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Islamic finance: Retrospective view and perspectives over the world

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Abstract:

Despite the difficult economic conditions caused by covid 19 and the volatility of oil prices and volumes, the total worth of the global Islamic financial industry increased to an estimated USD 2.70 trillion in 2020 (from USD 2.44 trillion in 2019). The global Islamic financial industry sustained its growth momentum in 2020, recording a growth rate of 10.7% year-on-year based on significant improvement, especially in the Islamic banking and Islamic capital markets segment.

This paper provides recent updates on the trends and developments, as well as insights on the soundness and resilience of various sectors, in the global Islamic financial industry. Therefore, we gave the example of countries that have integrated Islamic finance into their banking system while demonstrating the good results of this mode of finance. We also discussed the global development of the sukuk market and its evolution. Finally, we have tried to present the conditions and prospects for the development of this rapidly growing industry in the international financial market.

Keywords: *Islamic finance, Islamic banking, Islamic financial instruments, sukuk market*
Jel Classification Codes : *E44, G15, G20.*

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1. Introduction :

The evolution of Islamic finance has generated a great deal of interest from global conventional finance players in developed economies who have tried to increase their holdings in Islamic financial markets. With increased liberalization, the Islamic financial system has become more diversified and has gained more and more depth. As a result, Islamic finance currently appears to be one of the most dynamic segments of the international financial services industry.

In recent years, Islamic finance has experienced exceptional growth. « The International Monetary Fund (IMF), the World Bank and other international financial organizations estimate that Islamic bank assets grew nine fold between 2003 and 2013, an increase of 17% per year. More than 40 million people around the world are currently clients of an Islamic bank » (Gazzane, 2014). Despite the twin challenges of COVID-19[1] and falling global oil prices, Islamic finance assets grew by 10.7% in 2020, according to Islamic Financial Services Board (2021).

The choice of Islamic finance is today coveted much more by non-Muslims than by Muslims, the rationality behind being purely economic (return on investment) rather than ethical.

Countries in Asia, the Middle East, the Maghreb and even Europe have already resorted to Islamic bond financing (Sukuk) during the last decade. For example: United Kingdom: 584.65 million euros in March 2021 (Ghlamallah, 2021); Luxembourg: 240 million US dollars in September 2014 (Archer & Rifaat, 2018). This interest for Islamic finance in the western world can be explained by the need to diversify investors and the need to satisfy the religious practices of a fringe of the population.

Nearly 25% of Islamic financial institutions now operate in countries that do not have a Muslim majority, while the traditional banking system has begun to open Islamic banking windows around the world, mainly in Europe and North America (Pollard & Samers, 2007) in (Rizvi , Nafis Alam, & Syed Aun R, 2017). Other predominantly Muslim countries are also beginning to show interest in this sector, particularly those in North Africa (Conseil Déontologique des Valeurs Mobilières, 2011).

From there, the questions that arise are as follows:

- How can Islamic finance be defined? What are its principles and main financial instruments?
- How is Islamic finance developing in the international financial market? What are its growth prospects?

In order to answer our research questions, we will divide our article into three sections. Section one presents the basic principles and main services offered by Islamic finance. Section two discusses the growth of the Islamic financial industry worldwide. The evolution of the Sukuk market in the world is provided in Section three.

2. Islamic finance: basic principles and main services offered

(Guéranger, 2009) defines Islamic finance as a segment of ethical finance whose primary objective is not the unbridled search for profit. It must be said that "Islamic finance is a financial system that, while integrating the objectives of profitability and efficiency, respects all the ethical principles of the Muslim religion" (Lasserre Capdeville, 2011), but also and above all the moral and socially responsible dimensions of the business world.

Islamic finance is based on five principles:

1. The prohibition of Riba;
2. The prohibition of uncertainty of sales "Gharar" and speculation "Maysir";
3. The requirement of investment in licit sectors;
4. The obligation of sharing profits and losses and, finally;
5. The principle of backing investments with tangible assets of the real economy.

The strategic objective of Islamic finance is to participate in the development, the increase of the production of goods and services and the creation of jobs. This finance offers a wide range of financing contracts, but we will only mention those that are most commonly used and that have played a prominent role in the growing evolution of Islamic finance.

The main financial instruments offered by Islamic finance are described below. A distinction is made between financing instruments and equity financing instruments. We also discuss about Sukuks which are Islamic bonds, Takaful (insurance in accordance with Islamic law) and Islamic investment funds.

2.1. Financing instruments:

These are financial products that will allow the bank's clients to acquire an asset, under clearly predefined conditions. We have as main products:

The Murabaha contracts: in this contract the bank buys under the order of its client an asset and resells him this asset with a cost increased by a premium called "commercial margin". Most Islamic banks and financial institutions use Murabahah as an Islamic financing method, and most of their financing operations are based on this product.

Idjara contracts: is a Shariah-compliant leasing contract that commits the bank to purchase the asset and make it available to its client in return for a predefined monthly rent. At maturity, the lessee may or may not purchase the asset, depending on the type of contract: Idjara or Idjara wa Iktina (with acquisition).

Istisna contracts: This is a manufacturing (or construction) contract under which the participant (seller) agrees to supply the buyer, within a certain period of time and at an agreed price, with specified goods after they have been manufactured (constructed) in accordance with the specifications. In return, the buyer agrees to pay the seller gradually throughout the manufacture of the goods.

Salam contracts which is a purchase contract with cash payment of a good which will be delivered to the buyer by his partner.

Al Quard Al Hasan: is a contract by which the bank undertakes to lend its client a sum of money without asking for any interest or return, in addition to the repayment of its amount. The bank, moreover, cannot in any case claim the money lent before the end of the contract.

Wakala: In this type of contract, the Islamic bank will be mandated by the client to invest the client's funds in assets/projects that will generate profits. If applicable, the profits will be paid to the client. The bank will charge a management fee/ commission to the client for the investments it has made on behalf of the client.

2.2. Equity financing instruments:

Which are essentially based on a Profit and Loss Sharing (P.L.S.) relationship such as:

- Musharakah contracts: an equity investment by the Islamic bank in the equity of the company to be financed.
- Mudaraba contracts: a partnership between the entrepreneur (his skills and expertise) and the Islamic bank (its capital).

2.3. Sukuk (Islamic bonds) are the flagship product of the Islamic financial industry. Their development is at the origin of the growth of the Islamic capital market. AAOIFI[2], in its Shariah Standard 17, defines Sukuk as certificates of equal value representing undivided shares of ownership in tangible assets, usufructs and services, or ownership in a particular project or investment activity. Sukuk are therefore financial products backed by tangible assets or their usufruct is obligatory, with a fixed maturity, and which generate financial flows allowing the remuneration of the holders of these securities. The sale of the underlying asset or its redemption enables the investors to be repaid at maturity. There are two types of Sukuk issuance: sovereign Sukuk issued by governments, and corporate Sukuk issued by companies or banks.

2.4. Takaful (Shariah-compliant insurance):

According to the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), the concept of Takaful is defined as an agreement between people with specific risks to repair damages by paying contributions based on donations. The mutual insurance fund thus formed may be managed according to the model chosen by a committee selected from among the insured, or by a management company.

In another way, Takaful is a Shariah-compliant insurance in which the participants (policyholders) contribute in the form of donations to a common fund (Takaful fund) for the purpose of mutual insurance. In this model, the risk is not transferred from the insured to a single insurer, but is shared by all participants in the Takaful fund. The management of the fund is, in practice, entrusted to an insurance specialist called the Takaful Operator.

The Takaful participants share the risk with each other and help each other in case of need. They are both the insured and the insurers. The amount contributed by each participant to the Takaful fund is called a "contribution", and is considered a "conditional donation". The Takaful fund is intended to cover the costs of managing the fund and to compensate participants in the event of a claim.

2.5. Islamic investment funds:

Islamic investment funds are an attractive framework for attracting resources, especially from external contributors, who are interested in investment.

The operation of Islamic investment funds is almost identical to that of conventional funds. The only difference being that all investments made by the fund and the investment objectives must be Shariah compliant.

The AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) defines investment funds as follows: Funds are investment vehicles that are financially independent of the entities that create them. They take the form of shares/units with equal participation rights, which represent the share of assets held by the shareholders/unit holders and their rights to profits or losses. The funds are managed on the basis of a Mudaraba contract or a wakala contract.

Islamic funds also include real estate funds, liquidity funds, Sukuk funds, venture capital funds, equity funds and more recently hedge funds.

Islamic funds have been introduced in more than 25 countries around the world. In 2018, Saudi Arabia led with 35.52% of total Islamic fund assets, followed by Malaysia with 30.88%, while in Africa, only a small share of the fund market is accounted for with 2.3% in South Africa (IFAAS- Islamic Finance Advisory & Assurance Services-, 2020).

3. The growth of the Islamic financial industry worldwide:

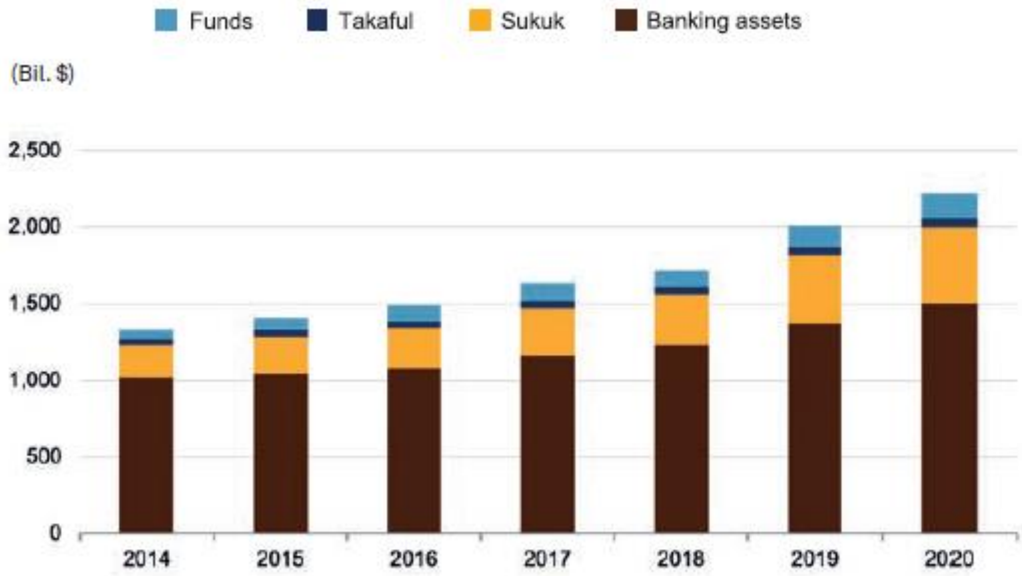
Islamic financial institutions include Islamic banks, Islamic insurance companies or Takaful, Islamic investment funds and issuers of sukuks (the Islamic equivalent of bonds).

Islamic finance is present in 80 countries, spread over five continents, with more than 505 active Islamic banks. The total value of the global Islamic financial services industry is estimated at US$2.70 trillion in 2020, representing 10.7% growth in US dollar assets from US$2.44 trillion in 2019 (IFSB- Islamic Financial Services Board-, 2021).

Despite the global pandemic, all sectors have contributed to the increase in the total value of the global Islamic Financial Industry including Islamic capital markets and Islamic banking sector.

The Islamic financial industry achieved overall growth in 2020 despite the increased uncertainties in the global economic and financial landscape caused by the COVID-19 pandemic (See Chart No. 01).

Chart (1): Global Islamic Finance Assets (2014-2020)

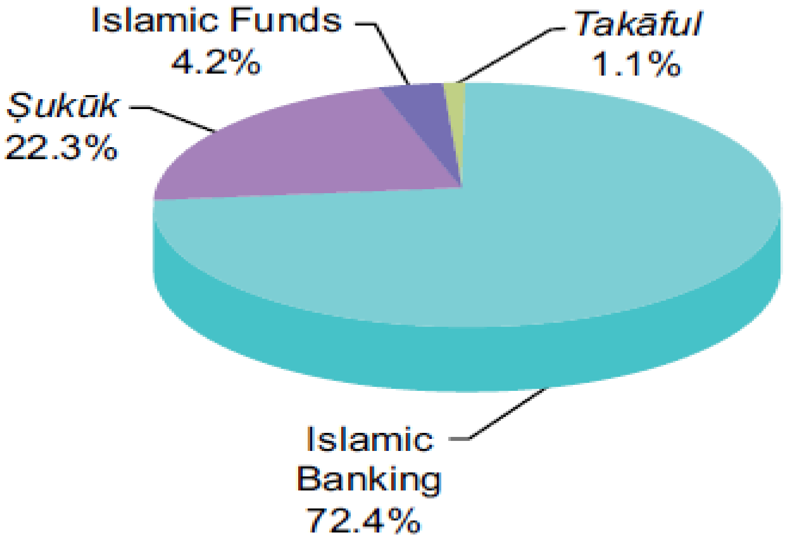


The source: (Standard & Poor's, 2022, p. 9)

Islamic banks occupy a central position within Islamic financial institutions.

By the end of 2020, the global Islamic banking sector recorded an asset growth rate of 4.3% compared to 12.4% in 2019, with total assets in 3rd trimester amounting to USD 1.84 trillion compared to 1.77 trillion USD in 3rd trimester 2019 (IFSB- Islamic Financial Services Board-, 2021). More than 72% of assets are managed by financial intermediaries (see Chart No. 02). The growth recorded is due to the improvement of Islamic banking activity in some countries, especially in the GCC[3] region, which has seen significant mergers of Islamic banks to enhance competitiveness, attract stable deposits and improve efficiency. In 2019, the Abu Dhabi-based Islamic financial institution Al Hilal Bank joined forces with the Commercial Bank of Abu Dhabi and Union National Bank. In 2020, the National Bank of Bahrain (NBB) acquired a 78.8% stake in Manama-based commercial lender Bahrain Islamic Bank (BisB) in January, while in the same month Qatari Masraf Al Rayan completed a merger with Al Khaliji Commercial Bank. In July 2021, Oman Arab Bank completed the acquisition of its Omani colleague Alizz Islamic Bank (Oxford Business Group , 2021).

Graph (2) : Distribution of the Islamic Finance sectors (2019)



The source: (IFSB- Islamic Financial Services Board-, 2020, p. 13)

The Sukuk sector closed the year of 2020 with a total outstanding amount of 689.5 billion USD compared to 543.4 billion USD in 2019. It accounts for 25.6% of the value of the global Islamic finance industry and recorded significant expansion in 2020 compared to 22.3% in 2019, with a compound annual growth rate (CAGR[4]) of 26% over the past 16 years (similar to that recorded in 2019) (IFSB- Islamic Financial Services Board-, 2021).

The expansion in 2020 is mainly due to strong sovereign and multilateral issuance in key Islamic finance markets to support government spending and environmental preservation initiatives.

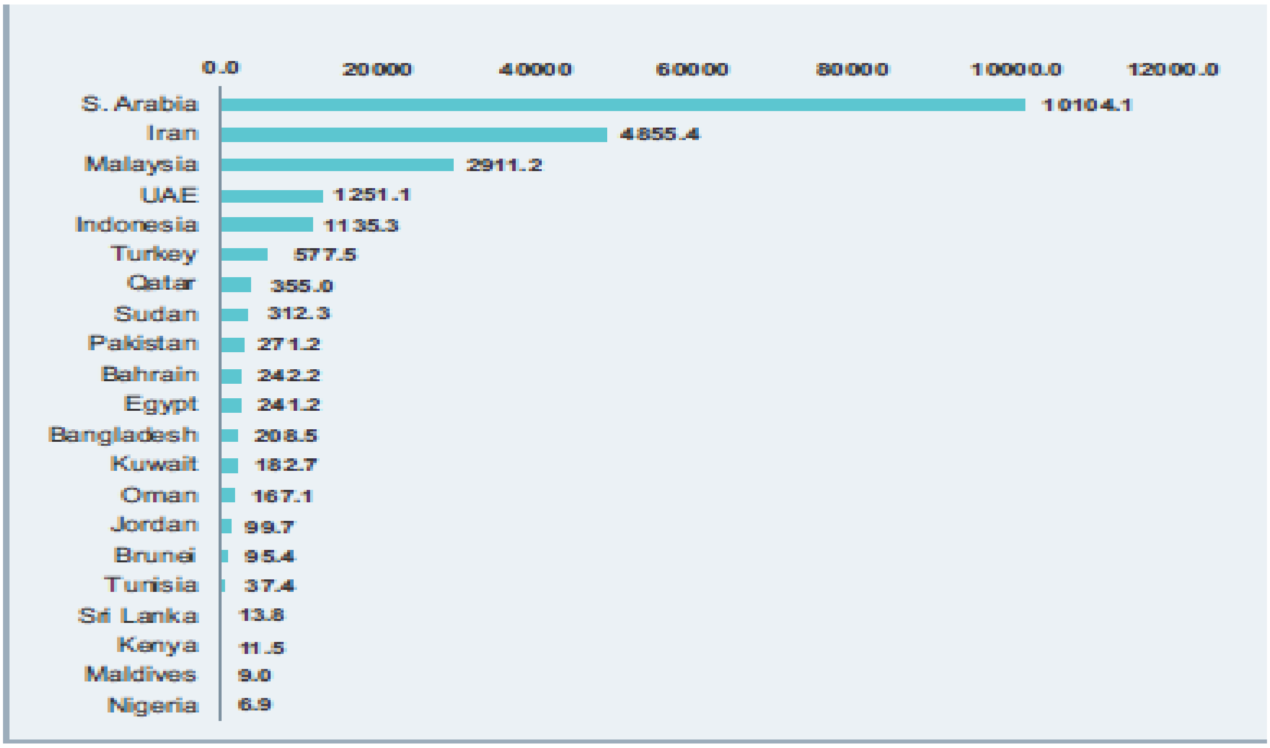
Islamic funds were not affected by the pandemic and recorded a growth of 33.1% to reach 143.8 billion USD at the end of 2020 compared to 102.3 billion USD at the end of 2019 (IFSB- Islamic Financial Services Board-, 2021), as well as the number of Islamic funds, which increased to 1,545 in 2019 from 1,489 in 2018 with a growth rate of 3.8% in 2019 (IFSB- Islamic Financial Services Board-, 2020).

Islamic funds remain concentrated in three main markets: Saudi Arabia, Malaysia, and Iran, accounting for approximately 81% of total assets under management in 2019: Saudi Arabia recorded 38.5%, Malaysia 28.1%, and Iran 14.9%. The impact of COVID-19 on the industry has varied widely by country (IFSB- Islamic Financial Services Board-, 2021).

According to the (IFSB- Islamic Financial Services Board-, 2021), **the global Takaful market** is estimated to be worth about 23.1 billion USD in total gross contributions at the end of 2019, or about 0.9 % of total Islamic finance industry assets.

Despite its enormous potential, the takāful industry still faces high concentration in key markets and in the general business sector. Global takāful data is dominated by Saudi Arabia, Iran, Malaysia, the United Arab Emirates, Indonesia and Turkey.

Chart (3) : Takāful contributions by country (USD million, 2019)



The source: IFSB PSIFIs and Secretariat Workings in (IFSB- Islamic Financial Services Board-, 2021, p. 30)

S&P Global Ratings (Standard & Poor's, 2022)estimates that the global Islamic finance industry will grow by 10-12% in 2021-2022 after slowing to 10.6% in 2020 (excluding Iran)[5].

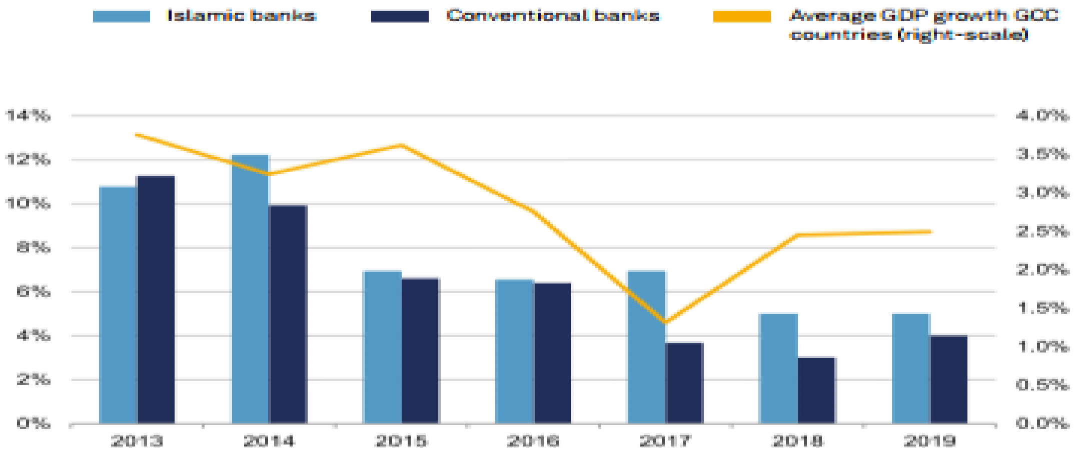
Growth in Islamic banking assets in some Gulf Cooperation Council (GCC) countries, Malaysia, and Turkey, and sukuk issuance, account for this performance. Islamic finance grew rapidly in 2020, but at a slower pace than in 2019, despite the twin shocks of the pandemic and falling oil prices.

3.1. Growth of Islamic and conventional banks

Despite their relatively young age and the many constraints they face, Islamic banks have been growing and expanding rapidly. Islamic banks have one of the highest growth rates of all banks and have great potential for development.

According to Ernst & Young[6], the top twenty Islamic banks have seen their activity grow by an average of 16% per year, an increase much higher than that of their conventional competitors. The growth of Islamic banks is more important than conventional banks (see Chart No. 04)

<u>Chart (4):</u> **Growth of Islamic banks compared to conventional banks between 2013 and 2019**

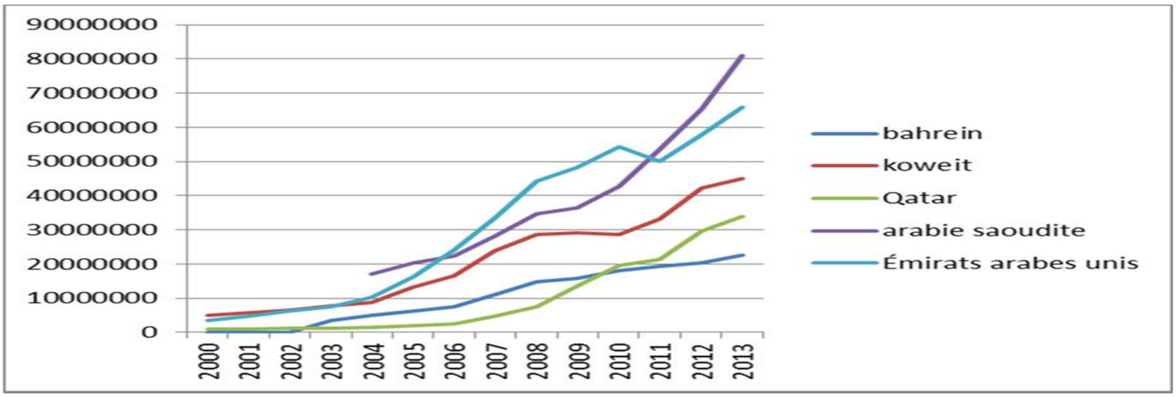


The source: (Standard & Poor's, 2019)

3.2. Evolution of Islamic deposits in some countries:

From the following graph, we notice that the deposits of Islamic banks have not been affected by the subprime crisis, even if we can see a slight stagnation at the end of 2008. Only the United Arab Emirates recorded a decrease in 2010 following the problems of the real estate sector in this country and the cancellation of several construction projects.

<u>Graph (5):</u> **Evolution of Islamic bank deposits in some countries**

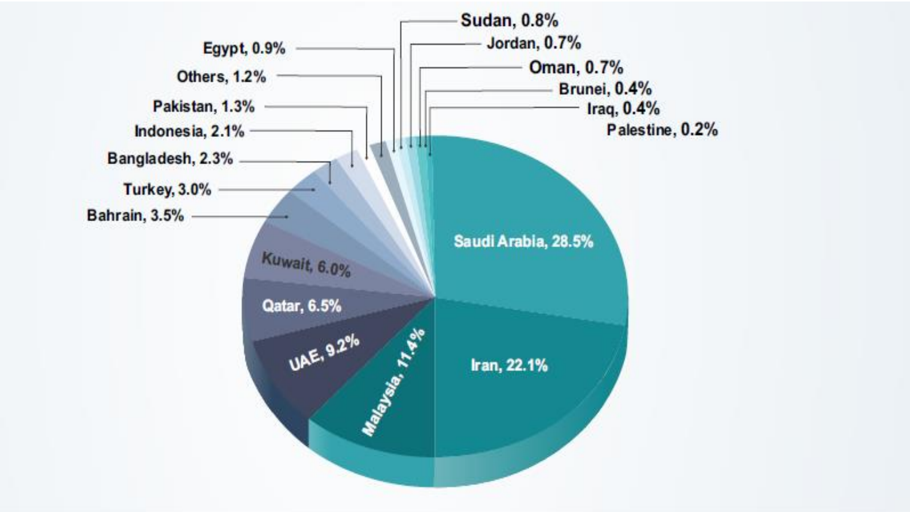


The source: (Korbi & El Khamlichi, 2015)

3.3. The distribution of Islamic banking assets in the world according to the countries practicing Islamic finance

In 2020, the top ten countries active in Islamic banking are: Saudi Arabia (28.5%) followed by Iran (22.1%), Malaysia (11.4%), the United Arab Emirates (9.2%) and Qatar (6.5%), Kuwait (6%), Bahrain (3.5%), Turkey (3%), Bangladesh (2.3%) and Indonesia (2.1%) Total assets are denominated in US dollars (See chart No 05).

Chart (5): Distribution of global Islamic banking assets in countries practicing Islamic finance (3rd trimester 2020)



The source: IFSB Secretariat Workings in (IFSB- Islamic Financial Services Board-, 2021, p. 9).

Regionally, the Gulf Cooperation Council has maintained its position as the largest center of Islamic financial assets (see chart No 06). In 2020, the region witnessed a modest increase in Islamic banking assets with a rate of 48.9%, followed by the Middle East and South East Asia region which are also very active in the development of Islamic finance and account for 20.3% and 24.9% of global Islamic finance assets respectively, while Africa ranks last with a share of 1.7%.

Table (1): Distribution of global Islamic assets by segment and region (billion USD, 2020[7])

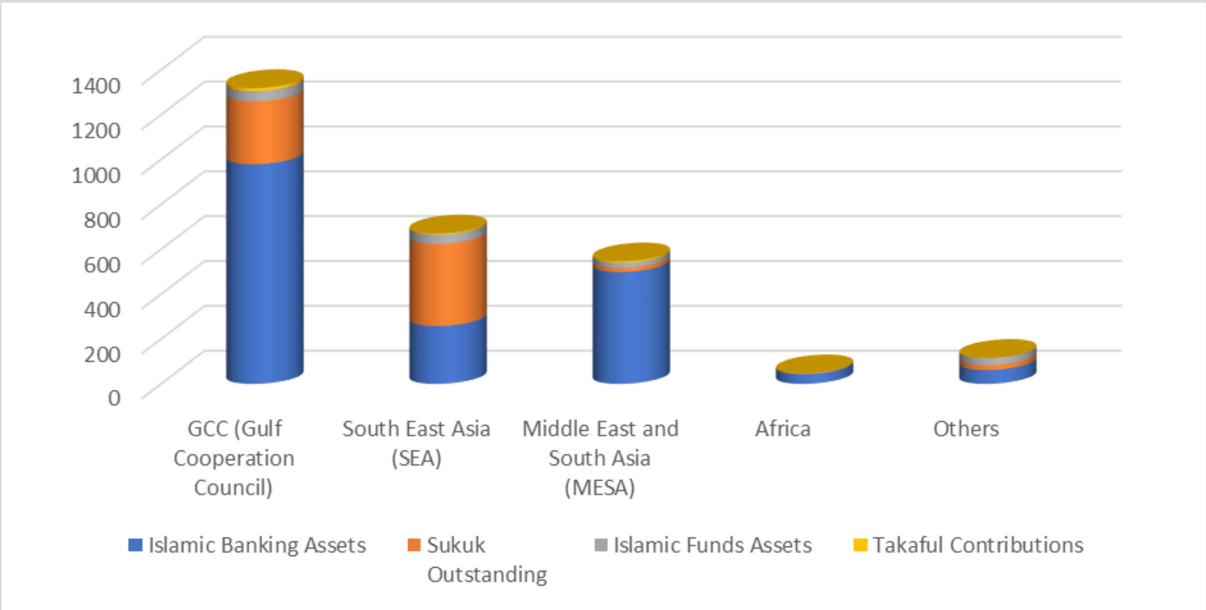
Region	Islamic Banking Assets	Sukuk Outstanding	Islamic Funds Assets	Takaful Contributions	Total	Share (%)
GCC (Gulf Cooperation Council)	979.7	280.4	46.3	12.3	1318.7	**48.9%**
South East Asia (SEA)	258.2	366.4	41.9	4.1	670.6	**24.9%**
Middle East and South Asia (MESA)	499.0	18.9	22.8	5.5	546.2	**20.3%**
Africa	43.1	1.7	1.5	0.6	46.9	**1.7%**
Others	61.8	22.1	31.3	0.6	115.8	**4.3%**

Total	**1841.8**	**689.5**	**143.8**	**23.1**	**2 698.2**	**100%**
Share %	**68.3%**	**25.6%**	**5.3%**	**0.9%**	**100.0%**	

The source: IFSB Secretariat Workings in (IFSB- Islamic Financial Services Board-, 2021, p. 6).

Countries that are not located in these different regions but have significant Islamic financial assets are classified as "Others", in particular countries located in Europe, North America, South America and Central Asia such as: Turkey, UK, Luxembourg, Germany and USA, etc.

Chart (6): Distribution of Global Islamic Assets by Segment and Region (billion USD, 2020)



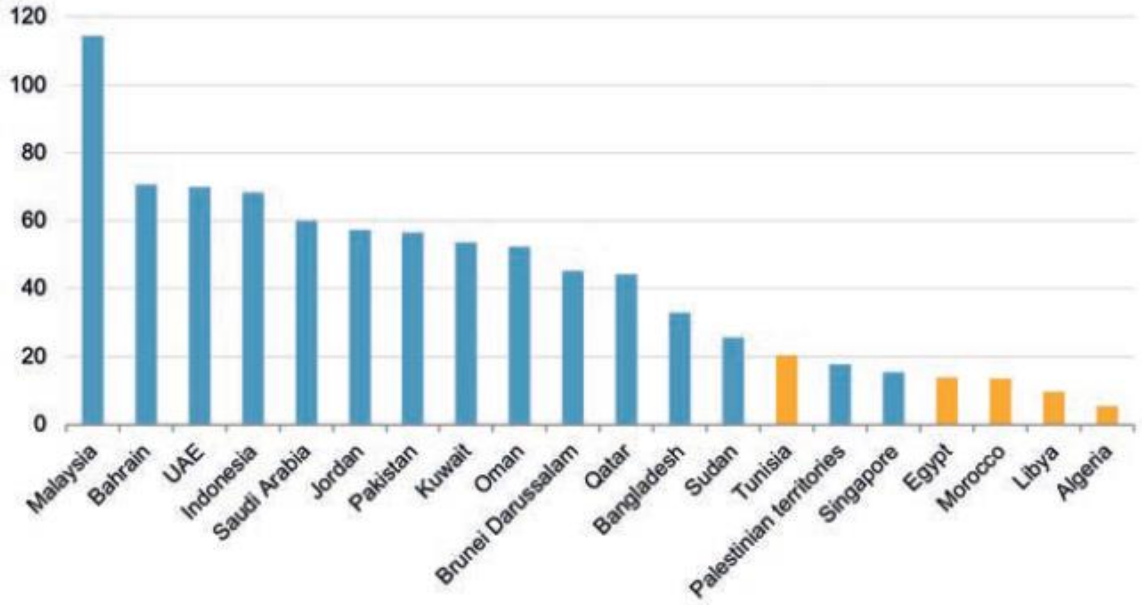
The source: Developed by the authors based on data from (IFSB- Islamic Financial Services Board-, 2021, p. 6).

3.4. The development of Islamic finance for some countries:

Islamic finance is the fastest growing segment of the financial sector. The center of gravity is still concentrated mainly in Malaysia, Bahrain, the United Arab Emirates, Indonesia, Saudi Arabia, Jordan, Pakistan, Kuwait, Oman, Brunei Darussalam and Qatar (see graph n° 07).

Islamic finance first appeared in North Africa in the 1970s, when Egypt launched its first Islamic bank. Despite its early introduction in the region, the industry has remained underdeveloped compared to other countries, as indicated by the Islamic Finance Development Index (IFDI), a composite weighted index created by the Islamic Corporation for Private Sector Development (IAS) and Thomson Reuters. The IFDI provides, according to (Standard & Poor's, 2022), an overall assessment of the evolution of Islamic finance based on five pillars: quantitative developments, knowledge, corporate social responsibility, governance and awareness.

Chart (7): Islamic finance development indicator for selected countries as of 2019 (CIM-Thomson Reuters)



The source: (Standard & Poor's, 2022, p. 35).

3.5. Islamic finance in the Middle East:

Today, the largest Islamic banks are present in **the Gulf countries**: Al Rajhi Bank and Bank Al Jazira in Saudi Arabia, Dubai Islamic Bank and Abu Dhabi Islamic Bank in the United Arab Emirates, and Kuwait Finance House in Kuwait. As well as major institutions, the Islamic Development Bank, in charge of spreading Islamic finance worldwide, is based in Jeddah, Saudi Arabia, and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOFI), in Bahrain. This region is also a driving force in terms of innovation. The products offered to consumers are expanding with the recent arrival of Islamic insurance. The only holdouts in the region are Yemen and Oman. **In Oman**, the first Islamic bank was deployed in 2011 and in Yemen, only 3% of the population declare to consume Islamic finance products (Huet, Cherqaoui, & Cola, 2016).

Qatar and Bahrain are two countries in the Middle East that represent two fairly strong financial centers in the field of Islamic finance.

Qatar is a Middle Eastern country where Islamic finance is extremely present. The four largest Islamic banks are located there: Qatar Islamic Bank, Qatar International Islamic Bank, Doha Islamic Bank and Al Rayan Bank.

Bahrain has developed a network of research and regulatory institutions, such as organizations dealing with accounting and auditing of Islamic banks, a rating agency for Islamic banks, etc. Due to the strong presence of these financial organizations in the country, a large number of Islamic banks are using Bahrain as a base to operate in the Persian Gulf, the European Union and North America.

3.6. Islamic finance in Southeast Asia:

Malaysia represents the leading domestic market in Islamic finance and occupies a position of leading expertise globally. It has been considered the most advanced nation in the field of Islamic finance for almost two decades.

As early as 1983, the country gradually developed a comprehensive and integrated regulatory, Shariah compliance and legal framework for the Islamic finance industry (Delfolie, 2013).

The current level of sophistication of the Islamic finance market in Malaysia is the result of a concerted and sustained effort over the past 30 years by the central bank (Bank Negara Malaysia), the Securities Commission Malaysia, Sharia scholars and financial institutions.

In 2011, Malaysia accounted for approximately 71% of the world's sukuks issuance (Banque africaine de développement, 2012), or nearly 60 billion USD. This Malaysian dominance is also a strategic asset in a sector where skills are scarce and expertise is in demand.

Malaysia remains the largest market in the South East Asia (SEA) region with a value of 210.0 billion USD and accounts for 28.9% of the market share of the Malaysian commercial banking system as of the end of 3rd trimester 2020 (IFSB- Islamic Financial Services Board-, 2021).

Indonesia, is the world's largest Muslim country with a population of over 200 million. The country has taken advantage of the dynamism of its neighbor Malaysia to develop its Islamic finance, with the first products offered as early as the early 1990s (Huet, Cherqaoui, & Cola, 2016).

Indonesia's Islamic banking sector stood at 37.7 billion USD and represents a 6.1% share at the end of the third quarter of 2020, a slight increase from 5.8% the previous year (IFSB- Islamic Financial Services Board-, 2021).

The growth prospects for the Islamic banking sector in Malaysia and Indonesia remain strong thanks to an increased drive for digitalization.

Hong Kong and Singapore, as major financial centers in Southeast Asia, have also benefited from the regional interest in Islamic finance.

Since 2006, Japan has facilitated Islamic finance offerings through amendments to the Banking Act in 2008, allowing subsidiaries of Japanese banks to engage in Islamic banking services. As a result, Japanese financial institutions are now allowed to offer Islamic financial services where products based primarily on Idjarah (lease) structures receive equal tax treatment to conventional lease-based products.

3.7. Islamic finance in Africa:

In Africa, the assets of this alternative finance amount to 78 billion USD, or 5% of the total assets of this industry worldwide (Agence ECOFIN, 2014). Currently, only 1.5% of global Islamic investments are directed to the African continent (Carayon, 2017). Despite this still very small presence; this finance represents a hope for many investors on the continent.

Khartoum and Tunis are the two financial centers for Sukuk on the continent. Some countries, such as Nigeria, have announced their intention to issue Sukuk in the near future, while others, such as Kenya, are adapting their financial regulations and taxation.

Mali has launched a first Islamic bond issue for an amount of 150 billion CFA francs on the WAEMU regional market. The operation aims to enable the country to mobilize more financing for development projects (La Tribune Afrique, 13 février 2018).

Although a region with a large Muslim majority, North Africa is not among the countries driving the development of Islamic finance.

According to a study conducted by the American consulting firm The Gallup Organisation, in four North African countries (Algeria, Morocco, Tunisia and Egypt) and one Middle Eastern country (Yemen), less than 3% of adults in the countries studied use Sharia-compliant banking products and services: 3% in Algeria and Egypt, 2% in Tunisia and 1% in Morocco and Yemen (see table n° 02). This is due to a very low rate of banking and a regulatory limitation on the scope of intervention of Islamic banks.

However, the study reveals that 57% of adults in Tunisia report having heard of Islamic banks in their country, 53% in Yemen, 49% in Egypt, 41% in Morocco and 35% in Algeria.

Table (2): The rate of knowledge and use of Shariah compliant financial services

	Has heard about Islamic banks	Currently uses an Islamic banking service
Tunisia	57%	2%
Yemen	53%	1%
Egypt	49%	3%
Morocco	41%	1%
Algeria	35%	3%

The source: this table is published in (Elmeziane, 2014). The year of the study is not mentioned.

Governments have nevertheless become aware of the issues, and regulations are changing to allow for a better deployment of this financing system.

Over the past decade, the number of players active in Islamic finance (including banks, insurance companies, and funds) in the region has increased slightly, mainly due to Morocco's launch of its first Islamic financial institution in 2017. The Moroccan government has so far passed several regulations to enhance the development of the industry and has been one of the fastest growing Islamic finance markets in 2019. However, the development of the Islamic finance industry in North Africa remains limited (Standard & Poor's, 2022). With 28 banks out of 526 globally, the industry's contribution to global banking assets is less than 2 percent (See Table 03).

Table (3): Islamic finance statistics in North Africa (December 2019)

	Total islamic banking assets (billion USD)	Islamic banks	Takaful companies	Islamic funds
Algeria	N.A	3	1	0
Egypt	20	14	5	12
Libya	N.A	0	1	0
Morocco	1	8	0	2
Tunisia	2	3	3	4
Total North Africa	28	28	10	18
Global	1993	526	336	1749
% of which is North Africa	**1.42**	**5.32**	**2.98**	**1.03**

N.A.-Not available.

The source: (Standard & Poor's, 2022, p. 35).

In Egypt and Tunisia, new regulations were drawn up at the end of 2013 to encourage the development of Islamic finance (Banque de France, 2013).

Egypt, the cradle of this system, still has two 100% Sharia-compliant banks.

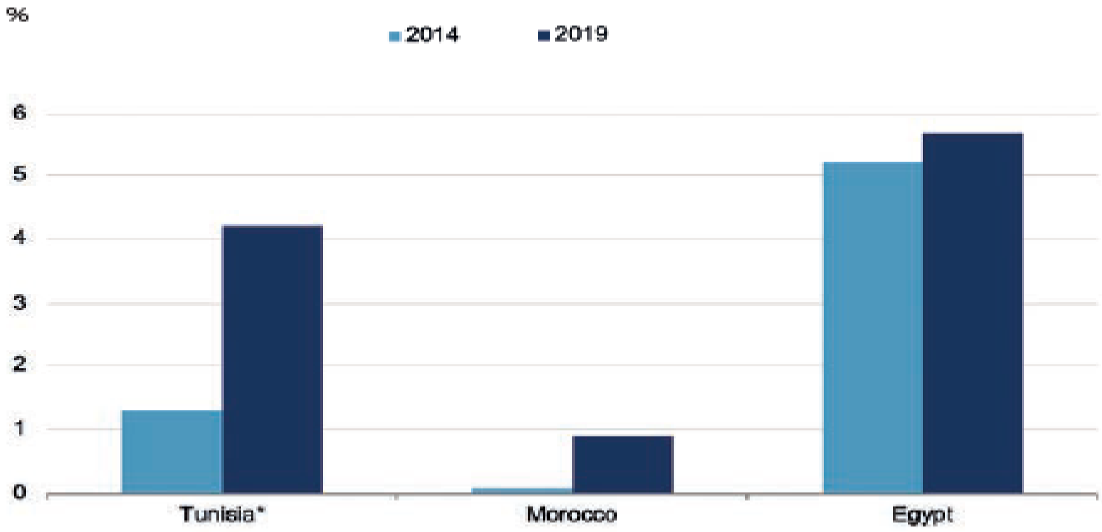
In Tunisia, Islamic finance was initially limited to two banks. These are Bank Et-Tamweel Al-Tunisie Al-Saudi and Noor islamik bank. According to an interview given by Mr. Chedli Ayari, Governor of the Central Bank to the agency REUTERS 2014.

To finance the economic recovery after COVID-19, Tunisia, whose budget deficit has reached an all-time high, is looking to tap the international sukuk market for about 1 billion USD. Similarly, Egypt is preparing to tap the international and local capital markets for its first sovereign sukuk issue (according to (Standard & Poor's, 2022)).

The Islamic banking market remains a niche market in Egypt and Tunisia, with a market share of total banking assets of less than 6 percent (see Figure 8).

The increase in Tunisia is mainly due to the conversion of El Wifack Leasing into a fully-fledged Islamic bank.

Figure (8): **Contribution of Islamic banking to total domestic assets in Tunisia, Morocco and Egypt**



The source: (Standard & Poor's, 2022, p. 35).

In Morocco, the January 2015 law finally provides the legal framework for the establishment of Islamic banks in the country. The text provides for a centralized Sharia Commission model and a range of six types of products, to cover Morocco's diverse economic model (Lahrichi & Bouslama, 2015). In early 2017, the Moroccan central bank finally authorized Islamic financial activities. The choice to call them "participatory banks" and not "Islamic" follows Morocco's reluctance to allow Sharia-compliant finance.

The main Moroccan banks as well as several foreign Islamic banks have announced their intention to open, alone or in partnership with each other, independent participatory banking institutions. Al Baraka Bank of Bahrain, the Kuwaiti Investment Bank, the International Islamic Bank of Qatar and the Saudi Faisal Islamic Bank, among others, have applied to the Moroccan central bank to develop the Islamic finance market in Morocco.

In North Africa, Morocco was the first country in the region to be able to issue a sovereign sukuk in 2018 (1 billion Moroccan dirham), equivalent to $0.1 billion), a year after launching Islamic finance there (Standard & Poor's, 2022, p. 34).

According to some Moroccan experts, three scenarios of development of Islamic banks are possible. The first is the launch of national Islamic banks, subsidiaries of conventional banks. The second scenario is the opening to the Gulf countries with a strong injection of foreign capital in the Moroccan economy. The third scenario is to make Casablanca a regional or even international financial center, particularly in the field of Islamic finance. In this sense, Morocco has several assets and in particular its privileged position in sub-Saharan Africa and in the North Africa and Middle East region.

In Algeria, the experience in the field of Islamic banking began with the liberalization of the banking sector by the law on money and credit of April 14, 1990. In 1991, the financial authorities authorized institutions to carry out an Islamic finance activity. Until 2008, Banque Al Baraka d'Algérie had a de facto monopoly on Sharia-compliant banking. Since then, another Islamic bank with Emirati capital, Essalam Bank, has obtained its license. Another bank with Arab capital, mainly Kuwaiti, Algeria Golf Bank, also offers since the same year, financing products in the form of Murabaha. And in 2010 there was a change in the banking law allowing conventional banks to market Islamic banking products, and this is due to the unfavorable situation that the Algerian economy is experiencing following the fluctuations of hydrocarbon prices.

Following the emergence of Islamic finance in Algeria in 1991, various conventional banks and financial institutions have adopted this finance and they have launched into the marketing of some Islamic products.

The Algerian banking sector is composed of six public banks, five of which are committed to launching Islamic finance services: CNEP, BNA, CPA, BADR, and BDL. Followed by the recent opening of Islamic windows of four private banks namely: SGA Bank, AGB Bank, HOUSING Bank and TRUST Bank, and finally by the launch of two financial institutions which are: Maghreb leasing Algeria (MLA) and Arab leasing corporation (ALC).

(Regulation No. 18-02 of 26 Safar 1440 corresponding to November 4, 2018) on the conditions of exercise of banking operations under the participatory finance by banks and financial institutions, opens the way to the development of participatory finance in Algeria.

In March 2020, a new regulation supplemented by an instruction dated April 2, 2020 of the Bank of Algeria that now made explicit reference to Islamic finance. This document specified the conditions of exercise of this activity, determined the products to be marketed (Murabaha, Musharaka, Mudaraba, Idjara, Istisna'a, Salam and investment account deposits) and set up two bodies to control compliance with Sharia standards at the level of the institution (Sharia committee reporting to the general assembly) and at the national level (National Sharia Commission in charge of drafting fatwas for the Islamic financial industry).

Another element to note is the concern for transparency by establishing a separation between the conventional finance windows and the Islamic finance window within the same institution. This prefigures the possibility for all banks to enter the Islamic finance market. As for non-banking activities and in the field of insurance of an Islamic nature (takaful), they are now supported by Article 103 of the Finance Act for 2020.

The marketing of Islamic financial products is an opportunity for Algerians who hesitate and avoid applying for financial loans from banks that apply interest rates, knowing that such practice is prohibited by the Muslim faith.

Libya banned the conventional banking system entirely after passing an Islamic Banking Law No. 1 of 2013. Despite this legal breakthrough, Libyan banking institutions do not seem ready, at present, to render Islamic services. Indeed, the Libyan financial sector suffers from a lack of structure, stability and thus remains fragile.

Sudan, Pakistan and Iran are the first three countries that have committed to move to 100% Islamic. Sudan is the only one where this bet has been really carried out to the end. From this success came the need for banks to resort to insurance, making Sudan a pioneer country in the field of takafuls as well. In this country, Islamic banking was developed from 1984 onwards on the basis of the prohibition of payment and receipt of interest. The evolution of the Sudanese banking system eventually led to a banking system composed of 26 banks, 7 of which are purely Islamic.

Senegal is a pioneer in Islamic microfinance, a need not yet covered by Islamic banks. This innovation will perhaps allow a strong expansion in Africa. The still very low bancarization rate leaves conventional banks with a minimal lead over Islamic banks. The numerous infrastructure projects and the demographic growth open an interesting growth potential for the latter.

To conclude the section on Islamic finance in Africa, it must be said that the ability of Islamic finance players to offer a wide range of products under suitable financial conditions will determine the future of Islamic finance in the region.

Islamic finance could offer Shariah-compliant products to a new and untapped class of investors and clients, including low-income households and the small and medium-sized enterprises (SMEs) and very small enterprises (VSEs) segments, which account for 60-90% of the region's economic base.

It could also develop new products in other financial segments, namely capital markets and insurance, which are still embryonic or non-existent in some regions.

The development of the Islamic financial industry could contribute to increased financial inclusion and stimulate economic development in the continent, which has been significantly affected by the COVID-19 crisis. Such a contribution, however, requires the implementation of significant reforms to make the economic and financial environment more conducive.

3.8. Islamic finance in the United States:

The United States is the first Western country where Islamic finance was born, ahead of even England, which is considered a pioneer country in this field with a Muslim population of 3.3 million (Besheer, 2016). Indeed, the development of Islamic finance started in 1997 with the historic agreement between the regulatory authorities "Office of the controller of the currency" and the United Bank of Kuwait concerning a mortgage credit offer.

After the attacks of September 11, 2001, the image of Islamic finance totally deteriorated. Its products became more and more difficult to market. Islamic finance gradually becoming an undesirable product. As a result, the United States preferred to attribute different qualifiers: solidarity, ethical, alternative, cooperative or even socially responsible... no term referring to Islam was used.

It should be noted that the events of September 11 limited the potential growth of Islamic finance. Several of its institutions withdrew from the market and preferred to stop their activities on American soil and migrate to other territories.

In contrast, the first attempts to issue Sukuks in the US were made on September 22, 2004. Lochman's asset-based Sukuks amounted to 110 million USD. The second attempt was launched by East Cameron Partners on June 19, 2006 for 165.67 million USD. The first to be rated by Standard & Poor's, these Sukuks were, despite the complexity of their composition, qualified as non-risky shares.

3.9. Islamic finance in Europe:

In 2004, Europe started to address the issues of Islamic finance. Indeed, reforms on taxes were made a few years ago for the benefit of several Islamic financial products in order to promote their development. Thus, Islamic banks from the Middle East wish to use the English Islamic market as a gateway to strengthen their position in European countries where the Muslim clientele is relatively significant.

In Germany, the state of Saxony-Anhalt in Germany became the first to issue Sukuks in Western Europe in 2004. Since then, several German banks such as Deutsche Bank, Dresdner and West LB have started to integrate Islamic financial products into their product range. These financial services are generally offered by German banks from their subsidiaries in the UK and the Middle East.

The UK's development as an Islamic finance center is based on a series of supportive government policies that have created a fiscal and regulatory framework designed to expand the market for Islamic finance products.

London is already the largest center for Islamic finance outside the Muslim world. I want it to be, along with Dubai and Kuala Lumpur, one of the great Islamic finance capitals of the world, (francetvinfo, 2016) said British Prime Minister David Cameron at the 9th World Islamic Economic Forum.

The number of British institutions offering Islamic finance services is far greater than in other Western countries. Assets of UK institutions offering Islamic finance services totaled about 5.5 billion USD (or £4.1 billion) in the first half of 2018.

Net assets of Islamic funds in the UK totaled 700 million USD (equivalent to £543 million). A total of three Shariah-compliant exchange-traded funds (ETFs) are listed on the London Stock Exchange (TheCityUK, Trowers & Hamlins , 2019).

Many traditional banks and institutions offer Islamic finance services from the UK, including 5 fully Islamic banks and institutions offering Shariah compliant financial products.

In 2014, the UK issued its first Sukuk, and it has just become the first state outside the Muslim world to issue £200 million (€250 million) of Islamic compliant sovereign bonds.

On March 25, 2021, the British government issued a new £500 million (584.65 million euros) (Ghlamallah, 2021) sovereign sukuk. The certificates were primarily purchased by investors based in the United Kingdom and in major Islamic finance centers in the Middle East and Asia. As with the first issue in 2014, the sukuk issued in 2021 uses the so-called "al-idjara" lease structure

The London Stock Exchange (LSE) is a key venue for sukuk issuance. A total of 72 sukuk have been listed on the LSE with a total value of 53 billion USD.

France has lagged behind the UK in the development of Islamic finance despite its efforts, including the work of Europlace, the Senate Finance Committee and the commitment of the Ministry of Finance between lack of political will and insufficient communication. Yet France has many assets: a legal framework already in place, available technical skills, and especially a very significant target clientele with a Muslim population of nearly 6 million in 2016 (L'observatoire de l'immigration, 2020) according to the American institute Pew Research Center.

The introduction of Islamic finance can only be done after a change of vision from the French and their authorities for this type of finance. It is a question of perceiving it as an opportunity rather than a threat (Jouini & Pastré, 2008).

In France, there is no Islamic bank as such, apart from the Chaabi Bank, but other large banks are opening Islamic windows. The former French Minister of Finance C. Lagarde states that : France wishes to promote the development of Islamic finance and to become, like other financial centers in Europe, a privileged reception point for capital of Islamic origin in Europe and in the Euro zone in particular (Ministère de l'économie et des finances, 2009).

However, 2008 was marked by the success of the first financial product distributed in accordance with Sharia law, developed by BFCOI, a subsidiary of Société Générale. 16 million through a savings solution called "Charia Liquidity", a substitute for traditional savings products that earn interest. Other financial operations also saw the light of day in 2008, notably those in the form of Murabaha.

France, although the legislation was amended in 2009, has not yet developed this mode of financing. French companies have been more interested in insurance products. And the growing interest of financiers in this mode of financing has also been reflected in the recent creation of specialized training courses at the University Dauphine Paris IX and the Strasbourg School of Management.

Luxembourg was the first European country to list a sukuk in 2002 and to authorize an Islamic insurance company. In 2014, Luxembourg launched the first euro-denominated sovereign sakk with the aim of diversifying the market, focusing on the needs of the Gulf countries. Today, the Grand Duchy is the fifth country for the domiciliation of Shariah-compliant investment funds (Luxembourg for finance, s.d.)

Ireland has developed a strong foundation for the Islamic finance industry, including an extensive network of tax treaties with Muslim nations and a provision in its tax code specifically for Islamic financial instruments, such as those involving idjarah (leasing), Murabahah (sale on a cost plus markup basis), and Islamic insurance (takaful).

In the fall of 2013, Swis Life offered its first Islamic insurance policies in France, followed in early 2014 by Luxembourg's Vitis Life. The American bank Goldman Sachs issued $500 million worth of Islamic bonds in 2014. ((Standard & Poor’s, 2014) For Société Générale launched a bond program in Malaysia for an amount of 226 million euros in 2013.

In Turkey, Islamic banks, officially known as participation banks, have experienced healthy growth over the past five years (see Chart No 09), and have ambitious plans for even faster growth. The sector has increased its share of the overall banking market to about 7.2 percent of assets at the end of 2020, up from 5.1 percent at the end of 2015. Meanwhile, sukuk issuance increased from 2 billion to 14 billion USD during the period. Such growth has been achieved thanks to strong support from the Turkish authorities, who are convinced of the importance of Islamic finance as an additional tool to finance the Turkish economy.

Figure (9): Growth of Turkish participation banks

The source: (Standard & Poor's, 2022, p. 29)

4. The evolution of the Sukuk market in the world

Sukuk are considered the best vehicles for the development of the real economy, due to their specificity as a participatory finance tool fully backed by real assets, far from any speculation. The sector has played an important role in infrastructure financing and has been used for both public and private projects.

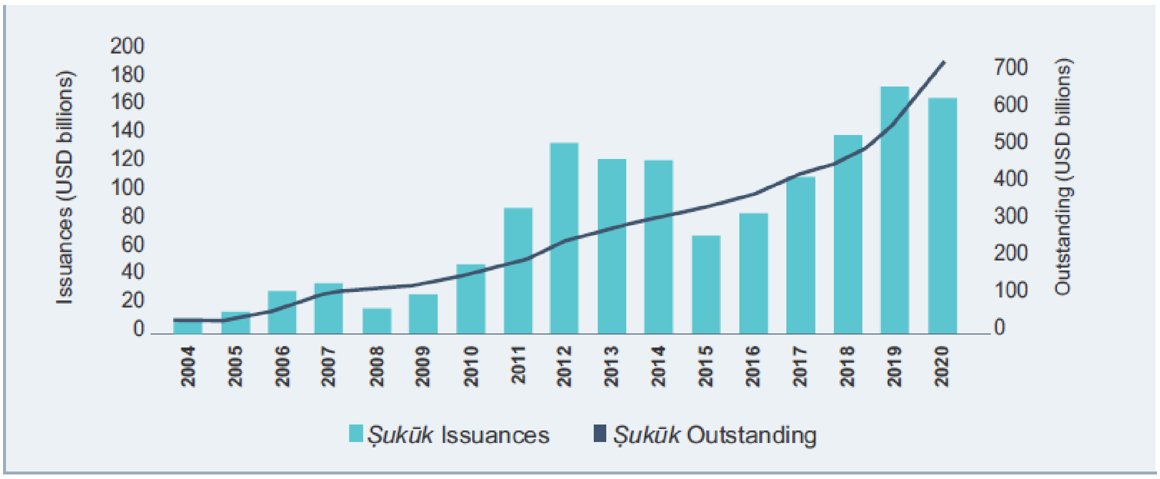
The volume of global sukuk issuance, which started out relatively small, has grown significantly since 2006. In 2010, the amount of sukuk issued worldwide was no more than 100 USD billion. By the end of 2017, it had grown to 426 billion USD (see chart n°10). According to S & P Ratings data, global sukuk issuance increased by 37.7% in the first quarter of 2017 compared to the first quarter of 2016, mainly due to strong growth in sukuk issuance in GCC (Standard & Poor's, 2018) countries. This is an exponential explosion, because in addition to a good yield sukuk is not correlated with the market (rising and falling interest rates)," according to Hashemi Siagh (2015) (Temlali, 2015).

The sukuk industry is growing steadily and increasingly international with an increase in the number and variety of issuers such as Hong Kong, Luxembourg, Senegal, South Africa, and the UK.

Although the sukuk market has grown annually by an average of 10.6% per year between 2012 and 2017 (TheCityUK, Trowers & Hamlins , 2019), the market is still relatively small. The main issuers of sukuk are corporates (accounting for about 64.4% of total assets under management) and sovereigns (30.6%); supranational entities (2.9%) and government-related entities (2.1%) account for the remainder (Edbiz Consulting, 2017).

Growth in issuance in recent years has been driven by the key markets of Malaysia, Saudi Arabia and the United Arab Emirates, as well as emerging markets such as Turkey and Indonesia.

<u>Chart (10):</u> Global Ṣukūk emissions (2004-2020)



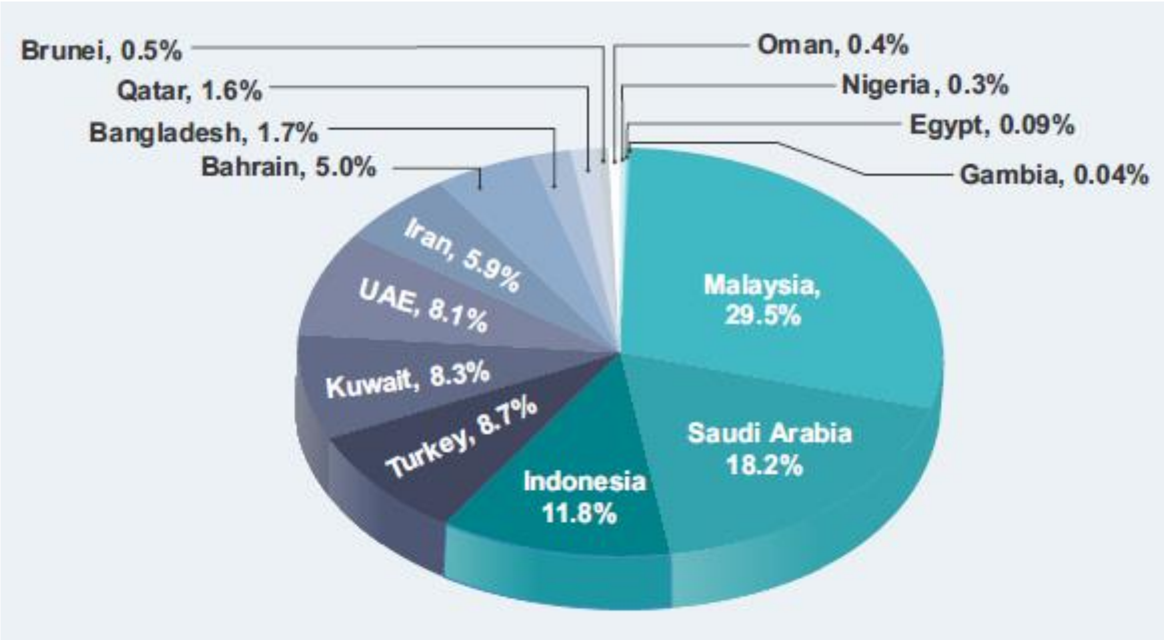
The source: IFSB Estimates based on data from Refinitiv and Regulatory Authorities in (IFSB- Islamic Financial Services Board-, 2021, p. 18).

In 2019, the ṣukūk market grew by double digits, with total ṣukūk issuance increasing by more than 24% amidst attractive global funding conditions for issuers). The Sukūk sector closed the year of 2019 with a total outstanding amount of 543.4 billion YSD compared to 444.8 billion USD in 2018 (IFAAS- Islamic Finance Advisory & Assurance Services-, 2020, p. 26).

Ṣukūk outstanding continued to grow to 703 billion USD in 2020 despite the unprecedented and far-reaching impact of a global pandemic.

The strong growth of the ṣukūk market was supported mainly by the increase in issuance by Malaysia which is the largest sukuk issuing country with a share of (29.5%), Saudi Arabia (18.2%), and Indonesia (11.8%) Turkey (8.7%) Kuwait (8.3%) United Arab Emirates (8.1%) and Iran (5.9%).

Chart (11): Total Sukūk emissions by country (2020)[8]

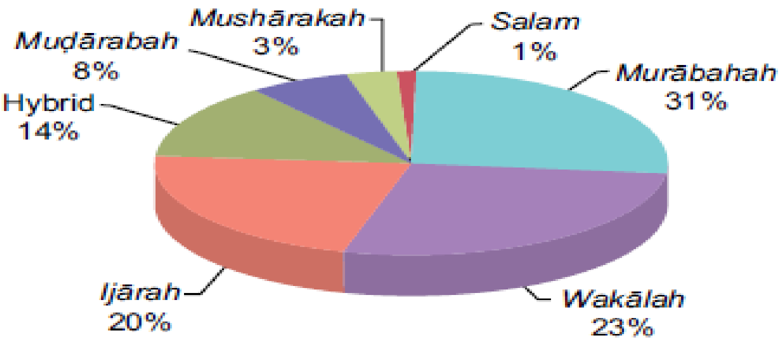


The source: IFSB Estimates based on data from Refinitiv and Regulatory Authorities in (IFSB- Islamic Financial Services Board-, 2021, p. 21).

Sudan was the first African country, in 2007, to issue sukuk for an amount of 130 million USD (Banque de France, 2013). In 2012, **Saudi Arabia** issued its first sukuk to finance the expansion of Jeddah airport. Launched at 8 billion USD, the sukuk was subscribed at 23 billion USD (Djama , 2015).

In addition, new countries are entering the sukuk market. For example, Morocco issued its first sukuk worth 116 million USD in October 2018.

Chart (12): Sukūk emissions by structure (2019)



The source: Thomson Reuters Eikon, Bloomberg (IFSB- Islamic Financial Services Board-, 2020, p. 80).

The diversity of Shariah-compliant contract types used for ṣukūk issuance has increased in recent years. Historically, ṣukūk issuance has been largely concentrated on Murābaha-based contracts (31%) followed by idjāra-based contracts (20%) However, in addition to these two types of contracts, there has been a gradual shift towards increasing use of wakāla-based contracts (23%) as well as hybrid contracts (14%). However, a positive shift towards increasing use of profit-sharing contracts (the Musharaka 3% and Mudaraba contracts 8%) was observed among new issues in 2019 compared to previous years.

5. Conclusion:

Islamic finance holds great promise due to the growing demand from both Muslims and non-Muslims seeking ethical financial services. The same is true for Islamic insurance, with huge untapped opportunities in the Takaful and Retakaful sectors.

The development avenues for Islamic finance are therefore very important and no government remains untouched by the immense liquidity of the Gulf countries. West African countries are also beginning to open up to Islamic finance. As a result, governments and conventional financial players are becoming increasingly interested in this field.

In this article, we gave examples of countries that have integrated Islamic finance into their banking system while demonstrating the good results of this mode of finance. We have also discussed the global development of the sukuk market and its evolution.

Today, the global Islamic banking market is unevenly distributed. Indeed, the major part is concentrated in the Middle East (70% of the assets), 20% of the assets are held in Asia, and 10% in Europe and the United States. We can therefore see that the place held by this finance in the West and in Africa is still marginal.

However, Islamic finance faces legislative obstacles. Its development in Western countries is limited at present. Each country must adapt its banking and tax legislation so that it can really take root. Legal, fiscal and regulatory changes are necessary but in no way sufficient if they are not accompanied by a dynamic, logical and strategic implementation. Expansion is therefore limited by the political will of nations. Moreover, it is necessary not to distort Islamic finance by trying to export it.

In Africa, Islamic finance is still negligible, there are few active Islamic financial institutions and the sector remains embryonic.

The presence of a Muslim population is a necessary, but not sufficient, condition for the industry to flourish in the region. A supportive regulatory environment and consideration of the economic value added of this type of financing are also key factors.

Thanks to the principle of backing investments with tangible assets in Islamic finance, sovereign sukuk issuance could help governments finance their infrastructure needs and important projects in the aftermath of the COVID-19 pandemic.

Finally, we can say that Islamic finance has all the chances to experience a dazzling global expansion but it only depends on the willingness of nations to welcome it and their ability to maintain its values.

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[1]The Covid-19 pandemic is a pandemic of an emerging infectious disease, called 2019 coronavirus disease or Covid-19, caused by the SARS-CoV-2 coronavirus. It appeared on November 16, 2019 in Wuhan, China before spreading around the world.

[2] **AAOIFI** (Accounting and Auditing Organization for Islamic Financial Institutions) is a non-profit organization created to promote the principles of Sharia Law to Islamic financial institutions and other actors in the sector. AAOIFI has established standards in accounting, auditing, governance and ethics for financial institutions wishing to develop their activity in the Islamic finance market.

[3] GCC: Gulf Cooperation Council composed of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates.

[4] The Compound Annual Growth Rate (CAGR) is a statistical measure to estimate the average annual growth between two dates. This approach has the advantage of providing an indication of the average growth rate over a period and comparing two periods that do not have the same length.

[5] Iran is excluded from the 2020 statistics due to the extreme volatility of the country's currency on the parallel market (as disclosed by the Central Bank of Iran), making the comparison with last year's figures or any forecast less meaningful.
[6] The international financial audit firm.
[7] Data for ṣukūk outstanding and Islamic funds are for full-year 2020; for Islamic banking, they are as at 3rd trimester; and for takāful, they are as at end-2019.
The African region now includes both North Africa and Sub-Saharan Africa.
For the purposes of regional classification, Iran is included in Middle East and South Asia "MESA", North African countries are included in "Africa", and Turkey is included in"Others".
[8] Multilateral emissions are excluded