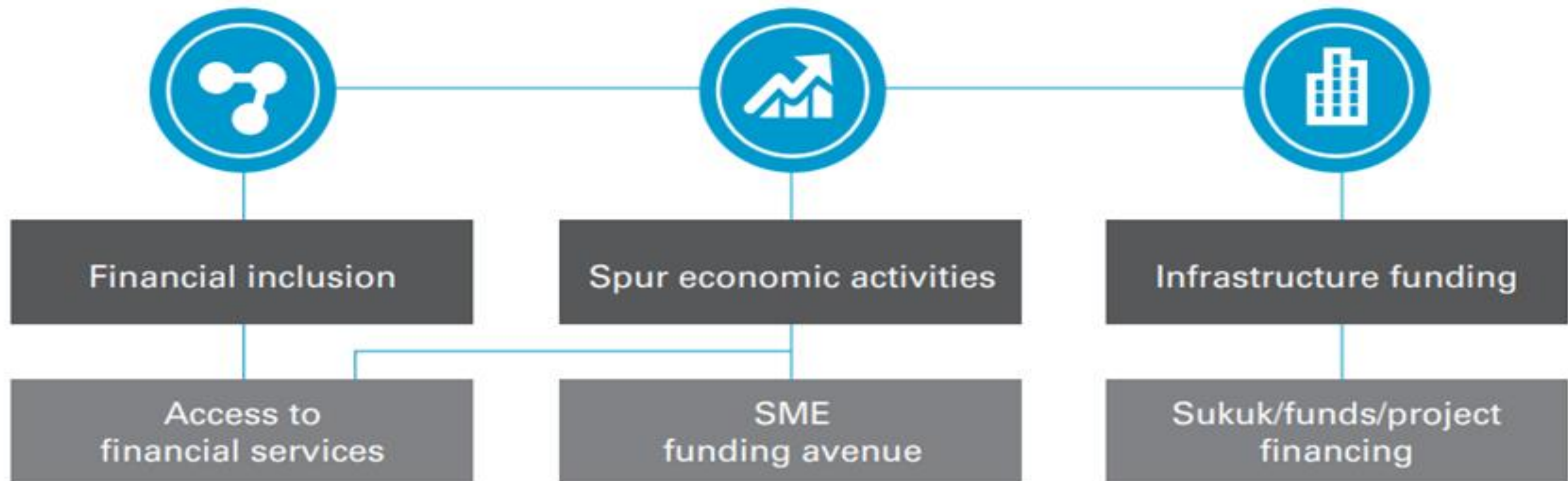
**Potential Growth of  
Islamic Finance,  
Particularly in  
Africa**



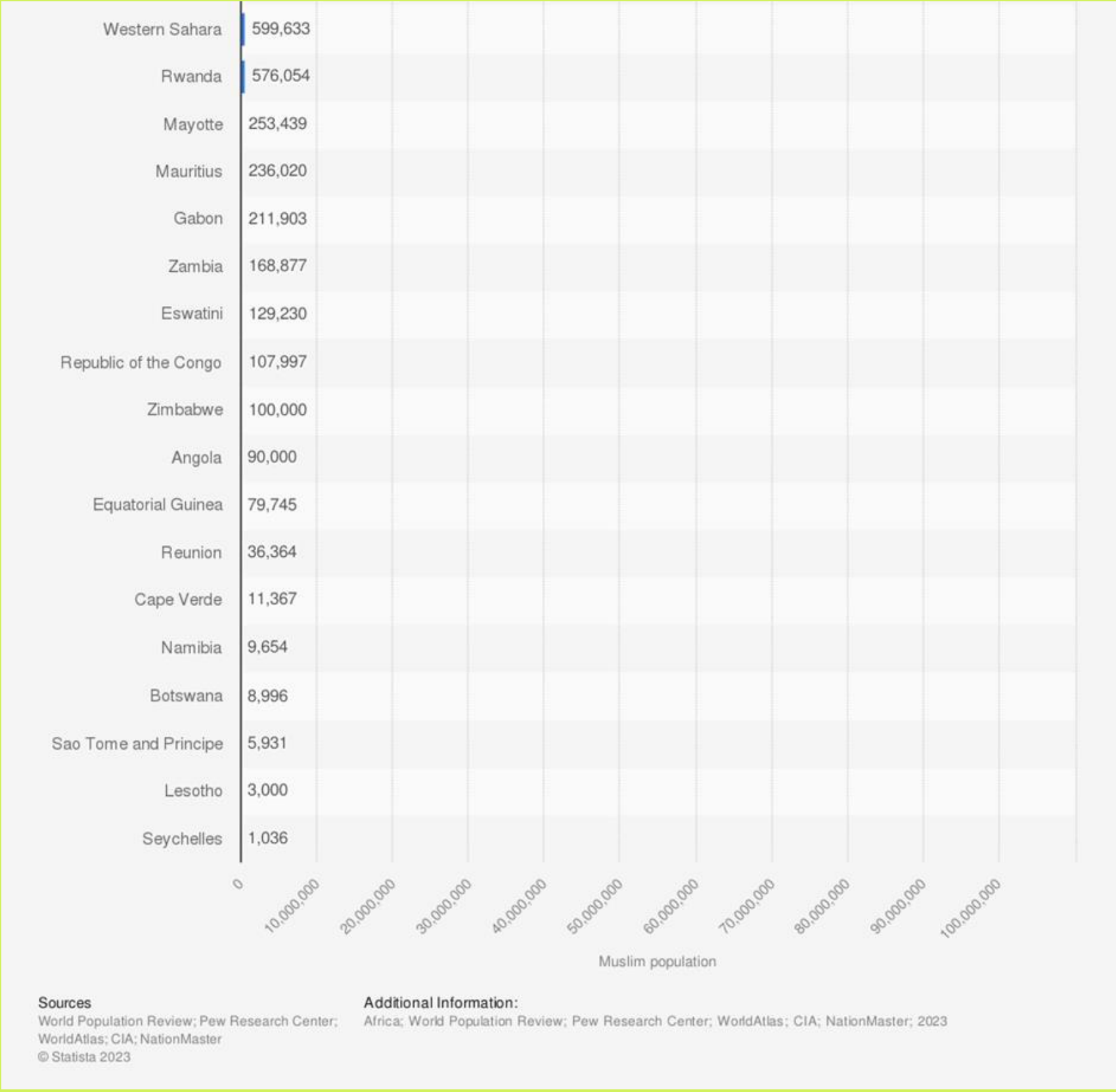
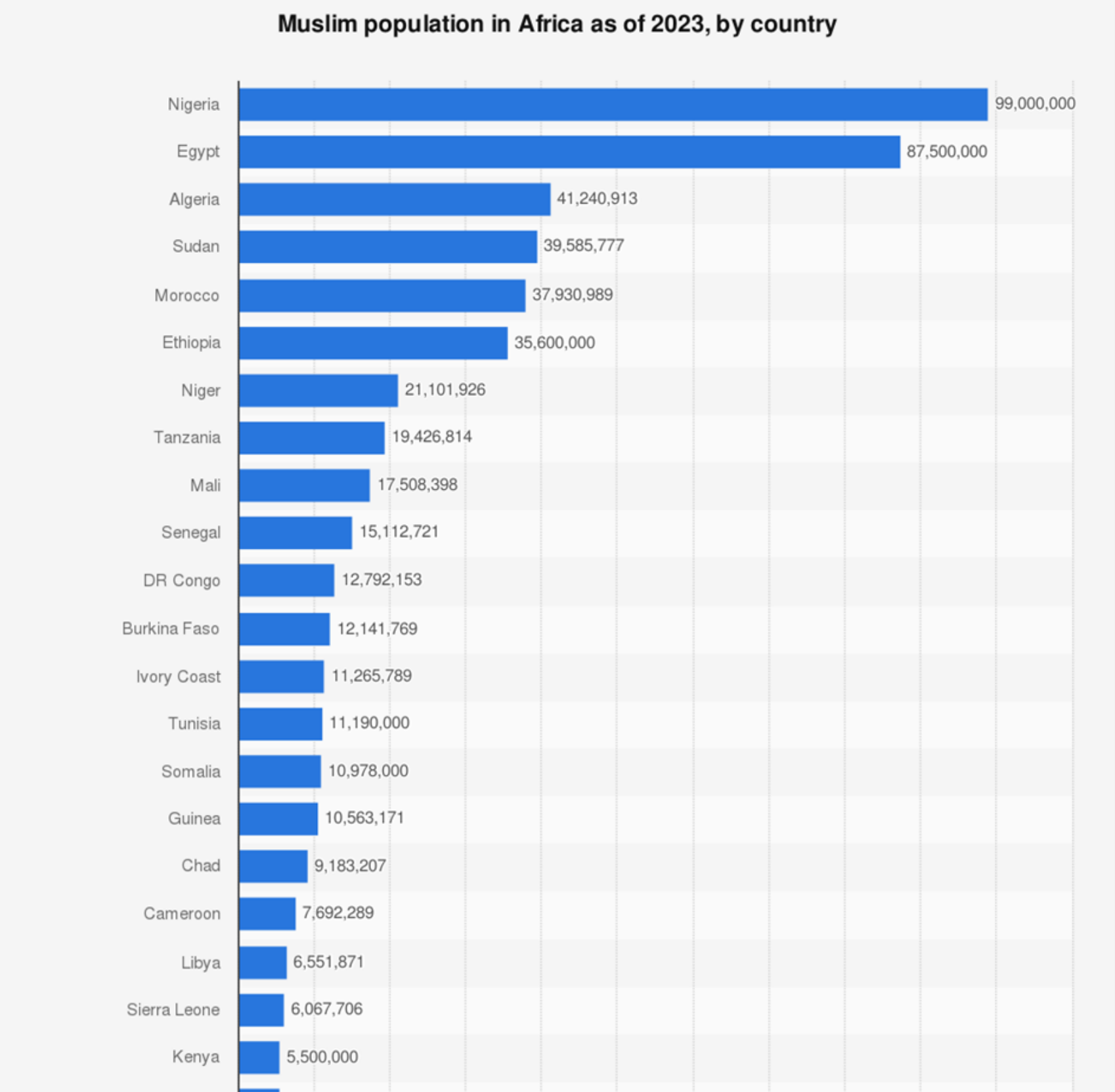
**Current Scenario:** Africa presents a promising landscape for the growth of Islamic finance, with notable developments in recent years.

**Figure 1: Islamic finance in Africa**

### Three key driving pillars



# 1. Rapidly Expanding Market



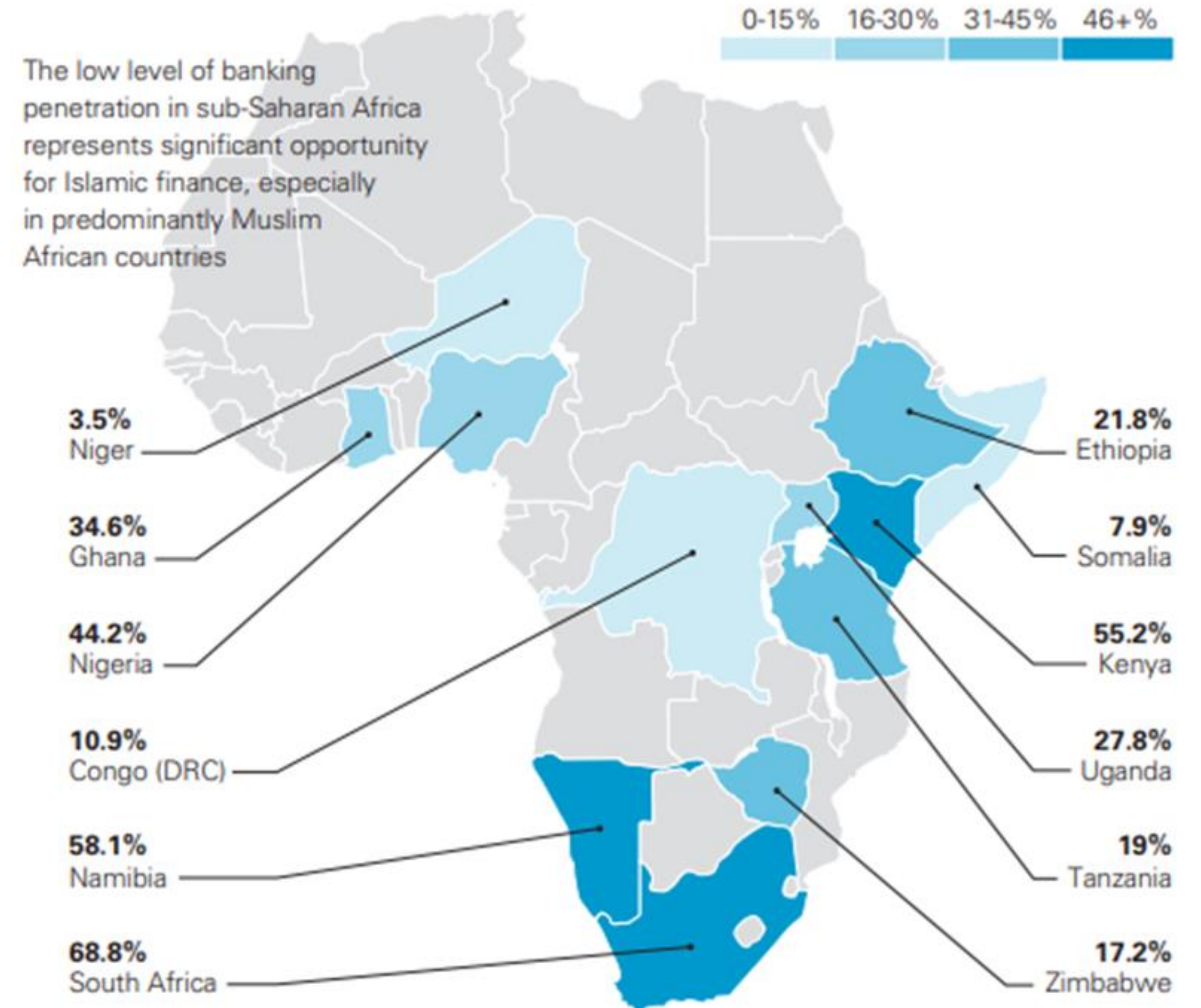
## 2. Untapped Potential

*“Africa has a chance to be a true innovator for the Islamic finance industry.”*

<https://events.whitecase.com/insights/2018-africa-focus-autumn/IslamicFinance-Financial-Inclusion.pdf>

### Financial inclusion in sub-Saharan Africa

Percentage of people aged 15 and over with a bank account



Source: World Bank, data accessed 2018

### **3. Government Support**

Several African governments have demonstrated their commitment to promoting Islamic finance by introducing supportive policies and regulations.

Many countries such as Nigeria, South Africa, Senegal, Côte d'Ivoire and Togo have issued sovereign Sukuk to finance critical infrastructure projects.

More and more jurisdictions are coming up with one form of regulation or another for Islamic Finance

### **4. Diverse Economies**

Africa's diverse economies offer a range of opportunities for Islamic finance products and services, from banking, insurance and capital market, to investment and microfinance, catering to various population segments.

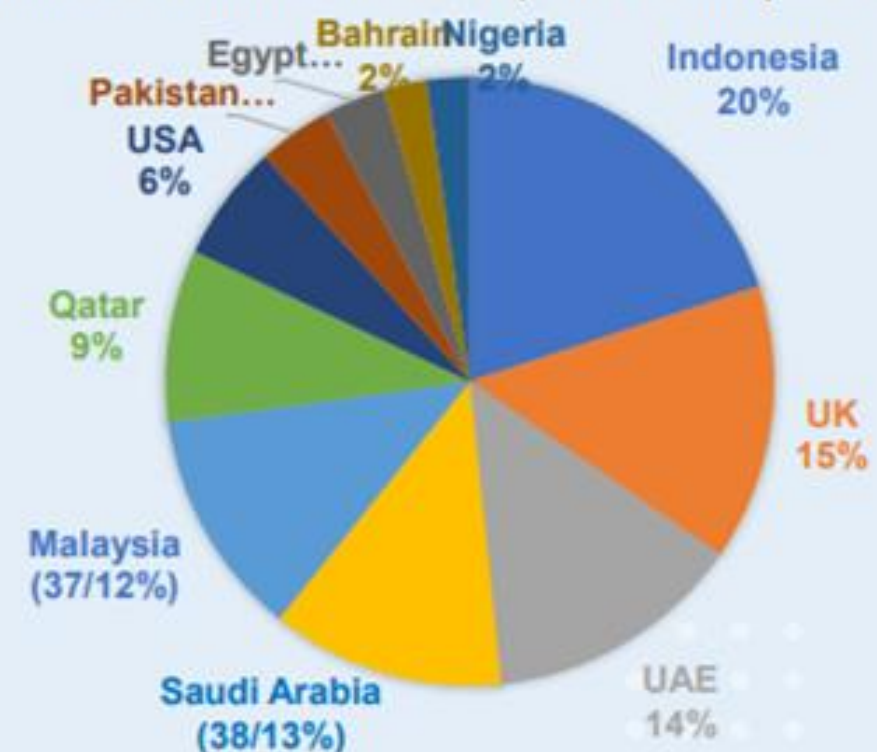
# 5- Islamic Fintech

The emergence of Islamic fintech start-ups in Africa has contributed to the accessibility and innovation of Islamic finance products.

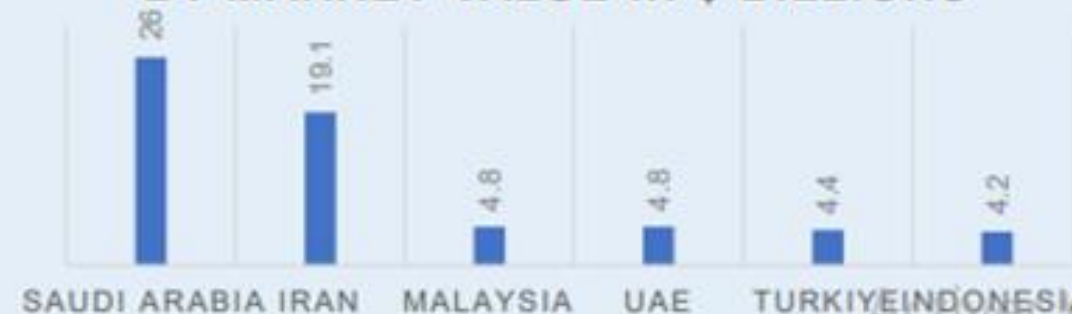
## Global Islamic Fintech Landscape

- Indonesia leads by number of Islamic Fintechs (61/20%), followed by the UK (45/15%) and UAE (42/14%): 375 in Total
- Total market size is estimated at **US\$79 billion (0.83% of global transactions)** in 2021, with expected growth reaching **US\$179 billion by 2026**
- Indonesia fastest growing since 2016, with most enabling regulation, with AFSI (Digital Financial Innovation Association) dedicated to iFintechs, recognised by OJK

Number of Islamic Fintech Companies Globally – end 2021



BY MARKET VALUE IN \$ BILLIONS







# Conclusion

By tapping into Africa's potential for Islamic finance growth, financial institutions can strategically position themselves to benefit from the continent's expanding Muslim population, untapped opportunities, friendly regulatory environment, diverse economies and the emerging Fintech market. Ultimately contributing to inclusive and sustainable economic development for all.



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