ETHIOPIA ISLAMIC CAPITAL MARKET ROADMAP

APRIL 2025



IFAAS

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ETHIOPIAN CAPITAL MARKET AUTHORITY

ACKNOWLEDGEMENT

This Islamic Capital Market Roadmap (the 'Roadmap'), as part of the deliverables under the "Developing Regulatory Framework and Promotion of Islamic Capital Market Project in Ethiopia" (the 'Project'), has been prepared by IFAAS (www.ifaas.com) for the benefit of ECMA (Ethiopian Capital Market Authority – www.ecma.gov.et), and other stakeholders that the latter deems suitable including the policy makers and authorities of the Ethiopian federal government, amongst others.

We extend our sincere gratitude to the members of Project Steering Committee (the 'PSC'), comprised of senior representatives from ECMA, FSD Ethiopia, FSD Africa, and UNDP Ethiopia Country Office, leadership and advisory teams for their vision, guidance, and unwavering support in advancing the development of this Roadmap. This support reflects the commitment to fostering an inclusive financial system in the country.

This Roadmap developed by IFAAS is intended as a foundational guide to support informed decision-making. It is important to note that Islamic finance remains a specialized field requiring tailored expertise. While the Roadmap draws on reliable public resources and best practices, complexities in implementation may necessitate supplementary technical assistance, Shariah guidance, or professional advice.

The preparation of this Roadmap aligns with broader efforts to advance Islamic finance in Ethiopia. In such projects, information is compiled from credible public sources and official statistics, though independent verification of all data remains beyond the scope of such work. While every effort has been made to ensure accuracy, uncertainties inherent to market dynamics mean outcomes cannot be guaranteed. Recommendations within this Roadmap should not be interpreted as definitive legal, Shariah, regulatory, or financial advice. Stakeholders are encouraged to exercise due diligence, consult experts, and adapt guidance to their unique contexts. IFAAS accepts neither liability nor responsibility for the success or failure of any such decisions.

For the purpose of this roadmap, the terms "Islamic Finance," "Islamic Banking," "Islamic Microfinance," and "Islamic Capital Market" are used as standard terminologies throughout the document. However, it is acknowledged that in the Ethiopian context, "Islamic Banking" is often referred to as "Interest-Free Banking," and other terminologies may be used to describe the other sectors. While this document uses these terms, it acknowledges the importance of the local context; therefore, in implementing the roadmap, alternative terminologies may be adopted to better align with Ethiopia's context and legislation.

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fsd ethiopia

UNDP

fsdafrica

UK International Development
Partnership | Progress | Prosperity

ABBREVIATIONS AND ACRONYMS

AABE	Accounting and Auditing Board of Ethiopia	**IsDB**	Islamic Development Bank
AAOIFI	Accounting and Auditing Organisation for Islamic Financial Institutions	**IFAAS**	Islamic Finance Advisory & Assurance Services
Bursa Malaysia	Malaysian Stock Exchange	**IFSB**	Islamic Financial Services Board
CBE	Commercial Bank of Ethiopia	**IFSPs**	Islamic Financial Services Providers
CPIFR	Core Principles for Islamic Finance Regulation for Banking	**IFTF**	Islamic Finance Task Force
CSB	Central Shariah Board	**IIFM**	International Islamic Financial Market
CSAB	Central Shariah Advisory Board	**IMF**	International Monetary Fund
DBE	Development Bank of Ethiopia	**ISD**	Internal Shariah Department
DPS	Deposits Protection Scheme	**LOLR**	Lender of Last Resort
ECMA	Ethiopian Capital Market Authority	**MENA**	Middle East and North Africa
EIH	Ethiopian Investment Holdings	**MoF**	Ministry of Finance
ESG	Environmental, Social and Governance	**NBE**	National Bank of Ethiopia
ESX	Ethiopian Securities Exchange	**PESSSA**	Public Servants Social Security Agency
FDI	Foreign Direct Investment	**POESSA**	Private Organizations Employees Social Security Agency
FinTech	Financial Technology	**SMEs**	Small and Medium-sized Enterprises
FSD Africa	Financial Sector Deepening Africa	**SOEs**	State-Owned Enterprises
FSD Ethiopia	Financial Sector Deepening Ethiopia	**SPV**	Special Purpose Vehicle
GCC	Gulf Corporation Council	**SSA**	Securities Shariah Advisor
ICM	Islamic Capital Market	**SSB**	Shariah Supervisory Board
ICMPs	Islamic Capital Market Participants	**UNDP**	United Nations Development Programme
ICM-SC	Islamic Capital Market Steering Committee		

ARABIC TERMINOLOGIES

Gharar	Ambiguity, uncertainty or risk
Ijara	Lease
Istisna	Sale of an asset to be manufactured
Kafala	Guarantee
Maysir	Speculation
Mudaraba	Business partnership where one party (or more) provides the funds and the other provides expertise
Murabaha	Profit-disclosed sale of an existing asset
Musharaka	Business partnership where two or more parties co-fund a specific Shariah compliant project/asset and share the profit and loss
Qard	Islamic interest-free loan
Riba	Interest
Salam	Sale of a commodity with full spot payment for future delivery
Sukuk	Islamic Bonds
Takaful	Islamic Insurance
Wakala	Agency

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1. EXECUTIVE SUMMARY

1.1. Preamble

Ethiopia's capital market is undergoing a transformative shift, driven by economic reforms aimed at liberalising the financial sector. These reforms have laid the foundation for the establishment of a formal capital market, offering new investment opportunities for individuals, businesses, and other market participants. The formation of the ECMA marked a crucial step forward, ensuring that the market operates with robust regulatory oversight, fostering transparency, investor confidence, and consumer protection.

Since the inception of the ECMA, the management has recognized the importance of developing the local ICM and introducing Islamic products to strengthen Ethiopia's financial landscape. In pursuit of this objective, and with the support of FSD Ethiopia, FSD Africa, and the UNDP Ethiopia Country Office, ECMA has partnered with IFAAS1 to design the Islamic Capital Market Roadmap (the 'Roadmap') as part of the deliverables under the "Developing Regulatory Framework and Promotion of Islamic Capital Market Project in Ethiopia" (the 'Project').

1.2. Aims and Objectives

The Project aims to contribute to the development of a future ICM that plays a significant role in Ethiopia's economic development and nation-building. By establishing an enabling environment for ICM, the Project seeks to boost financial inclusion, attract domestic and foreign investments, and diversify Ethiopia's financial markets. The specific objectives of the Project are as follows:



Assess the existing ICM ecosystem to identify gaps, challenges, and opportunities for ICM development in Ethiopia.



Design a bespoke Roadmap for the establishment of the required policy, and enabling institutional and regulatory frameworks for the development of ICM in Ethiopia.



Develop a policy framework whitepaper based on the findings and recommendations of the Roadmap. This whitepaper will serve as a strategic ICM reference for policymakers.



Provide capacity building workshops to ECMA and other stakeholders to equip them with the needed knowledge and practical insights on ICM principles, foundations, and key instruments.

1.3. Methodology

A structured methodology was adopted to develop a comprehensive and tailored Roadmap. It began with desk research and documentary reviews to understand Ethiopia's existing capital market landscape and ecosystem. This was followed by onsite and online stakeholder engagement, involving policymakers, regulators, market participants, and community representatives including Shariah scholars, to ensure diverse perspectives and inclusivity.

A key aspect of the methodology was benchmarking against international standards like AAOIFI and IFSB, alongside best practices from leading global and regional jurisdictions, and identifying tried and tested strategies for ICM development. Insights from these engagements and benchmarks informed a gap analysis, highlighting regulatory, institutional, and market enablers and barriers.

The methodology also included independent reviews and validations by PSC[2] members to refine findings, ensuring alignment with Ethiopia's context. To foster stakeholder buy-in, the refined recommendations will be presented in an onsite Stakeholder Workshop, offering explanations and contextual insights to facilitate alignment and informed decision-making.

1 IFAAS is an international Islamic finance advisory firm headquartered in the UK, with an exceptional track record of delivering consultancy projects in 60+ countries.

2 Project Steering Committee comprised of senior representatives from ECMA, FSD Ethiopia, FSD Africa, and UNDP Ethiopia Country Office.

1.4. Main Challenges

The detailed analysis has highlighted a wide range of challenges that may hinder the development of ICM in Ethiopia, which can be summarized as follows:

- Lack of a unified government vision and a clear Islamic finance policy.
- Inadequate coordination between different stakeholders and their initiatives on Islamic finance.
- Fragmented government-led strategic initiatives for supporting the Islamic finance industry.
- Lack of enabling legal, regulatory, and supervisory frameworks to duly accommodate the ICM.
- Potential additional tax burdens and costs on ICM instruments like Sukuk, which are not applicable to conventional alternatives, hindering fair market competition.
- Absence of dedicated senior resources within ECMA to lead ICM development efforts.
- Human capital is in significant need for specialized capacity building interventions across stakeholders for Islamic finance in general, and ICM in particular.
- Lack of adequate Shariah governance and compliance arrangements and regulatory requirements at sector, institutional, and product levels, which undermine stakeholder trust in ICM offerings.
- Lack of public awareness and understanding of Islamic finance products in general and ICM instruments in particular.
- Lack of clarity regarding the compatibility of IFRS standards with ICM instruments.
- Confusing branding of Islamic finance as "Interest-free Finance", creating unrealistic expectations of cost-free financial products among some segments of the public.

1.5. Key Recommendations

The key recommendations of the Roadmap are:

- Establish a national Islamic Finance Task Force (IFTF)[3] tasked with driving the development of a cohesive and sustainable Islamic finance ecosystem in the country at the policy level.
- Design a National Islamic Finance Policy to align stakeholders, integrate Islamic finance into Ethiopia's development agenda, and establish an enabling infrastructure across industry sectors.
- Set up an ICM Steering Committee (ICM-SC)[4] to lead the Roadmap implementation, focusing on technical and operational aspects, and addressing practical challenges to build a robust ICM.
- Consider implementing key government strategic initiatives under the national policy to develop Ethiopia's ICM. These include launching a Retail Sukuk program to fund critical development projects; establishing infrastructure for Islamic Treasury instruments and Government Sukuk; introducing Islamic pension schemes for public and private sector employees; and mandating SOEs and government-related entities to raise a portion of their funds through Sukuk, and deposit a portion of their funds in Islamic banking accounts to strengthen sector growth and investment in ICM.

3 The IFTF, chaired by the Senior Government Official, will include MoF, NBE, and ECMA as voting members, an Executive Director to manage IFTF's operational issues, and an advisory panel of technical experts from public and private sectors.

4 ICM-SC to be comprised of senior representatives from key stakeholders, including but not limited to NBE, MoF, ESX, and EIH.

- Introduce legal, regulatory, and supervisory reforms to fully integrate ICM into Ethiopia's capital market, ensuring a level playing field with the conventional capital market[5].
- Conduct a detailed review of tax legislation to identify necessary amendments for ICM and potentially other Islamic finance sectors, ensuring a level playing field with conventional finance[6].
- Appoint an ICM Lead, a senior professional within ECMA, to provide focused leadership on ICM development initiatives and drive action plans for the sector growth.
- Adopt a structured, continuous capacity building approach at ECMA to develop staff expertise in the ICM, with regular training to align with international standards and best practices.
- Establish a Central Shariah Advisory Board (CSAB) as an independent, legally empowered advisory body to support ECMA in overseeing Shariah governance and providing sector-wide compliance guidance and assurance for Ethiopia's ICM stakeholders[7].
- Issue a Shariah Governance Directive to define appropriate Shariah governance organs, measures, arrangements, and requirements at both institutional and product/instrument levels.
- Publish Shariah screening guidelines for public and private share companies requiring annual certification, and develop a self-assessment toolkit to help companies check compliance status[8].
- Launch a comprehensive Islamic finance capacity building program for policymakers, regulators (ECMA, NBE, and MoF), and key market participants (ESX, EIH, CBE, and DBE).
- Mandate all ICM participants to allocate a specific portion of their annual budget for human capitaldevelopment to Islamic finance related programs and certifications.
- Issue accounting guidelines to define standardized terminologies for ICM products, and clarify the appropriate accounting treatment for different Sukuk structures under the IFRS.
- Launch a national sensitization campaign to raise public awareness, link Islamic finance to national development goals, and address misconceptions among Muslims and non-Muslims.
- Mandate all ICM participants to allocate a specific portion of their annual marketing budget to Islamicfinance awareness campaigns and initiatives.
- Mandate all ICM participants to allocate a minimum of 5% of their annual marketing budget to Islamic finance awareness campaigns and initiatives.
- Include a dedicated chapter on Green Sukuk in the Green Bond Issuance Guidelines (once available) and ensure any tax incentives for green bonds also apply to Green Sukuk.
- Incorporate the unique requirements and specifics[9] of Islamic FinTech firms into the recently launched FinTech Regulatory Sandbox in Ethiopia.
- Adopt industry best practices by using "Islamic Capital Market Products" as the standard terminology in all official communications, legislative texts, and regulatory documents, or consider using terms such as "Participatory Capital Market Products" or "Non-Interest Capital Market Products" to ensure inclusivity and avoid any potential misunderstandings, making the market accessible to all Ethiopians, regardless of religious affiliation[10].

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5 Key areas to be covered include defining Islamic finance contracts, recognising ICM products like Sukuk, providing legal anchoring for Shariah governance requirements, developing an enabling Sukuk regulatory framework covering structuring, issuance, governance, Sukuk into the public debt system, etc. A regulatory sandbox may be considered as an interim mechanism to facilitate the accelerated issuance of Sukuk, particularly sovereign Sukuk. However, its implementation must be supported by a comprehensive legal assessment to determine whether the sandbox can override potential taxation impediments, and/or provide temporary exemptions from existing tax legislation, and other conflicting legislative provisions

6 Since a number of ICM instruments and activities, particularly Sukuk, are structurally different from their conventional counterparts as they are based on contracts of sale, lease, agency, profit-sharing etc. instead of the standard interest-based lending and borrowing in conventional finance. This structural difference implies that ICM instruments and activities are likely to incur additional taxes that may make them more expensive compared to conventional alternatives.

7 The IFTF may also consider either expanding the mandate of the CSAB into a standalone body responsible for overseeing Shariah matters across the entire Islamic finance industry, including Islamic banking, microfinance, insurance, and others, or establishing dedicated sub-committees under the CSAB for specific sector(s) such as Islamic Banking and Microfinance Shariah Committee, ICM Shariah Committee, etc

8 An up-to-date public list of Shariah compliant share companies to be maintained to enhance transparency and investor confidence in the ICM.

9 E.g. where applicable - structuring requirements, trading restrictions, Shariah governance and compliance requirements, etc.

10 It is advised to avoid using the term "Interest-Free", which is currently used in the banking sector, as it has proven to be confusing and potentially misleading in the context of commercial (non-charitable) financial products. In all cases, this matter can be further discussed and evaluated by relevant stakeholders within the IFTF, as part of the development process for the national Islamic finance policy.

2. PROJECT BACKGROUND



2.1. Preamble

The landscape of Ethiopia's capital market is currently undergoing a transformative phase, with significant reforms and efforts underway to establish a formal and structured market. The creation of ECMA as the regulator and supervisor marked a crucial step in ensuring a well-regulated and supervised market. Another major development was the launch of ESX in January 2025 as Ethiopia's first securities exchange, with the aim to enhance the country's financial infrastructure and provide a vital platform for businesses and investors to engage in trading stocks, bonds, and securities.

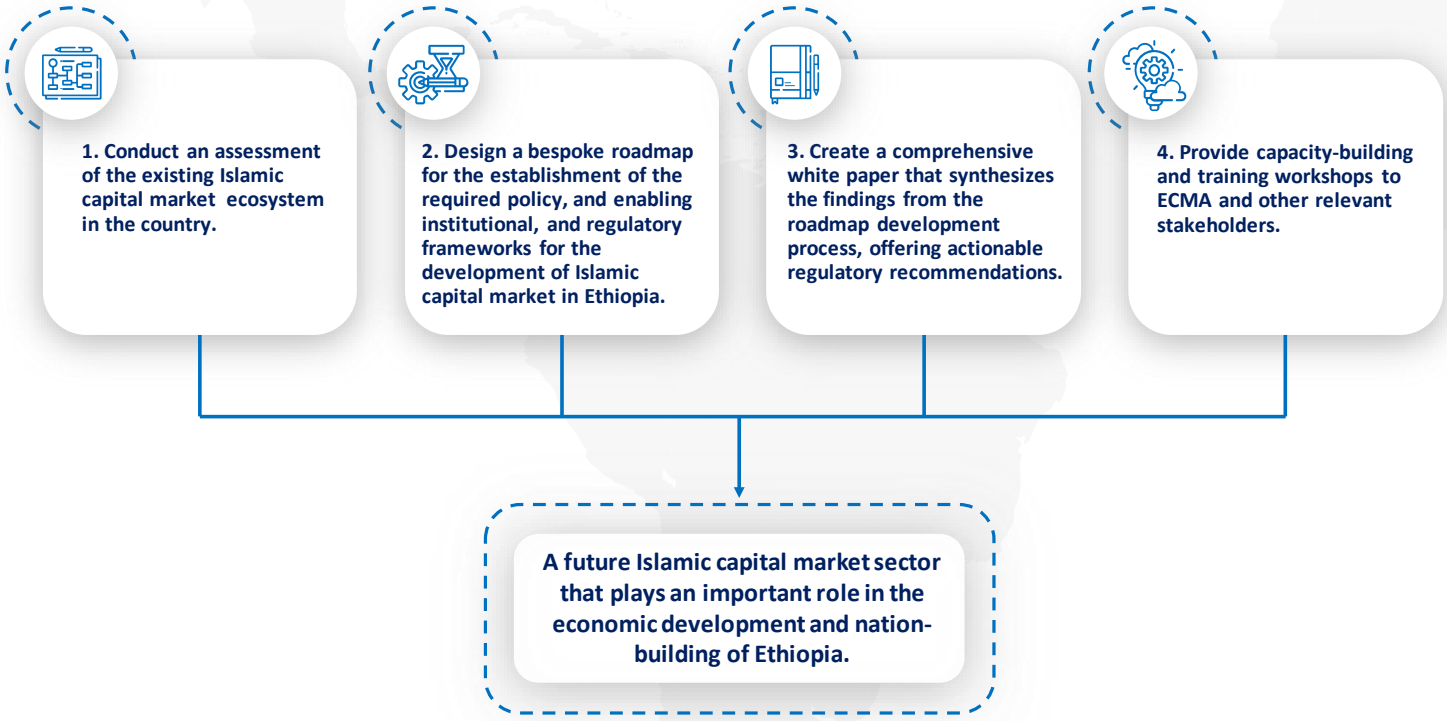
As Ethiopia continues on its journey to developing its capital market, the development of ICM has been identified as an objective to strengthen the country's financial landscape. ECMA, as the country's capital market authority, is keen to promote the diversification of capital market products and attract new investments by introducing Islamic finance instruments for capital mobilization. The development of ICM is expected to boost financial inclusion, attract domestic and foreign investment, and diversify the market.

With the support of FSD Ethiopia, FSD Africa, and the UNDP Ethiopia Country Office, ECMA has partnered with IFAAS to design this bespoke Roadmap as part of the deliverables under the Project. The Roadmap provides a comprehensive action plan for developing ICM in Ethiopia and outlines the roles and responsibilities of key stakeholders responsible for implementing the recommendations, to ensure the successful future rollout of Islamic capital market products.

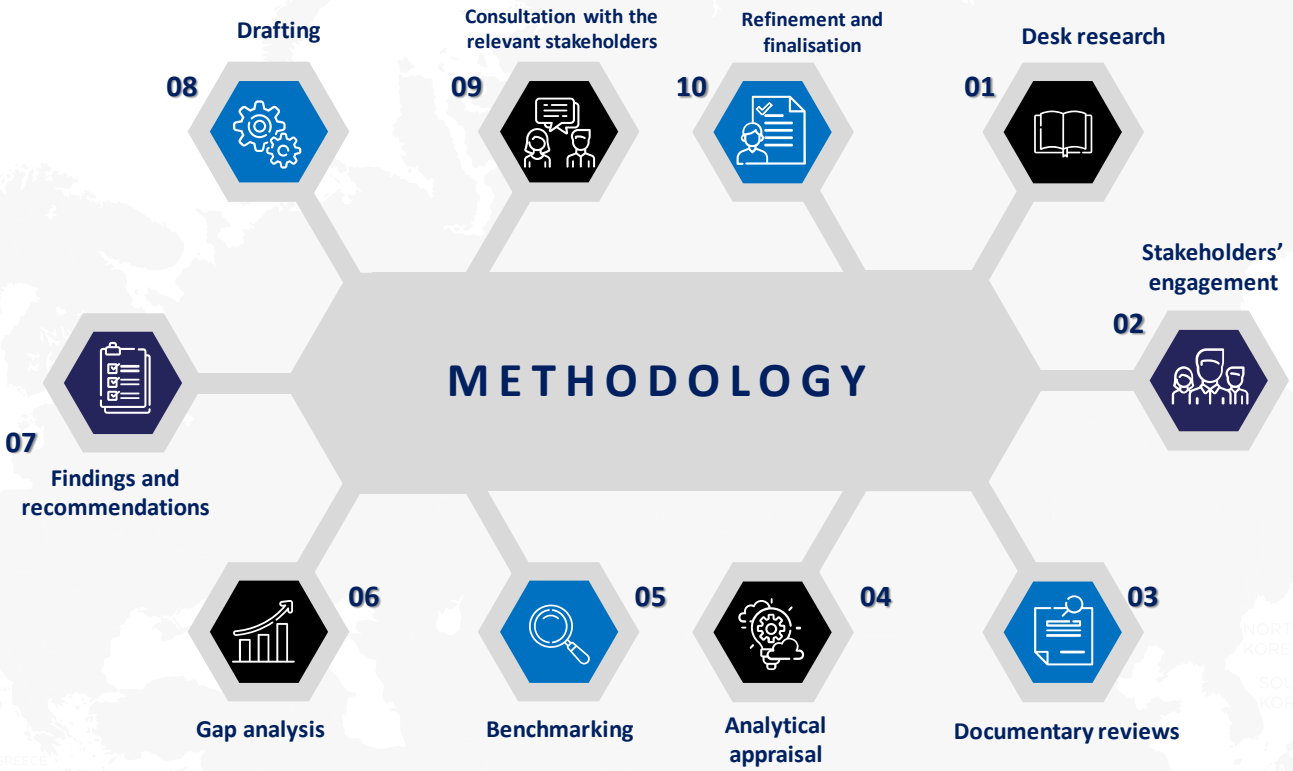
2.2. Aims and Objectives

The Project aims to identify the necessary changes, including policy, institutional, legal, and regulatory reforms required to create an enabling environment for the establishment and development of ICM in Ethiopia. The overarching goal is to ensure that ICM not only becomes a viable alternative to conventional capital market but also plays a significant role in mobilizing resources, fostering financial inclusion, and contributing to Ethiopia's broader economic development and nation-building efforts.

The key objectives of this Project are therefore to:



2.3. Methodology



The following bespoke methodology has been implemented to develop this Roadmap:

Desk Research: preliminary research to obtain a general understanding of the Ethiopian financial ecosystem.

Stakeholder Engagement: In-depth stakeholder engagement was carried out through bilateral meetings and roundtable discussions during the fact-finding mission in Ethiopia. Bilateral meetings were held with key policymakers and regulators, including ECMA, NBE, ESX, and EIH. Additionally, roundtable discussions were organized with market participants, such as representatives from the banking and financial sector, as well as community stakeholders including Shariah scholars, to ensure diverse perspectives and inclusivity. These engagements provided valuable insights into stakeholders' capacities and their receptiveness to the development of ICM in the country.

Documentary Reviews: A comprehensive documentary review was undertaken to assess Ethiopia's existing legal, regulatory, and taxation frameworks for capital markets. This review included all relevant legal and regulatory documents, such as proclamations, regulations, directives, and guidelines pertinent to capital markets.

Analytical Appraisal: Review and analysis of the documentation provided by the stakeholders and collected by our team.

Benchmarking: The process involved benchmarking against international standards such as AAOIFI and IFSB, alongside best practices from leading global and regional jurisdictions including countries such as Malaysia, Indonesia, UAE, Bahrain, Kenya, Morocco, Nigeria, and the UK.

Gap Analysis: A gap analysis was conducted to identify the legal, regulatory, and institutional reforms necessary for the establishment and development of the ICM in Ethiopia.

Finding and Recommendations: Based on the review of the legal, regulatory, and institutional frameworks, and following the gap analysis and benchmarking exercises, a set of findings and actionable recommendations were formulated. These recommendations outline the stakeholders responsible for execution and include clear timeframes for implementation.

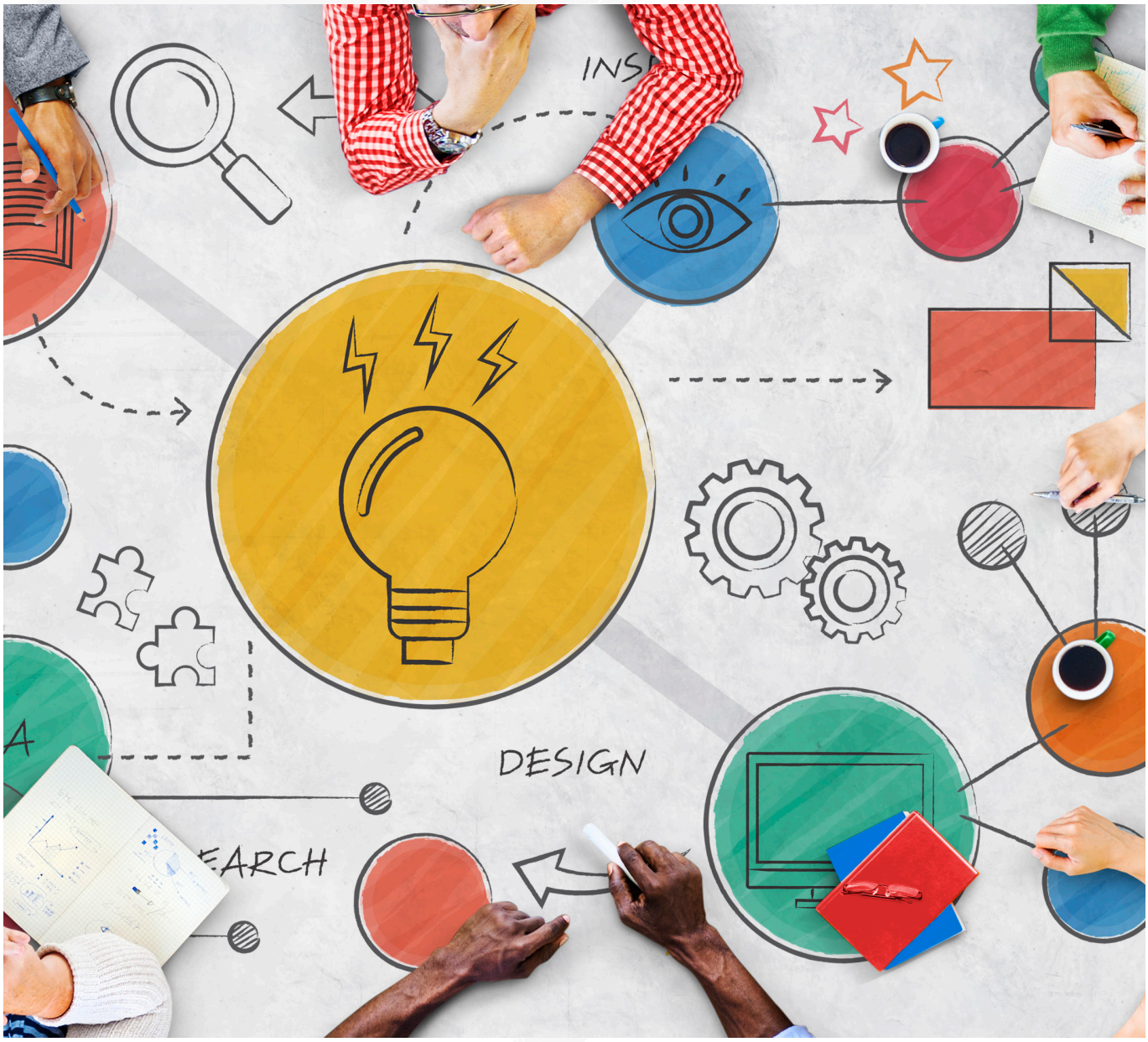
Drafting the Roadmap: The Roadmap documents the recommendations and proposes initiatives as actionable points identifying quick wins, based on the understanding of the country's financial ecosystem and in line with the Ethiopian vision and aspirations related to the role of ICM in national economic development.

Consultation with Relevant Stakeholders: Continuous stakeholder engagement and consultation to ensure that the Roadmap is completed in accordance with the expectations of the stakeholders.

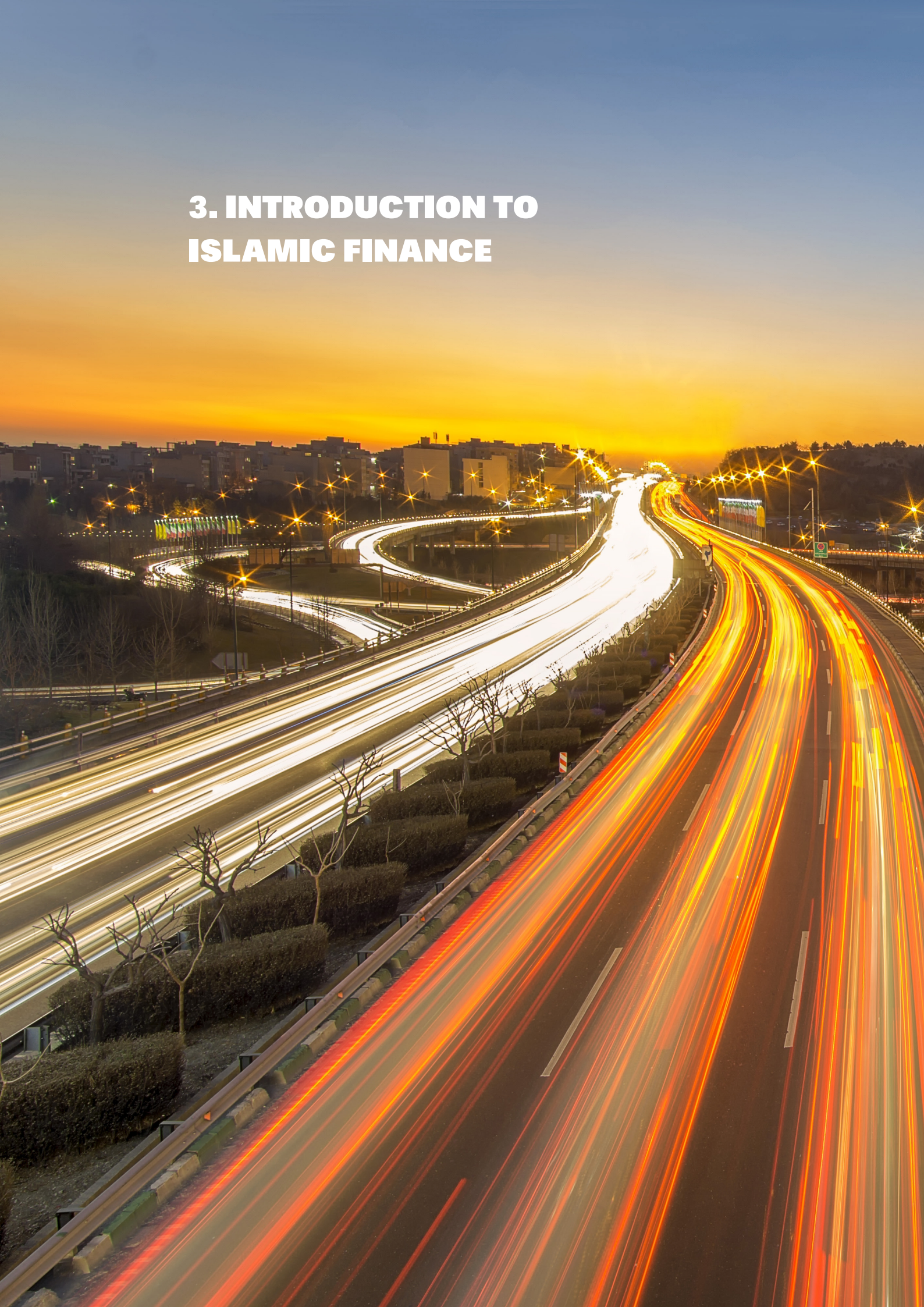
Refinement and Finalizations: The Roadmap underwent a series of thorough internal checks to ensure consistency with stakeholder expectations and to fine-tune the recommendations before its final approval.

Quality assurance and accuracy in the Roadmap were ensured by applying the following procedures:

- All assessments were conducted by a team of Islamic finance experts and reviewed internally for quality assurance. The output has been thoroughly scrutinized before submission to ensure accuracy and relevance to Ethiopia.
- End-to-end reviews of the drafted documentation have been completed by the Project Manager and Senior Manager.
- A final review and sign-off was completed by the Team Leader prior to the submission of the deliverable document.



3. INTRODUCTION TO ISLAMIC FINANCE



Islamic finance is an alternative financial system that is subject to a distinctive set of rules drawn from Shariah (Islamic law), that apply to financial institutions offering Islamic financial products, in addition to the standard industry rules and regulations.

3.1. Shariah

Shariah provides a governing framework that covers all parts of Muslims' lives, including, among others, worship, spiritual, social, intellectual, and financial aspects. Shariah rules and principles are mainly derived from the Holy Quran and the Sunnah (teachings of the Prophet Muhammad (Peace Be Upon Him)). Based on the abovementioned two primary sources, Muslim scholars have developed the tools of Islamic jurisprudence expressed through different processes including interpretation, analogical reasoning, and consensus, to opine on contemporary issues including financial matters.

Shariah scholars define the objectives of Shariah as being aimed at promoting the well-being of all mankind and greater justice in human society. Consequently, Islamic financial transactions must comply with Shariah requirements, and the outcome of these transactions should contribute positively to achieving the objectives of Shariah.

There are five main elements that Shariah aims to protect, namely: faith, life, intellect, lineage, and wealth. Preservation of these five elements is seen as an absolute requirement for the survival and overall well-being of individuals and society. Preservation of wealth is one of the essential objectives, which can be achieved by investing wealth in legitimate transactions permitted under Shariah and prohibiting negative means such as hoarding, interest, gambling, and concentration of money in the hands of the few.

3.2. Key Founding Principles

a) Prohibition of Interest

Shariah scholars generally consider money as a 'medium of exchange', not a 'commodity'. Money has no intrinsic utility but is rather used to purchase or acquire goods and services. Based on that, money cannot be sold for more or less than its face value[11].

When money is used to generate money, as in the case of extending a loan for a certain period in return for an additional amount of money, this increment is considered interest (Riba[12]) which is prohibited in Shariah, regardless of whether this addition is excessive or not.

b) Prohibition of Excessive Uncertainty and Gambling

Commercial arrangements and contracts that entail excessive uncertainty, ambiguity, or risk (Gharar[13]) are prohibited in Islamic finance. Prohibited levels of Gharar are typically manifested when there are detectable, preventable, and disputable high levels of ambiguities, uncertainties, and risks in the fundamental conditions of a commercial transaction at the time of executing the contract (e.g., subject matter, price, or date of delivery/performance are not clearly specified/defined in a sale contract).

Therefore, Islamic financial transactions and instruments should be clear, and transparent with full disclosures by all the contracting parties on the key terms and conditions of the underlying agreement.

Islamic finance also prohibits commercial transactions that are based on gambling (Maysir[14]), chance, or speculation, or sometimes referred to as zero-sum transactions where one party's gain in a transaction must lead to the other's loss, rather than creating a mutually beneficial outcome.

11 Except in currency exchange that is subject to certain Shariah conditions.

12 Riba is an Arabic word which could be translated as interest/usury.

13 Gharar is an Arabic word for ambiguity, uncertainty, or risk.

14 Maysir or Qimar are Arabic words for gambling.

c) Creation of Asset-Backed Financial Transactions

In Islamic finance, money is considered as a necessary lubricant to the engine of the real economy to facilitate the production and exchange of assets, goods, and services. Therefore, money can only grow and generate a return if deployed into real economic activities such as trading, leasing, investing and other Shariah compliant transactions that are backed, based, or linked to real assets, goods, and services.

Based on the above, Islamic finance is essentially believed to be an asset-backed form of finance that assists in connecting the financial sector with the real economy.

d) Promotion of Participation and Risk Sharing

The prohibition of interest does not necessarily create a cost-free Islamic financing system but rather necessitates linking profitability in Islamic finance with involvement in asset-backed commercial transactions that may, as in the case of certain participatory products and instruments, require sharing of the resulting rewards and risks related to such transactions and their underlying assets.

Thus, sharing risks and rewards is one of the key foundations of a fair and functional Islamic financial system. Moreover, Islamic finance encourages having prudent risk management measures in commercial transactions to duly mitigate any underlying risks and accordingly preserve the wealth in accordance with the objectives of Shariah.

e) Abiding by a Comprehensive Ethical Framework

Islamic finance urges the creation and distribution of wealth in an ethical manner that is fair and equitable with the money under an incentive to remain in circulation, spinning the wheel of economic activities for the benefit of all members of the society. Islamic finance also promotes ethical financial transactions encouraging trade, labor, entrepreneurship, transparency, honesty, righteousness, integrity and fairness, which also inspires kindness, charitable donations, and social welfare among the participants of the Islamic finance industry, benefitting the society at large.

Therefore, Islamic financial products cannot be interest-based or speculative financial products, have excessive uncertainty in their terms and conditions that may lead to disputes between the contracting parties, omit or avoid necessary disclosures, present wrong declarations, provide misleading information, or engage in other types of unethical practices.

Islamic financial products cannot be used to support any activity that is deemed unlawful in Shariah. For example, any transactions that are detrimental to society, the environment, animals (e.g., funding businesses that trade in alcoholic beverages, tobacco, gambling, pornography, animal poaching or weaponry etc.)

3.3. Main Contracts

As it is forbidden in Islamic finance to pay or receive interest, money should be used to create real economic value where it may earn a return by having it invested in permissible commercial transactions and activities.

Accordingly, there are different types of Shariah compliant contracts that can be used to structure Islamic financial products and instruments to meet various financial needs. The following contracts are the most used ones in Islamic finance:

Table 1. Islamic Finance Contracts

CATEGORY	NAME	DESCRIPTION
Sale contracts	Murabaha	Profit-disclosed sale of an existing asset.
	Salam	Sale of a commodity with full spot payment for future delivery.
	Istisna	Sale of an asset to be manufactured.
Lease contract	Ijarah	Islamic lease (could be structured as operational or financial lease).
Loan contract	Qard Hasan	Islamic interest-free benevolent loan.
Participatory contracts	Mudarabah	Partnership where one party (or more) provides the funds, and the other party provides expertise in deploying the funds in a Shariah compliant business activity for profit generation that will be shared between both parties in accordance with a pre-agreed ratio. Any financial loss will be borne by the fund provider(s) unless the other party is guilty of negligence, misconduct, or failure in following the contractual conditions, in which case they will bear the loss.
	Musharakah	Partnership where two or more parties co-fund a specific Shariah compliant project/asset and share the profit in accordance with a pre-agreed ratio and loss in accordance with their capital participation ratios.
Services contracts	Wakala	Wakala is an agency contract where one party (principal) appoints another party (agent) to carry out a Shariah compliant activity on their behalf.
	Kafala	Guarantee that is intended to secure fulfilment of contractual and/or financial obligations.

3.4. Standardization

Over the years, the Islamic finance industry has developed its offering and products in many legal and taxation systems across diverse societies and communities with different cultural fabrics, and various religious practices.

As a result of such globalization and growth, an urgent need for harmonization and standardization has emerged in the industry to achieve the following key benefits and objectives:

- Maintain the integrity of the Islamic finance industry and protect its reputation from any controversial practices.
- Boost stability of the Islamic finance industry.
- Provide internationally recognized benchmarks, standards, and best practices for the stakeholders of the industry.
- Create uniformity and consistency in the operations and practices of Islamic finance focusing on structures of products/instruments, processes and procedures, Shariah governance and compliance requirements, accounting and auditing, risk management, liquidity management etc.
- Boost cross-border investment transactions and international cooperation in the Islamic finance field.
- Reduce the overall operational costs, streamline the day-to-day business activities, and improve efficiency of Islamic financial service providers (IFSPs), particularly where capacity of the stakeholders, including but not limited to the regulators and market players, is very limited due to Islamic finance being newly introduced in the country.

Hence, the industry stakeholders have established the following leading standard-setting bodies to take the industry to the next level:

a) Accounting and Auditing Organisation for Islamic Financial Institutions

Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) was established in 1991 in Bahrain as an international, autonomous, and not-for-profit industry standard-setting body. AAOIFI's primary objective is to ensure consistency and uniformity of practices across all sectors of the Islamic finance industry.

To date, AAOIFI has issued more than 100 standards in the following technical areas:



The standards of AAOIFI are mandatory regulatory requirements in dozens of jurisdictions and are also partially adopted or used for guidance in many others. The Shariah standards of AAOIFI are the unanimous opinion of Shariah scholars representing different schools of Islamic jurisprudence and regions of the world.

Apart from governments and regulatory bodies, the Shariah standards of AAOIFI are voluntarily implemented and followed by the Islamic Development Bank (IsDB) and numerous well-known Islamic finance consultancies, auditing firms, Islamic banks, Takaful[15] companies, non-banking credit institutions, capital market firms, educational/training institutions, Shariah scholars and professionals around the globe.

15 Islamic insurance.

b) Islamic Financial Services Board

Islamic Financial Services Board (IFSB) was formed in 2002 in Malaysia as an international standard-setting organization for regulatory and supervisory agencies, multilateral organizations and market players that have a vested interest in developing a sound and stable Islamic financial industry.

IFSB promotes the development of a stable, prudent, and transparent Islamic finance industry by introducing new bespoke standards or adapting existing international standards consistent with Shariah principles and recommending them for Islamic capital market participants (ICMPs), banking providers, and insurance providers.

To date, IFSB has issued over 37 standards, guidance notes and technical notes primarily focused on prudential and regulatory areas including risk management, capital adequacy, solvency requirements, supervisory review process, liquidity management, corporate governance etc.

As of December 2024, the IFSB has 185 members, including 84 regulatory and supervisory authorities, 10 international inter-governmental organizations, and 91 market participants such as financial institutions, professional firms, industry associations, and stock exchanges, representing 60 jurisdictions.

The members include Bank of England (United Kingdom), Bank Negara Malaysia (BNM), Dubai Financial Services Authority (UAE), Bank Indonesia, Banque Centrale du Luxembourg, Central Bank of Kenya, World Bank, and the International Monetary Fund (IMF). However, as of February 2025, Ethiopia is not listed among the member countries of the IFSB.

IFSB is working closely with the authorities and organizations and accordingly providing them with technical support and capacity building interventions for the adoption of IFSB standards, and promotion of Islamic finance.

c) International Islamic Financial Market (IIFM)

IIFM was established in 2002 in Bahrain as a non-profit standard setting body for the capital and money markets of the Islamic finance industry.

The mandate of IIFM is to develop the following for the products and instruments of Islamic capital and money markets:

- Standardized Shariah compliant legal documentation.
- Operational guidelines.
- Shariah pronouncements (Fatwas).
- Jurisdiction-specific legal opinions, where applicable.

To date, IIFM has issued more than 19 standards including the following Islamic capital and money markets' products/instruments structured for facilitating hedging, liquidity management, and trade finance:

- Islamic Treasury Placement.
- Shariah Compliant Hedging Master Framework.
- Islamic Profit Rate Swap.
- Interbank Unrestricted Investment Placement.
- Shariah Compliant Alternative to Conventional Repo.
- Islamic Cross-Currency Swap.
- Islamic Foreign Exchange Forward.
- Credit Support Product for Cash Collateral.
- Unfunded/funded Participation Product for Trade Finance.
- Ijara Sukuk Documentation Template.
- Mudaraba Tier 1 Sukuk Standard Documentation.

According to the IIFM, the above-listed products and standards have been used by hundreds of Islamic financial services providers and other institutions across 15+ jurisdictions around the globe.

3.5. Shariah Governance in Islamic Finance

The global financial crisis exposed significant weaknesses in corporate governance, underscoring the urgent need for stronger ethical and principle-based regulatory frameworks to prevent future failures. This imperative extends to the Islamic finance industry, which has experienced rapid growth due to increasing demand for Shariah compliant financial products worldwide.

Compliance with Shariah principles is a defining feature of Islamic financial products and a critical factor influencing customer trust. Therefore, stakeholders in the Islamic finance industry require reasonable assurance that claims of Shariah adherence made by IFSPs are genuine and credible.

Shariah governance forms an integral part of the overall governance framework of the Islamic finance sector and works to ensure they are in compliant with Shariah.

A strong Shariah governance provides a solid layer of trust and confidence to all stakeholders, including investors, shareholders and regulators, that the IFSPs are operating in full conformity with the Shariah requirements. As such, the SGF helps with safeguarding the reputation of the Islamic finance sector and contributes to the stability of the financial system as a whole.

As IFSPs have a unique value proposition that is deeply rooted in a set of ethical principles, such ethical principles and universal values help them to offer an inclusive and collaborative financial system that aims to boost financial inclusion, support entrepreneurship, encourage transparency and promote fairness.

To achieve these objectives and duly mitigate the Shariah non-compliance risk, the Islamic finance industry in any country should have the Shariah governance framework (SGF) and supporting infrastructure that ensure a proper conduct of business for IFSPs based upon strong conviction, ethical principles and practices in line with the legal, regulatory and Shariah requirements.

a) Shariah Non-Compliance Risk

Shariah non-compliance risk is defined as the risk of reduction in earnings or value, through financial or reputational loss resulting from IF products being Shariah non-compliant. Hence, Shariah non-compliance risk arises from failure to comply with Shariah rules, principles, and requirements, as set out by the respective authorities/bodies nominated for such purpose on both national and institutional levels.

Such non-compliance may arise from breach of regulations, policies, processes, procedures, contracts and any other documentation, arrangements and activities that are related to IFSPs and their products and services.

The probability and the impact of this unique risk can be both high and significant, so it needs to be carefully managed and mitigated as it may have severe consequences as follows:

- **Financial impact:** Shariah non-compliant transactions are considered void and thus any income generated from the same may not be acceptable to IFSPs and could be subject to purification (i.e., to be donated to charities and recorded as expenses instead of income).
- **Non-financial impact:** Shariah non-compliance issues can heavily tarnish the reputation of the IF industry/institutions and may create devastating effects on the confidence of the stakeholders in any Islamic financial proposition.

Therefore, Shariah non-compliance risk is a systemic risk in IF and mitigating such risk at all levels (global, national, and institutional) is essential for building a functional and competent IF ecosystem.

b) Definition of Shariah Governance Framework

SGF is a comprehensive system that defines a set of appropriate national and institutional measures, arrangements, requirements, organs, and policies for the IF industry. The overall objective is establishing an effective and independent oversight of Shariah compliance over IFSPs' activities to duly mitigate their exposure to Shariah non-compliance risk.

It is critical to emphasize that the requirements of SGF should go hand in hand with other relevant statutory requirements that apply to the banks and financial institutions in a market. Accordingly, IFSPs have a dual governance model to satisfy both Shariah and regulatory requirements.

c) Key Models

Policy makers and regulators in different jurisdictions have adopted different models of Shariah governance to ensure that IFSPs are functioning in line with Shariah principles. Such varied regulatory perspectives on Shariah governance are due to the diverse nature of legal systems, cultures, and religious fabrics in different countries where IFSPs operate and offer their products.

Under the current practices of the IF industry, there are broadly two prevalent models of SGF as follows:

- **Centralized model:**
  - ◊ Presence of national/central Shariah body(s) and institutional Shariah boards. However, institutional Shariah boards might not be required in some jurisdictions and only national/central Shariah body(s) would exist to advise on Shariah matters related to the IF industry.
- **Decentralized model:**
  - ◊ Only institutional Shariah boards are required/encouraged.

Historically, many regulators relied on the decentralized model, and it was standardized by the AAOIFI. Tailored guidelines were also issued by the IFSB on the governance requirements of this model.

Nevertheless, the decentralized model during the last decade has, in numerous countries, given rise to conflicting rulings and inconsistent IF products that have confused clients and affected the credibility of the IF industry at large.

Therefore, the centralized model has later emerged across many jurisdictions to address these issues. It has been also recommended by AAOIFI with the issuance of a dedicated governance standard ("Central Shariah Board" – Governance Standard No 8).

d) Key Governance Organs

The key governance organs of the SGF are typically as follows:

- **National level –** Central Shariah Board(s) ("CSB(s)")
- **Institutional level –** for each IFSP, where applicable:
  - ◊ Shariah Supervisory Board ("SSB").
  - ◊ Shariah Department ("SD").
  - ◊ Internal Shariah Audit Function ("ISAF").
  - ◊ External Shariah Auditor ("ESA").



e) Central Shariah Advisory Board

The CSB is usually a national-level independent body dedicated to Shariah governance and compliance of the entire Islamic financial sector or specific sector depending on the jurisdiction. It will advise and assist the financial sector regulators (FSRs) in issuing guidelines/regulations related to compliance with Shariah principles to harmonize the interpretation and implementation of Shariah across the licensed/authorized financial institutions offering Islamic financial products and services.

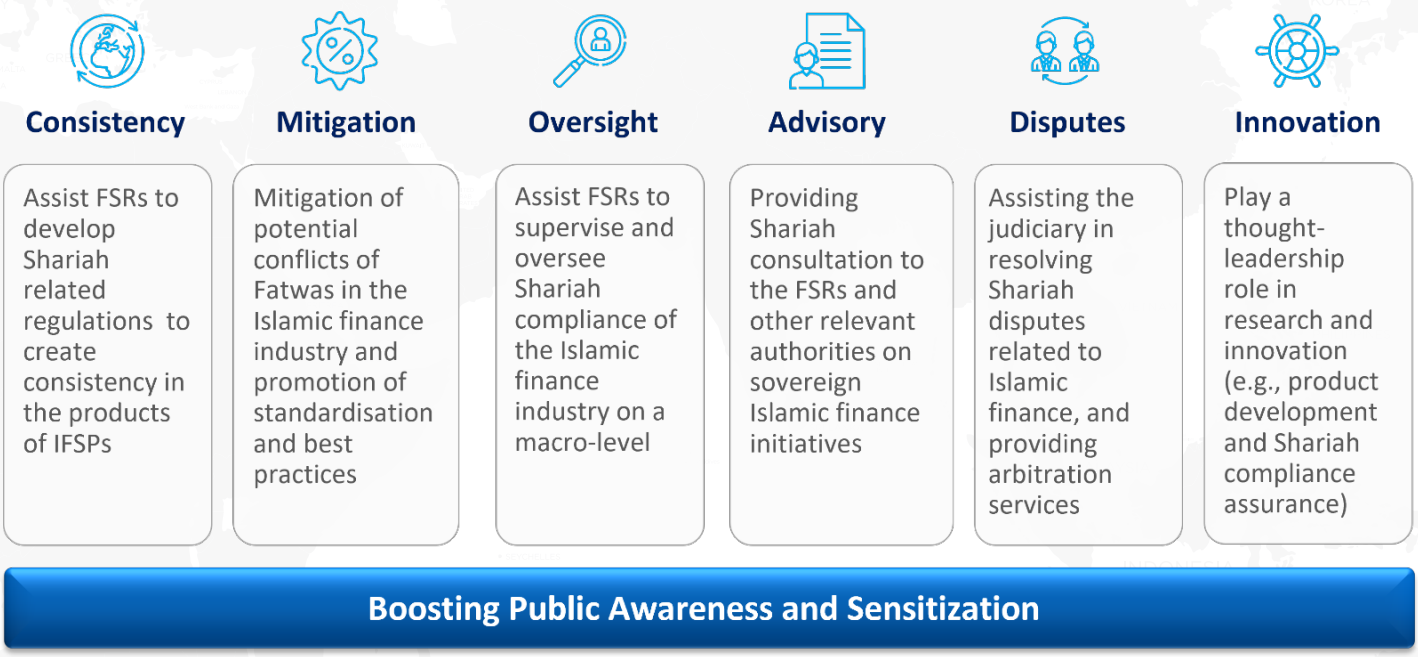
CSB shall provide guidance and advice to government entities[16] and the FSRs on regulatory and market initiatives[17]. It will also resolve any differences in opinion between the institutional SSBs of the local financial institutions and address any Shariah-related disputes in the IF market.

CSB will neither have a regulatory role, nor will it act as a court. It will provide advice and guidance to the FSRs who will remain the sole regulators of their respective field. Each FSR will be required to incorporate the guidelines issued by the CSB in their regulations which will then become a requirement for the financial institutions offering Islamic financial products and services.

In case of a dispute related to Shariah compliance issue within the financial sector, the CSB could play an arbitrator's role in consultation with the relevant FSR. In case of litigation over such a matter, the CSB will provide advice to the competent court.

The overall objective of CSB is always ensuring Shariah compliance by working closely with the industry stakeholders in the country, providing stability from a Shariah compliance perspective.

Key mandate and responsibilities of the CSB include the following:



16 E.g., advice on issuance of sovereign Islamic instruments like Sukuk (Islamic alternative to bonds).
17 E.g., issuance of Shariah compliant Central Bank Notes or setting up an Islamic deposit insurance scheme.

f) Shariah Supervisory Board

An independent group of Shariah scholars (at least three members) specialized in Islamic commercial jurisprudence and experts in Islamic finance. They are entrusted with the duty of providing guidance, supervision and certification for Islamic financial products and services for an individual IFSP to ensure their compliance with Shariah rules and principles[18].

The SSB shall be appointed by the relevant IFSP's General Assembly of the Shareholders upon the recommendation of the IFSP's Supervisory Board (SB), taking into consideration any regulatory requirements as set out by the relevant FSR.

The roles and duties of SSB include:



- Directing, guiding, and monitoring the IFSP's activities to always ensure compliance with Shariah principles.



- Assisting the IFSP in creating a strong internal Shariah control system to duly manage their exposure to Shariah non-compliance risks.



- Certifying the IFSP's products after reviewing contracts, procedures and any other related internal/external documentation and reports.



- Issuing resolutions to all Shariah compliance matters and enquiries. The resolutions and rulings of the SSB shall be binding on the IFSP.



- Evaluating the IFSP's Shariah compliance status and accordingly providing an annual independent opinion/statement about the Shariah compliance status of the IFSP's operations.

g) Shariah Department

SD is an independent department for day-to-day advice on Shariah related matters. The members of the SD are employees of the IFSP with independent role reporting directly to the SSB and indirectly to the MB of the IFSP. The objective of this department is to ensure that the SSB's directives and decisions are being correctly and accurately implemented within the IFSP.

The SD employees should be appointed by the MB in consultation with and after the approval of the SSB. The roles and duties of the SD include:



Shariah non-compliance risk management

- Supervising the implementation of all SSB decisions within the business and assisting all departments in carrying out their daily activities according to Shariah principles.
- Recording any Shariah compliance breaches/ issues as reported from various departments and communicating with the SSB to resolve any issues.
- Handling complaints related to Shariah compliance as and when raised by the clients/ staff etc.



Shariah review and research

- Ongoing coordination with the SSB for all Shariah related approvals.
- Reviewing and approving legal and operational documentation from Shariah compliance standpoint related to the IFSP's products and services.
- Approving any marketing material from a Shariah compliance perspective.
- Supervising the process of calculating and distributing profit earned by the IFSP.
- Conducting regular research on the best practices and standards in Shariah governance, compliance, and Islamic product development.

18 The SSB resolutions should be in compliance with the Shariah guidelines/regulations issued by the regulators in consultation with the CSB.

Secretariat of the institutional SSB

If an IFSP does not have an independent secretariat for the SSB, the SD may perform the function of SSB secretariat, subject to the condition that such dual functionality does not result in a self-review threat. Key duties include:

- Serving as secretary to the SSB (preparing agendas, minutes and supporting documents for meetings, coordinating meetings and all correspondence of the SSB).
- Disseminating the SSB's resolutions to different departments in the IFSP.

h) Internal Shariah Audit Function

The ISAF shall be part of the governance organs of an IFSP, independent of the management, with the primary objective to provide assurance to the SSB and the SB in relation to the IFSP's adherence to Shariah principles and rules. The members of the ISAF are employees of the IFSP[19] with independent roles reporting directly to the SSB and indirectly to the SB through the Audit Committee.

The ISAF employees shall be appointed by the Audit Committee in consultation with and after the approval of the SSB. The ISAF shall provide the following assurance, in the form of an opinion as to whether:

- An adequate Shariah governance structure/framework is in place for the proper functioning of the ISFP in line with Shariah principles and rules.
- Adequate internal controls have been designed and implemented by the management of the IFSP to ensure adherence with Shariah principles and rules.
- The management has established adequate risk assessment criteria and mechanisms to ensure compliance with Shariah principles and rules and to cater to the specific risks related to Islamic finance transactions.

i) External Shariah Auditor

External Shariah audit is an engagement to provide independent reasonable assurance that an IFSP complies with the Shariah principles and rules applicable to its financial arrangements, contracts, and transactions during a specific period based on a specific set of Shariah principles and rules contained in the agreed criteria[20].

The ESA shall be appointed by the General Assembly of the Shareholders upon the recommendation of the Audit Committee[21] taking into consideration any regulatory requirements as set out by the relevant FSR.

The ESA aims to obtain reasonable assurance whether, based on suitable criteria:

- The IFSP has, in all material respects, complied with Shariah principles and rules regarding the financial arrangements, contracts, and transactions for a specific period under audit.
- The IFSP's SGF including the design, operating effectiveness and documentation of the internal Shariah controls and the relevant processes and procedures are adequate and effective to keep the IFSP's exposure to Shariah non-compliance risk at minimum during the audit period.
- The management of an IFSP has fully discharged their responsibilities and duties in relation to the implementation of the Shariah principles and rules during the audit period.

Consequently, the ESA should report on the above-mentioned matters in accordance with the external Shariah auditor's findings and express an independent opinion

19 ISAF can be set up as part of the internal audit department or as a separate one.
20 E.g., the guidelines and regulations of the CSAB and the resolutions of the SSB.
21 The Audit Committee should make the recommendation in consultation with and after the approval of the SSB.

3.6. Scope of Applicability

The full requirements of the SGF are typically applicable to all types of licensed/authorized IFSPs, whether full-fledged Islamic institutions or Islamic windows of conventional institutions. This shall include:



Banks.



Non-banking credit institutions.



Islamic insurance and re-insurance providers.



Capital market participants and products.



Other IFSPs.

However, depending on the jurisdiction, institutions of smaller size and less complexity may be exempt from some of the requirements or allowed to have a lighter version of the SGF, and/or to outsource certain Shariah related duties and responsibilities to qualified Shariah advisory firms (SAF)[22]. Such exemptions are subject to the approval of the respective FSR in consultation with the CSB. Overall, SAFs shall be appointed by IFSPs to ensure that their activities are in compliance with Shariah principles.

The SAF particularly provides expertise and guidance on Shariah-related matters with respect to documentation, structure, feature, and investment instruments. They review reports to ensure Shariah compliance and provide written opinions or reports to certify that the business is managed according to Shariah principles.

3.7. Islamic Financial Services Providers (IFSPs) and Shariah Governance

a) Supervisory Board

Oversight on Shariah governance and Shariah compliance is considered part of the overall corporate governance framework which should be approved by the SB. In addition, without adequate support from the SB, it is difficult for an IFSP to achieve Shariah compliance.

Based on the above, the SB has:

- The ultimate responsibility to create and maintain a robust institutional SGF in line with the CSAB guidelines issued by the FSRs to ensure Shariah compliance of the operations.
- To approve all the IFSP's policies and procedures related to Shariah in consultation with the SSB and shall put in place mechanisms to ensure that such policies and procedures are effectively implemented.
- To ensure that the MB has adequate qualifications and experience in Islamic finance and possesses at least a basic understanding of Shariah principles as they apply to IF Products.

b) Management Board

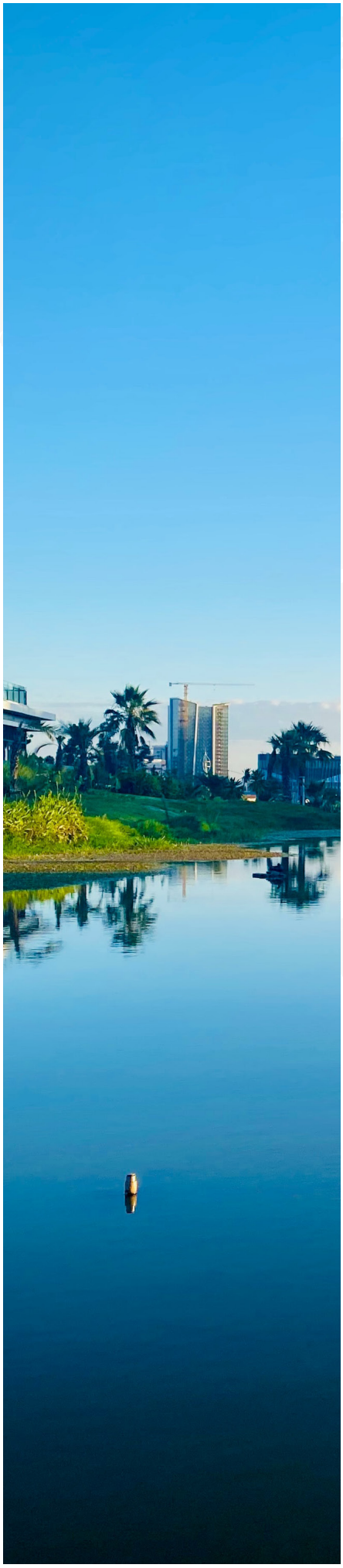
While the institutional SSB is responsible for forming and expressing an opinion on the extent of an IFSP's compliance with Shariah in line with the guidelines of the CSB issued by the FSRs, the ultimate responsibility for Shariah compliance rests with the MB who shall:

- Be responsible for observing and implementing rulings and decisions made by the SSB at all times.
- Provide complete disclosure and access to necessary information to the SSB/SD in a timely manner, failing to do so shall be penalized by the SB as a management failure.
- Allocate adequate resources (including budget, people, systems, and processes) to support the SGF.
- Ensure that the Shariah resolutions issued by the SSB are accessible at all times to those involved in the actual implementation process as well as other stakeholders.
- Arrange regular trainings in association with the SD to ensure that the staff has the relevant knowledge required to fully discharge their duties towards Shariah compliance.

22 CSAB shall issue the eligibility criteria for Shariah advisory firms to be approved by the FSRs.

4. ISLAMIC CAPITAL MARKET OVERVIEW





Islamic Capital Markets (ICMs) refer to capital market activities and instruments that raise and invest funds in ways that comply with Shariah. The primary ICM activities include but are not limited to the issuance and trading of Sukuk, Shariah compliant stocks, and Islamic funds. The growing awareness and demand for investing in accordance with Shariah principles on a global scale has created flourishing ICMs around the world.

ICMs play an important role in generating economic growth for any country. Hence, several Muslim-majority countries including Malaysia, Pakistan, Turkey, Indonesia, UAE, Bahrain and Saudi Arabia have well-established ICMs whilst an increasing number of Muslim-minority countries, for example, the UK, Ireland, and Luxembourg, are developing ICM activities within their mature conventional capital markets.

With the exception of Sudan and Iran, where the entire financial systems are Shariah compliant, ICMs in all other countries function in parallel to the conventional capital markets, playing a complementary role in broadening, deepening and diversifying the financial markets.

The operations of ICMs in most jurisdictions are regulated and supervised by the country's capital market regulators, in accordance with the standard regulatory framework in place for conventional capital market operations. However, additional requirements pertaining to compliance with Shariah are applicable to ICM operations.

The scope of the above-mentioned additional framework for Shariah compliance varies across different jurisdictions. The countries with more advanced ICMs have distinct and elaborate frameworks for Shariah compliance of the ICM operations whereas in other countries, the framework is not much sophisticated yet.

Out of USD 4.9tn Islamic finance assets as of 2023, ICMs accounted for 23%, representing 5% for Islamic funds and 18% for Sukuk, of the total, amounting around USD 1.1tn[23]. There were around 2,399 active Islamic funds dominated by Islamic equity funds, and 5,268 outstanding Sukuk including both corporate and sovereign.

The Islamic funds industry is valued at USD 254bn and is projected to grow to at least USD 396bn by 2028. Iran, Malaysia, and the UK dominate the Islamic funds market, collectively representing 75% of the global segment in 2023. Particularly, in Malaysia, approximately 70% of Islamic funds focus on domestic investments. The country remains committed to fostering the growth of Islamic funds and improving access to its capital market. To support this, in January 2024, the federal government introduced tax incentives, including a five-year exemption on capital gains tax for unit trusts and a three-year exemption on foreign-sourced income tax.

Total Sukuk value outstanding as of 2023 was USD 863bn with Malaysia, Indonesia, and Saudi Arabia comprising 76% of the total. The total Sukuk outstanding is expected to reach USD 1.5tn by 2028. In 2023, global Sukuk issuance hit a record high of USD 228.5bn, reflecting an 18% increase from the previous year. The rise in 2023 was fueled by several factors, including increased sovereign issuances to sustain yield curves in key markets, significant contributions from non-traditional markets, and a notable expansion in green and sustainability-linked Sukuk. Sovereign issuers remain at the forefront, accounting for 64% of total issuance in 2023, up from 60% in 2022.

23 ICD – LSEG Islamic Finance Development Report 2024.

4.1. Sukuk

a) Overview

According to AAOIFI, Sukuk (sometimes referred to as 'Islamic bonds') are defined as "*Certificates of equal value representing undivided shares in ownership of tangible assets, usufructs and services or (in the ownership of) the assets of particular projects or special investment activity*".

Sukuk are Islamic investment certificates of equal value issued by sovereign, quasi-sovereign or corporate entities to raise funds against underlying assets or a pool of diversified assets of the Sukuk structure, which may be tangible assets (e.g. ownership of property or projects like infrastructure etc.) or intangible assets (e.g. usufruct of a property).

From a Shariah compliance perspective, the underlying asset is the foundation of a Sukuk structure where the asset shall be owned by the Sukuk holders for the duration of the Sukuk term to link the investment with the risk and reward of such asset.

Asset ownership is best achieved/secured by completing a full transfer of legal title of the underlying assets to the Sukuk holders[24] where the Sukuk holders will have direct recourse to the underlying asset that may be sold to recover their investment in case of default.

However, some Shariah scholars may also accept transferring only the beneficial ownership[25] of the underlying assets to the investors particularly in sovereign Sukuk issuances due to legal impediments related to ownership transfers of sovereign assets, though in the event of bankruptcy, the assets may revert back to the originator and the claim of the Sukuk holders for their investments could rank *pari passu* with other unsecured debtors.

The profitability of Sukuk shall be calculated according to the performance of the underlying asset (remuneration of the investors shall be directly linked to such performance) and Sukuk pricing shall be initially based on the buyer's and seller's views of the value of the underlying asset. However, in practice, the primary role of the asset in a Sukuk structure is to act as a security and pricing is based on creditworthiness, market conditions, and benchmark rates among other market-driven factors.

In terms of tradability, in general, Sukuk are tradable in both the primary and secondary markets if the majority[26] of the Sukuk underlying assets do not represent cash, cash equivalents including Gold/Silver, and/or debts. Otherwise, Sukuk could be transferable at par value to avoid sale of debt.

Based on the foregoing, the key similarities and differences between Sukuk and bonds can be summarized as follows:

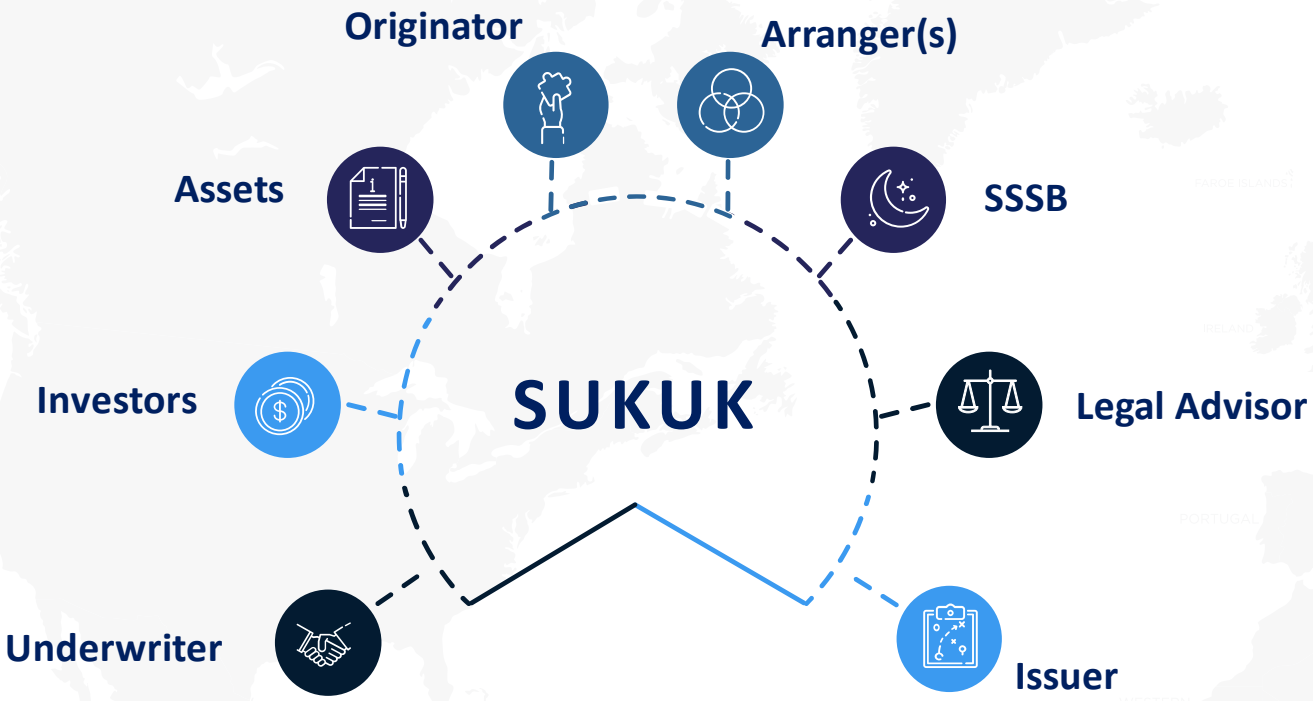
Table 2. Sukuk vs Bonds

SIMILARITIES	DIFFERENCES
• Sukuk, like conventional bonds, are investment instruments that are usually marketable, transferable and tradable[27] in the secondary market. • Sukuk may be rated by regional and international rating companies and agencies. • Sukuk may be secured or their credit rating may be enhanced by using Shariah compliant collateral. • The variety of Sukuk structures allows for structuring across different legal and fiscal environments to achieve the objective of the originator. • Sukuk are subject to regulatory requirements as the conventional bonds.	• Sukuk must be issued using Shariah compliant contracts and structures. • Sukuk should be structured to fund Shariah compliant projects / assets / services / activities. • Conventional bonds represent pure debt obligation whereas most Sukuk represent ownership stakes in the underlying assets[28]. • The sale of a bond is the sale of a debt, but the sale of Sukuk is a sale of undivided share in the underlying assets (where applicable). • Sukuk are secured by ownership rights in the underlying assets while conventional bonds are generally unsecured debt[29]. • The principal and return in Sukuk are not always unconditionally and contractually guaranteed, but in conventional bonds, they are guaranteed by the originator at the outset.

24 Through a Special Purpose Vehicle 'SPV' structure.
25 Beneficial ownership is established by providing certain contractual legal rights (usage, economic benefits, or other interests in the asset) to the Sukuk holders even though the legal title of the asset remains with the originator (originator is the original legal owner of the asset which is typically the entity seeking funding through Sukuk).
26 According to AAOIFI Shariah Standards, for Sukuk to be tradable, a maximum of 50% of the Sukuk underlying assets can be in the forms of cash, cash equivalents including Gold/Silver, and/or debt.
27 Subject to the Shariah compliance requirements of the Sukuk structure.
28 In case of default, the Sukuk holders may have the right to sell the underlying asset while the bondholders will be typically treated like creditors.
29 Except in cases like first mortgage bond, equipment trusts certificates etc.

The structural differences between Sukuk and bonds entail a number of legal, regulatory, and tax implications that need to be duly addressed before the issuance of sovereign or corporate Sukuk in any jurisdiction. The main challenges include moving the underlying assets from the originator's balance sheet and ring-fencing them in a legal entity that provides protection to the originator and the Sukuk holders without incurring any additional taxation that may be triggered due to the movement of assets.

b) Key Components of Sukuk Structuring



- **Originator -** a sovereign, quasi-sovereign or corporate entity seeking to raise funds through Sukuk (sometimes referred to as obligor).
- **Arranger** - the bank or the institution that has been mandated by the originator to arrange a Sukuk issue and accordingly manage the entire issuance process (e.g. bookrunning, subscriptions etc.).
- **Sukuk Shariah Supervisory Board (SSSB):** Shariah scholars appointed/assigned to approve the prospectus and relevant Sukuk documentation and oversee the Shariah compliance throughout the lifetime of the Sukuk.
- **Legal Advisers** - the legal specialists that draft the Sukuk legal documentation including prospectus and other relevant contracts and agreements.
- **Issuer** - the Special Purpose Vehicle (SPV) that issues the Sukuk to the investors.
- **Underwriter** - party committed to buy some/all unsubscribed Sukuk (if any).
- **Investors** - Sukuk holders that receive Sukuk certificates from the SPV in return for their funds subscribed to Sukuk
- **Assets** - the underlying assets / usufruct / services to be owned by the investors until maturity.

c) Role of Special Purpose Vehicles (SPVs) in Sukuk Structuring

An SPV is usually an orphan legal entity created by the originator typically in the form of a trust or a limited liability company registered in an onshore or offshore jurisdiction to facilitate a Sukuk issuance. Since the SPV is established as an orphan entity, it is unable to administer or enforce its rights under the Sukuk documents, hence, a professional trustee services company shall be appointed to act as its delegate to fulfil the obligations of the SPV.

Below are the key features of the SPV in a Sukuk structure:

- **Ownership of assets** – the SPV holds the ownership of the underlying assets of the Sukuk (ownership of legal title and/or beneficial ownership) on behalf of, and for the benefit of the Sukuk holders.
- **Sukuk issuance** – the SPV issues the Sukuk to the investors and collects proceeds.
- **Payment management** – the SPV receives the payments from the originator and pays returns in form of coupons to the Sukuk holders.
- **Trustee** – the SPV often acts as a trustee on behalf of the Sukuk holders.
- **Bankruptcy remoteness** – in the event of bankruptcy of the originator, the underlying assets of the Sukuk will remain ringfenced from the rest of the assets of the originator, preventing any creditors making a claim on the Sukuk assets or interfering with rights of the Sukuk holders with respect to the underlying assets.
- **Tax efficiency** - SPV is generally domiciled in a tax-efficient jurisdiction such as the Cayman Islands, Luxembourg, Jersey, Bahrain or Labuan etc. in order to minimize taxes and transfer fees/charges related to the assets.

d) Ijara Sukuk Structure

Ijara is a lease contract where the usufruct of a certain asset is rented from the owner of the asset (or lessor) to the lessee against payment of rent. Ijara is defined by the following conditions:

- The underlying asset should be Shariah compliant and used according to Shariah principles.
- Ijara term must be specified with clear start/end dates.
- The underlying asset or its usufruct must be owned by the lessor and remain the property of the lessor throughout the Ijara term.
- Lessor is responsible for major maintenance and insurance[30] of the underlying asset.
- Ordinary maintenance (day-to-day) remains the lessee's responsibility.

The rental amount must be agreed upon in advance (it may be defined using a formula based on an acceptable and independent benchmark e.g. Libor rate).

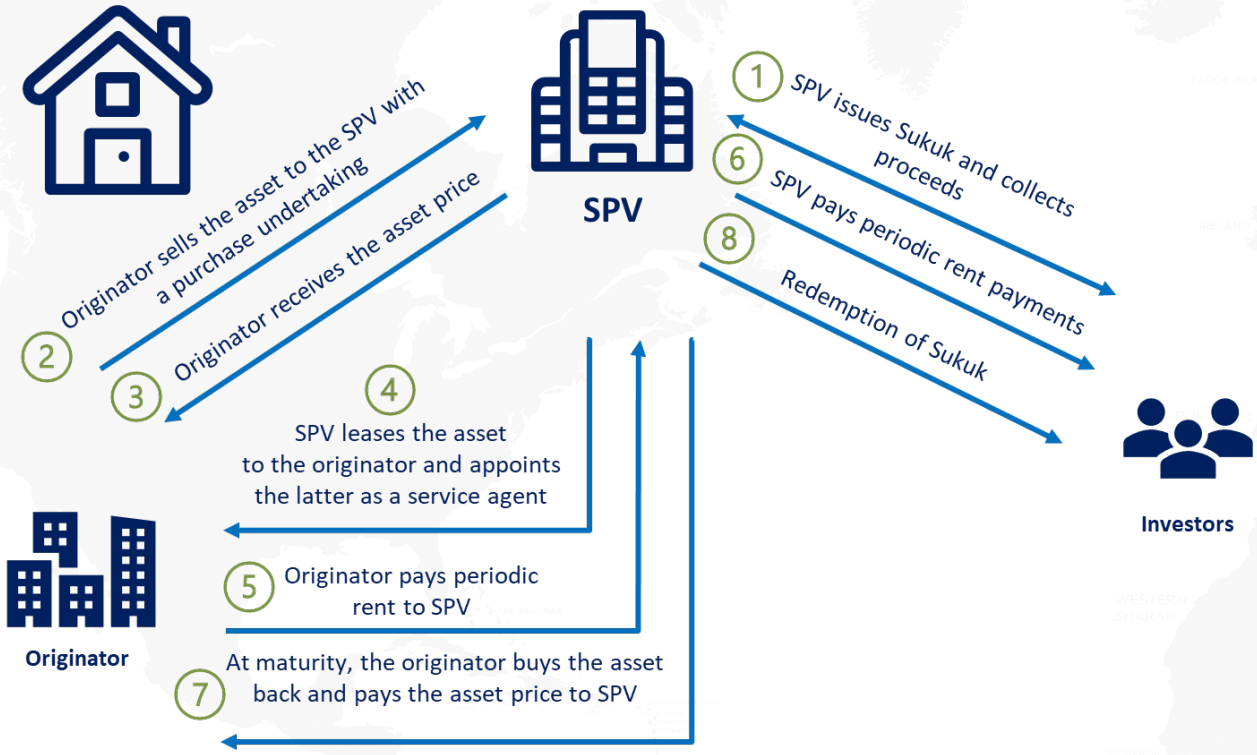
Ijara Sukuk process involves the following:

- The originator uses a defined set of properties as the Sukuk's underlying assets.
- The originator sets up an SPV to act as the 'issuer' for the purpose of Sukuk issuance, as 'trustee' for the Sukuk holders and as 'lessor' of the properties.
- The SPV issues Sukuk and collects proceeds from the investors to pay the agreed amount of money to the originator as the purchase price of the properties.
- The originator sells the properties to the SPV for an agreed price and with a promise to buy back the properties at the maturity of the Sukuk.
- The SPV (which now owns the properties) leases the properties to the originator for an agreed amount of rent to be paid periodically (which will be the income for the SPV that will be distributed to the Sukuk holders as coupon payments).

30 Takaful (Islamic insurance) cover shall be used but if not available in the local market, conventional insurance may be used.

- The properties continue to be used by the originator as usual (or could be sub-let by the originator to other entities, if allowed under the Sukuk structure) but the originator, as 'lessee', pays the agreed rent to SPV.
- The SPV also appoints the originator as its agent for the servicing (major maintenance, insurance and payment of taxes, if any) of the properties.
- At maturity, the originator buys back the properties from the SPV and pays the purchase price. This amount is used to pay the Sukuk holders for redemption of Sukuk. The ownership of the properties is transferred back to the originator.

Figure 1. Ijara Sukuk Process Flow



e) Sukuk Structure – Mudaraba Sukuk

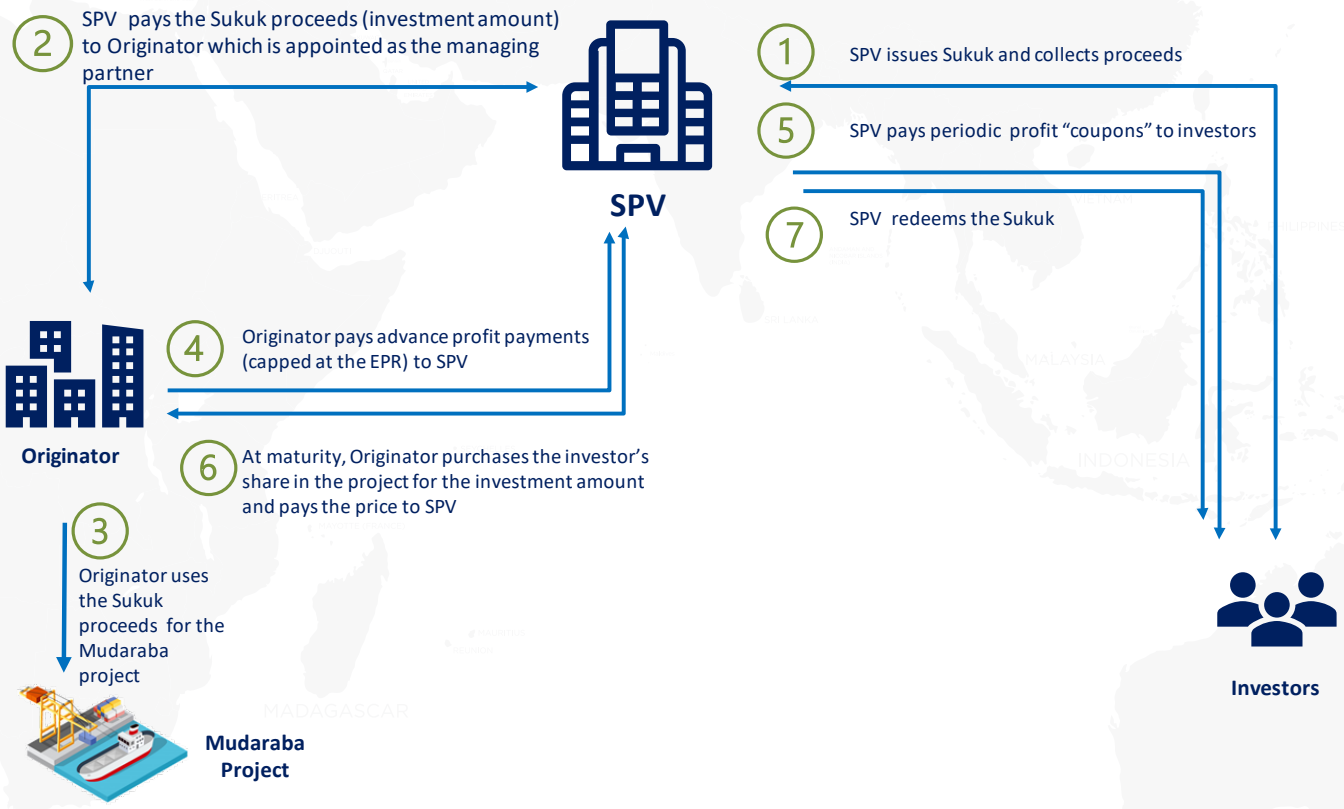
Mudaraba is a type of partnership arrangement where one party (or more) provides the funds, and the other party (managing partner) provides expertise in deploying the funds in a Shariah compliant project or business activity for profit generation purposes. Key conditions and particulars for Mudarabah contract include the followings:

- The underlying Mudaraba project/assets/activities should be Shariah compliant.
- The partners will share any profit generated from the Mudaraba project/assets according to an agreed profit-sharing ratio.
- Losses, if any, will be borne by the capital provider(s), except in cases of the managing partner's negligence, misconduct, willful default, fraud, or non-compliance with the agreed Mudaraba contractual terms and conditions.
- The managing partner has fiduciary responsibility and hence acts as trustee in managing the Mudaraba project/assets/activities on behalf of all partners.

Mudaraba Sukuk process involves the following:

- The originator would be appointed as the managing partner while the investors would be the capital providers. The originator in its capacity as the managing partner shall invest the funds in the Mudaraba project/assets.
- The originator shall perform their obligations dutifully under the Mudaraba Sukuk and look after the interests of the investors in good faith. The originator will also have an obligation to closely monitor the performance of the Mudaraba project/assets and ensure that the EPR[31] is achievable during the Sukuk tenor.
- However, the managing partner cannot provide an unconditional guarantee to return the invested capital, save for instances of negligence, gross misconduct, fraud of the managing partner, and/or non-compliance with the agreed Mudaraba terms and conditions.
- During the Sukuk tenor, the originator could make advance profit payments to the SPV for distribution to the investors.
- On maturity date, the originator purchases the share of the investors in the Mudaraba project/assets and pays the market value, or any other price agreed between the parties (Sukuk redemption).
- Any profit amount exceeding the expected profit is retained by the originator as a reward for good performance, whilst any shortfall in the principal or between the advance profit payment and the actual profit achieved could be settled in the final pay-out (redemption payment).

Figure 2. Mudaraba Sukuk Process Flow



31 The profit share of the Sukuk holders is typically capped at an agreed EPR.

Sukuk Structure – Murabaha Sukuk

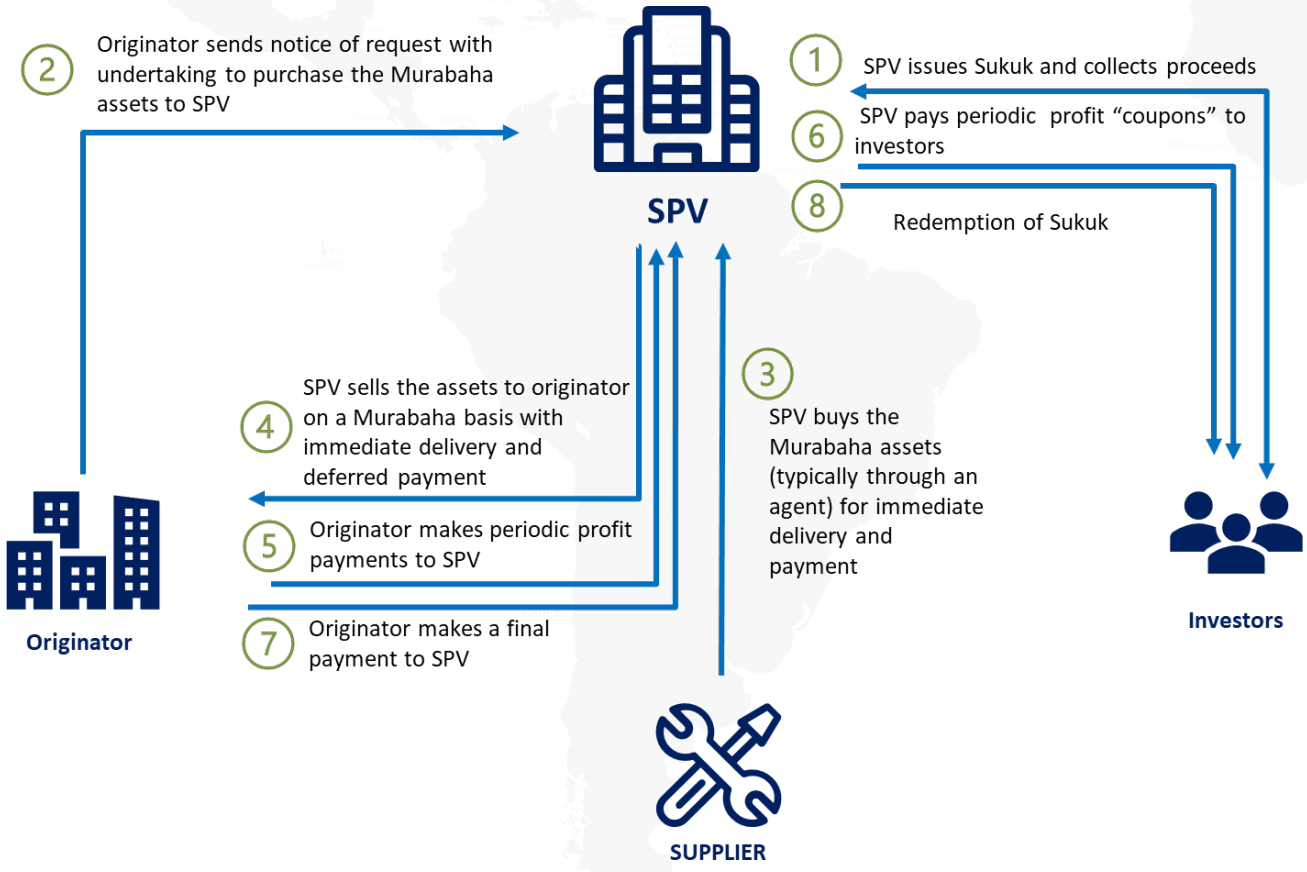
Murabaha is a sale contract where the cost of the subject matter (Murabaha assets) and the profit realized by the seller are disclosed to the buyer. Murabaha is mostly used in the Islamic finance industry in combination with a deferred payment facility. Murabaha is defined by the following conditions and particulars:

- Murabaha assets should be Shariah compliant, existent, and owned (physical and/or constructive ownership) by the seller at time of sale, valuable, deliverable, described, quantified, and clearly priced.
- Cost price and profit margin should be declared to the buyer and agreed at the outset.
- The buyer becomes the owner of Murabaha assets and assumes full responsibility for them after concluding the Murabaha contract.

Murabaha Sukuk process involves the following:

- The funds provided by the investors are used to purchase the Murabaha assets from a supplier upon the request of the originator.
- Subsequently, the originator, acting as buyer, and the investors, acting as sellers, would enter a Murabaha arrangement with immediate delivery of the Murabaha assets and deferred payment for the sale price.
- The Murabaha assets could be a specified quantity and quality of certain goods to be used by the originator in line with their business needs and objectives.
- The profit margin on the sale will be calculated based on the applicable profit rate. The profit rate is a rate of return set by the originator.
- The sale price of the Murabaha assets (principal + profit) is typically paid by the issuer to the investors as follows:
- Profit is paid as equal periodic Sukuk coupons.
- Principal is paid upon redemption of the Sukuk on the maturity date.

Figure 3. Murabaha Sukuk Process Flow



4.2. Islamic Equity Market

The Islamic equity market operates in a similar way to the conventional equity market with the standard regulatory requirements but with a few exceptions as they remain subject to Shariah requirements. The following are the key prohibited instruments / transactions / practices / activities in Islamic equity markets:

- Investing in Shariah non-compliant companies including those creating any negative/adverse impact on society, the environment, and animals.
- Interest-based leveraging.
- Buying on margin.
- Short selling.
- Trading other conventional speculative financial derivatives (e.g. forward, futures, options, swaps etc.).
- Sale of debt[32].
- Conveying or acting on insider information.
- Disseminating misleading statements.
- Market manipulations.
- Improper disclosures.

The overarching objective of these prohibitions is to promote prudent, ethical, just, and fair-trading relationships that are beneficial to all the relevant parties without creating any harm to society or the environment.

The Islamic equity market includes but is not limited to Shariah compliant/screened stocks, Islamic stock indices, Islamic funds[33], Islamic unit trusts, and IREITS[34]. The first Islamic equity index was developed in May 1996 in Malaysia. This was followed by the Dow Jones Islamic Market Index developed by the Dow Jones company in Bahrain in February 1999.

The Kuala Lumpur Shariah Index by Bursa Malaysia (Malaysian Stock Exchange) and the FTSE Global Islamic Index Series by the FTSE Group followed subsequently in April and October 1999. The Dow Jones and FTSE have introduced global Islamic indices, which track the performance of securities approved by the respective Shariah boards of both players.

a) Shariah Compliance Screening

The common stocks listed on a stock exchange are deemed as Shariah compliant and suitable for investment if they pass the Shariah screening tests in accordance with the methodology applied by the relevant index provider or used by the fund manager. The rationale for the application of screening filters to companies before making investments in them is based on the fact that the investor in a stock becomes the equity shareholder in the business, hence carries responsibility for the company's actions.

Consequently, an overall methodology approved by renowned Shariah scholars and AAOIFI is used by index providers and Islamic asset management firms around the globe. The Shariah screening methodology includes a set of criteria based on two main filters as follows:

Business Activity (Qualitative or Sectoral Screening)

The general rule is that any sector or business activity that is detrimental to the welfare of society and the environment is prohibited in Shariah. The rule includes business activities that may have some positive aspects, but, in cases where the inherent harm of these activities outweighs the good, these sectors are also banned.

32 Malaysia is the only country where Shariah scholars allow the sale of debt based on their own interpretation of the Islamic law, however, such practice is strictly forbidden in all other Islamic finance markets.
33 Islamic funds invest in public and private stocks, using the same strategies of active and passive management as conventional funds and have similar types of risk and return profiles. Islamic funds also include real estate funds, liquidity funds, Sukuk funds, venture capital funds, fund of funds and more recently, hedge funds.
34 Islamic Real Estate Investment Trust.

Based on the foregoing, common stocks of companies whose primary business activity is any of the following do not qualify as Shariah compliant investments:

- Any activities related to alcohol and pork;
- Tobacco and any form of illegal drugs;
- Arms, ammunition and weapons;
- Gambling;
- Any form of pornography or other adult entertainment activities with adverse effects on morality;
- Interest-bearing financial services (i.e. banking, insurance and so on); and
- Biotechnology companies involved in human/animal genetic engineering.

The test a company must satisfy is that at least 95% of its gross revenues should be generated by activities other than those mentioned above. Shariah scholars have given an exception in form of a tolerance level of maximum up to 5% of revenues that may be coming from Shariah non-compliant sources or activities of a company. However, this non-compliant revenue of up to 5% will be considered as impure and will be subject to a cleansing mechanism as part of the screening methodology.

Any such income is accounted for, typically from the distribution of dividends, and it must be paid out to charity. Such payment will be for the purification of the income from the investment and will not be considered as a form of almsgiving or tax. The impure funds are usually paid to registered charities that are vetted/approved/recommended by the Shariah advisors of the relevant index provider or the fund[35].

Financial Ratios (Quantitative Screening)

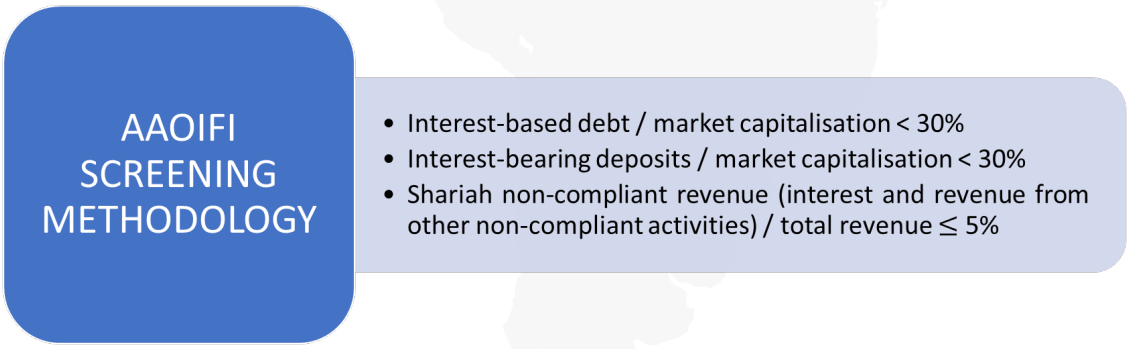
Shariah does not allow participation in or benefit from a transaction that involves interest in any shape or form. Hence, the general rule is that common stocks of companies that give or take interest do not qualify for Shariah compliant investments. However, Shariah scholars have taken a view on the current business environment and agreed to give a certain level of tolerance to the companies that qualify through the first filter of business activity or sectoral screening. Hence, a set of financial ratios has been developed that will apply to assess the permissibility of a stock.

The primary purpose of financial ratios is to exclude companies that do not comply with the tolerated level of interest-based leverage, receivables, cash available and interest income. It is worth noting that whilst the screening methodology is uniform across the Islamic financial industry worldwide i.e. same type of filters are applied, the financial ratios applied in this screen may vary between different players.

For example, the financial ratios in the methodology approved by AAOIFI is different from the financial ratios applied by Dow Jones Islamic Markets or S&P Shariah index. The differences in the ratios are minor however they may have a consequence on the number of stocks that will qualify as Shariah compliant.

The diagram below lists the financial screening ratios as per AAOIFI's methodology[36]:

b) Environmental, Social, and Governance Screening



35 Sometimes the fund will notify the investors of their respective purification amounts and let them donate the impure money to their preferred charity.
36 Another financial ratio is required by AAOIFI to determine the tradability from a Shariah compliance standpoint to avoid sale of debt i.e. for a common stock to be tradable, a maximum of 50% of the company's underlying assets can be in the forms of cash, cash equivalents including Gold/Silver, and/or debts. Otherwise, the stock could be transferable at par value (no trading that generates a profit or a loss).

Environmental, Social and Governance (ESG) criteria are a set of standards that are used by socially conscious investors to screen potential investments. Environmental criteria consider how an entity performs as a steward of nature. Social criteria examine how a company manages its relationships with employees, suppliers, customers, and the communities where it operates. Governance criteria deal with a company's leadership, executive and employees pay, audits, internal controls, stakeholders' rights etc.

There can be immediate comparisons drawn between the nature of ESG and Shariah compliance screening. Both implement negative screening processes to create a universe of stocks that are attuned to the respective values of their investors. Moreover, there are many crossovers and commonalities among these values. For example, environmental criteria in ESG screening may dictate that investments that can cause harm to society or environment, such as arms manufacturing should be avoided as impermissible investments, and this is also forbidden in Shariah under the same principle. This analogy could be also extended to the tobacco and alcohol industries.

In terms of differences, one of the key differences between the two screening models is that ESG screening does not have universally recognized or agreed filters and parameters. This means that ESG funds may have very different screens, and they may employ positive and/or negative screens or use parameters based on local market demand or specific requests made by their investors. This contrasts with Shariah compliance screening methodology, where there is a largely defined list of prohibited industries and financial ratios, though there are minor variations.

In terms of the usage of financial ratios, ESG screening may use financial ratios that are more focused on companies employing accurate and transparent accounting methods and formulas. Whilst Shariah also requires this, one of the fundamental objectives of using financial ratios in Shariah compliance screening is to assess if a company is overleveraged with interest-bearing facilities and ascertain whether it is a prudent Shariah compliant investment opportunity.

A number of market-driven initiatives are in progress to create convergence between ESG and Shariah screening to push the coverage of the latter to include negative and positive screens related to environmental, social, and governance issues.

4.3. Islamic Funds

Islamic funds are joint pools or collective investment schemes in which the investors place their funds to earn profit in compliance with the requirements of Shariah principles. Islamic funds can be equity funds, fixed-income funds, money market funds, index funds, real-estate funds, fund of funds etc. providing all the aforementioned types are complying with their respective Shariah compliance investment guidelines. Unlike conventional investment funds, which often prioritize profit maximization without restriction, Islamic funds must comply with specific prohibitions and guidelines that dictate the nature of permissible investments.

Islamic funds are typically structured using similar legal structures of conventional funds, but the former will have different investment strategy with certain types of permitted asset classes (such as Shariah compliance stocks, Sukuk, residential properties and commercial real estate etc.). Islamic funds will also have an additional layer of governance that is aimed at ensuring Shariah compliance at all times. To this end, Islamic funds have a Shariah governance framework that is designed and implemented.

Islamic funds are supervised by SSBs, which comprise scholars with expertise in Islamic jurisprudence and finance. These scholars continuously monitor the fund's activities to ensure that investments remain compliant with Islamic financial principles.

5. COUNTRY PROFILE – ETHIOPIA



5.1. Overview

Ethiopia is an ancient country with a rich cultural diversity and is one of the oldest independent nations in the world. Its current constitution, adopted in 1994, establishes a federal parliamentary republic as its system of government[37].

Geographically, the country is situated at the crossroads between the Middle East and Africa. Covering a land area of approximately 1.1 million square kilometers, Ethiopia is the 27th largest country in the world.

The country's geographic diversity, ranging from highland plateaus to lowland plains, is a defining feature. Ethiopia's varied topography has significant implications for its climate, agriculture, and biodiversity, making it one of Africa's most ecologically diverse nations[38].

5.2. Demographics

Ethiopia is the second-most populous country in Africa, with an estimated population of 129.7 million in 2024[39]. The country has one of the youngest populations globally, with a median age of approximately 19.5 years in 2020. A large portion of the population, around 77%, resides in rural areas[40].

Ethiopia is a highly diverse nation, home to over 80 ethnic groups and languages. The Oromo and Amhara are the largest ethnic groups, comprising approximately 34.5% and 26.9% of the population, respectively. Languages such as Amharic and Oromo are widely spoken, while the diversity of languages reflects Ethiopia's rich cultural heritage. This diversity is mirrored in religion, with Christianity and Islam being the dominant faiths[41].

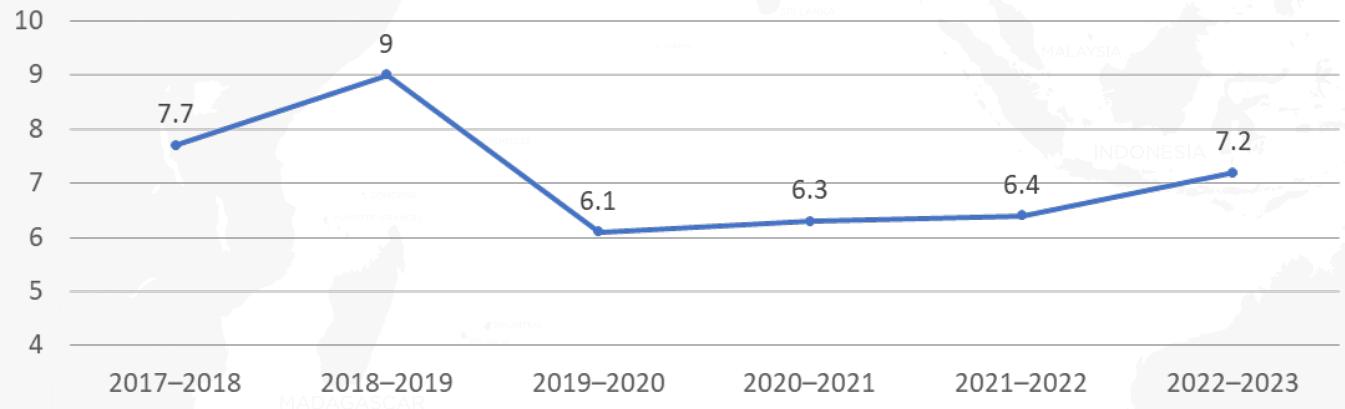
According to the most recent census conducted by the Ethiopian government in 2007, Ethiopian Orthodox Christians made up 43.5% of the population, followed by Muslims at 33.9%, and Protestants at 18.6%[42].

Therefore, Islam is the second most-widely practiced religion in Ethiopia and the sizeable Muslim population is approximately 40 million[43], making Ethiopia one of the largest Muslim-populated countries in the world.

5.3. Economy

Ethiopia's economy is one of the largest and most dynamic in Africa, underpinned by considerable growth and transformation over the past two decades. According to the official government statistics, Ethiopia's GDP reached USD 163.7bn in June 2023, with an average annual growth rate of approximately 7.11% between 2017 and 2023, driven by significant investments in infrastructure, industrialisation, and agriculture. Despite the average growth rate of 8.4% between 2017 and 2019, a number of challenges in recent years, including the COVID-19 pandemic and regional conflicts, have slowed growth, with the GDP growth rate over 6% between 2019 - 2023[44].

Figure 4. GDP Growth of Ethiopia 2017 – 23 (in %)



Source: Official Government Statistics

37 Oxford University Press, 2011
38 Britannica, 2023
39 Empower Africa, 2024
40 World Bank, 2023
41 Migration Policy Group, 2019
42 StateGov, 2023
43 The Muslim population figure is estimated based on the percentage of the Muslim population reported in the 2007 census and the approximate current total population
44 Official Government Statistics

Ethiopia has made progress in reducing poverty, with the poverty rate declining from 31.1% in 2016 to 27% in 2019. Unemployment remains a challenge, with the overall unemployment rate estimated at 8% in 2020/21.

Youth unemployment is particularly high, at 23.1%. This highlights the importance of continued economic growth and job creation strategies[45].

General inflation in Ethiopia remains a persistent challenge, having steadily increased over the past decade, rising from 9.7% in 2015/16 to approximately 30% in 2023[46].

The country's economic structure has undergone changes in the last two decades. The agriculture's share of GDP has decreased from 54% in 2000 to 32% in 2023. As of 2022, the sector accounts for 62.8% of employment. In the other hand, the service sector's contribution to GDP has slightly grown from 37.6% in 2000 to 40% in 2023, employing 30% of the workforce. The industrial sector has also expanded, with its share of GDP rising from 10% in 2000 to 28.8% in 2023. Manufacturing, however, remains a smaller contributor, accounting for just 6.9% of GDP in 2023.

Ethiopia has developed a 10-Year Development Plan (2021-2030) that outlines the country's vision, strategic objectives, and pillars for sustainable development. The plan addresses economic, social, administrative, and institutional challenges, with a strong focus on economic growth, poverty reduction, energy, innovation, and human resources. A key priority of the plan is financial sector development, with a particular emphasis on creating a sustainable and inclusive financial system. This underscores the government's commitment to building a financial system that is both inclusive and diverse[47].

5.4. Public Sector Debt

As of September 30, 2024, public sector debt (both domestic and external) represented over 50.3% of nominal GDP[48]. Of the total public sector debt, domestic debt accounts for 39%, while external debt makes up 61%. The Central Government holds the majority of the public sector's outstanding debt, amounting to USD 40.89bn (80.36%), while State-Owned Enterprises (SOEs) are responsible for USD 9.65bn (19.64%). The country's heavy reliance on external borrowing to finance large-scale infrastructure projects, including roads, railways, and energy initiatives, has contributed to this debt accumulation[49].

5.5. Social Development

Social development is grounded in Ethiopia's Constitution that provides equal right of all Ethiopians to development stating that *"the basic aim of development activities shall be to enhance the capacity of citizens for development and to meet their basic needs"*[50].

The Constitution permits that all religious communities may manifest, in public and private, observances of their faith[51]. This right would include how Ethiopians of Islamic faith prefer conducting their financial dealings in a manner faithful to their beliefs.

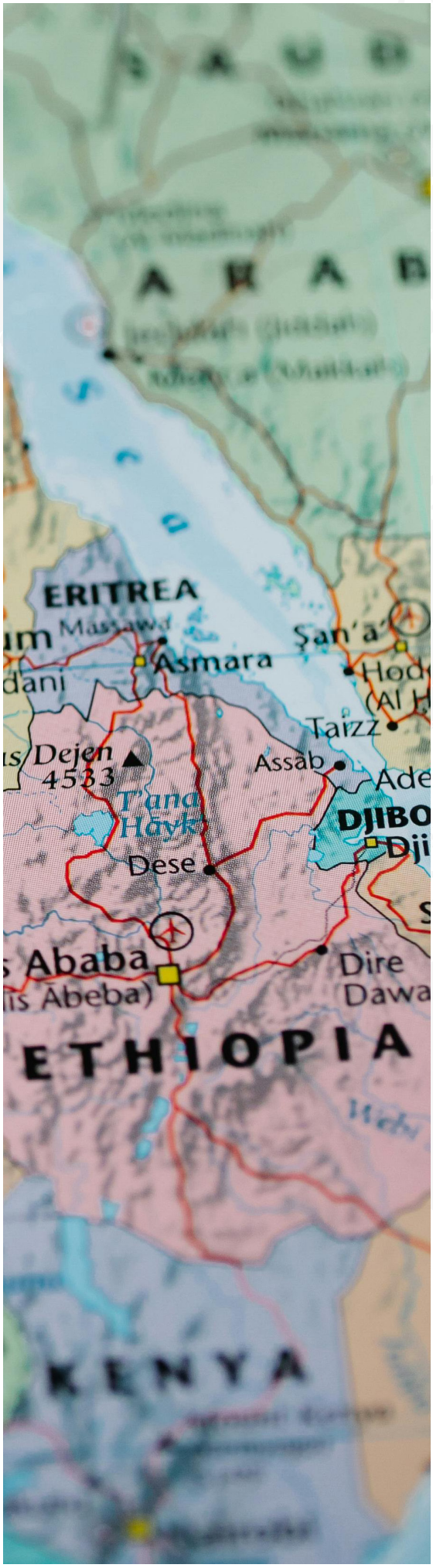
In the past two decades, the country has made considerable strides in social development. Life expectancy at birth increased from 45 years in 1990 to 67 years in 2020, attributed to improvements in healthcare infrastructure and disease prevention programmes.

Despite progress, Ethiopia faces significant challenges in social development. As mentioned before, poverty remains widespread, with around 27% of the population living below the income poverty line in 2019[52]. Rural communities are disproportionately affected, with limited access to basic services such as clean water, sanitation, and electricity. Rapid population growth, estimated at 2.5% annually, adds further pressure to the provision of social services.

45 African Development Bank, 2024
46 Official Government Statistics
47 Federal Democratic Republic of Ethiopia, Planning and Development Commission, Ten Year Development Plan.
48 Ministry of Finance, Public Sector Debt Statistical Bulletin No.51
49 Ministry of Finance, Public Sector Debt Statistical Bulletin No.51
50 Article 43 (4) Constitution of the Federal Democratic Republic of Ethiopia.
51 Article 27 (1) Constitution of the Federal Democratic Republic of Ethiopia.
52 UNDP, 2023

6. LANDSCAPE OF CAPITAL MARKETS IN ETHIOPIA





6.1. Background

Capital markets play a pivotal role in driving economic growth by efficiently connecting those in need of capital with investors who have surplus funds. They provide governments and businesses with essential access to financing for large-scale infrastructure projects or significant investments. In this sense, capital markets serve as a platform where capital is mobilised, enabling both public and private sectors to fund critical initiatives that fuel development and expansion. They also help to foster a culture of saving and investment among the broader population.

Share companies in Ethiopia have existed since the 1950s. In 1960, the National Bank of Ethiopia established the Share Exchange Department, which functioned as an underwriter and provided Over-the-Counter (OTC) services. This was followed by the creation of the Addis Ababa Share Dealing Group in 1965, which facilitated the trading of shares and government bonds. Initially, the group listed 15 companies and four government bonds, and the number of listed companies increased to 17 the following year. However, in the 1970s, the socialist government's nationalisation efforts led to the takeover of many financial and large institutions, significantly hindering the development of Ethiopia's capital market.

Recent efforts by the Ethiopian government to revitalise the capital market have opened a new chapter in the country's economic development and efforts to attract domestic and foreign investments. These initiatives led to the establishment of the Ethiopian Capital Market Authority (ECMA) in 2021, the regulatory body tasked with overseeing and promoting the growth of Ethiopia's capital markets. ECMA's mandate is to create a robust, transparent, and efficient market system. The development of Ethiopia's capital market is not only an economic milestone but can also be regarded as a key driver in advancing the nation's broader aspirations.

6.2. Ethiopia's Capital Market Overview

Equity Market: Until recently, Ethiopia lacked a regulated public equity market where shares could be traded in an organized and supervised environment. This changed on January 10th, 2025, when the Prime Minister of Ethiopia officially launched the Ethiopian Securities Exchange (ESX). Currently only Wegagen Bank is listed on ESX[53]. Prior to this, several companies raised capital by issuing shares through financial institutions such as banks and insurance companies, but there was no formal secondary market for share trading. Instead, an informal and unregulated OTC market existed, primarily involving bank shares[54].

Debt Market: The bond market in Ethiopia is limited and underdeveloped. Currently, the supply of government debt instruments consists of Treasury Bills (T-bills), Treasury Notes, Treasury Bonds, Government Bonds, and bonds issued by state-owned enterprises (SOEs). In 2014, Ethiopia issued its debut Eurobond, raising USD 1bn, the proceeds of which were allocated for the development of industrial parks and sugar estates. In December 2023, the government defaulted on the bond by missing a USD 33mn coupon payment and has not serviced the bond since. Recent reports indicate that to be the country's only debt instrument trading in global capital markets.

As for corporate bonds, the market is still in its early stages with no corporate debt issued and remains shallow, with no active secondary market in place. The majority of bonds are issued by state-owned enterprises and regional governments, with these bonds being fully purchased by the state-owned Commercial Bank of Ethiopia (CBE)[55].

Investor Base: Institutional and retail investors are already engaged in private share offerings and trading, as well as in government infrastructure debt securities to some extent. The institutional investor base is made up of two major government pension funds, insurance companies as well as banks. Retail investors also participate in OTC share issuances, often in response to public share offering advertisements in newspapers and on television[56].

6.3. Key Stakeholders in Ethiopia's Capital Market

a) Ethiopian Capital Market Authority (ECMA)

The Ethiopian Capital Market Authority (ECMA) was established under the Capital Market Proclamation No. 1248/2021 (Proclamation), with the mandate to create a robust, transparent, and efficient capital market system.

The proclamation serves as the legal foundation for the ECMA's establishment, organization, operations, powers, and responsibilities. It is established by Article 3(1) of the Proclamation as an autonomous Federal Government Regulatory Authority with its own juridical personality, accountable to the Prime Minister of the Federal Democratic Republic of Ethiopia.

ECMA responsibilities include:

- Licensing and supervising capital market participants, including securities exchanges, brokers, and other intermediaries.
- Developing and enforcing regulations that ensure the integrity, transparency, and efficiency of the market.
- Protecting investors by promoting fair practices and mitigating market risks.
- Facilitating the development of a diverse range of financial products and services to meet the needs of different capital market participants.
- Engaging with stakeholders, including government entities, financial institutions, and the public to promote awareness and understanding of capital markets.

53 Ethiopian Securities Exchange, 2025
54 Ethiopian Capital Market Authority, Strategic Plan (2024-2026)
55 Ethiopian Capital Market Authority, Strategic Plan (2024-2026)
56 Ethiopian Capital Market Authority, Strategic Plan (2024-2026)

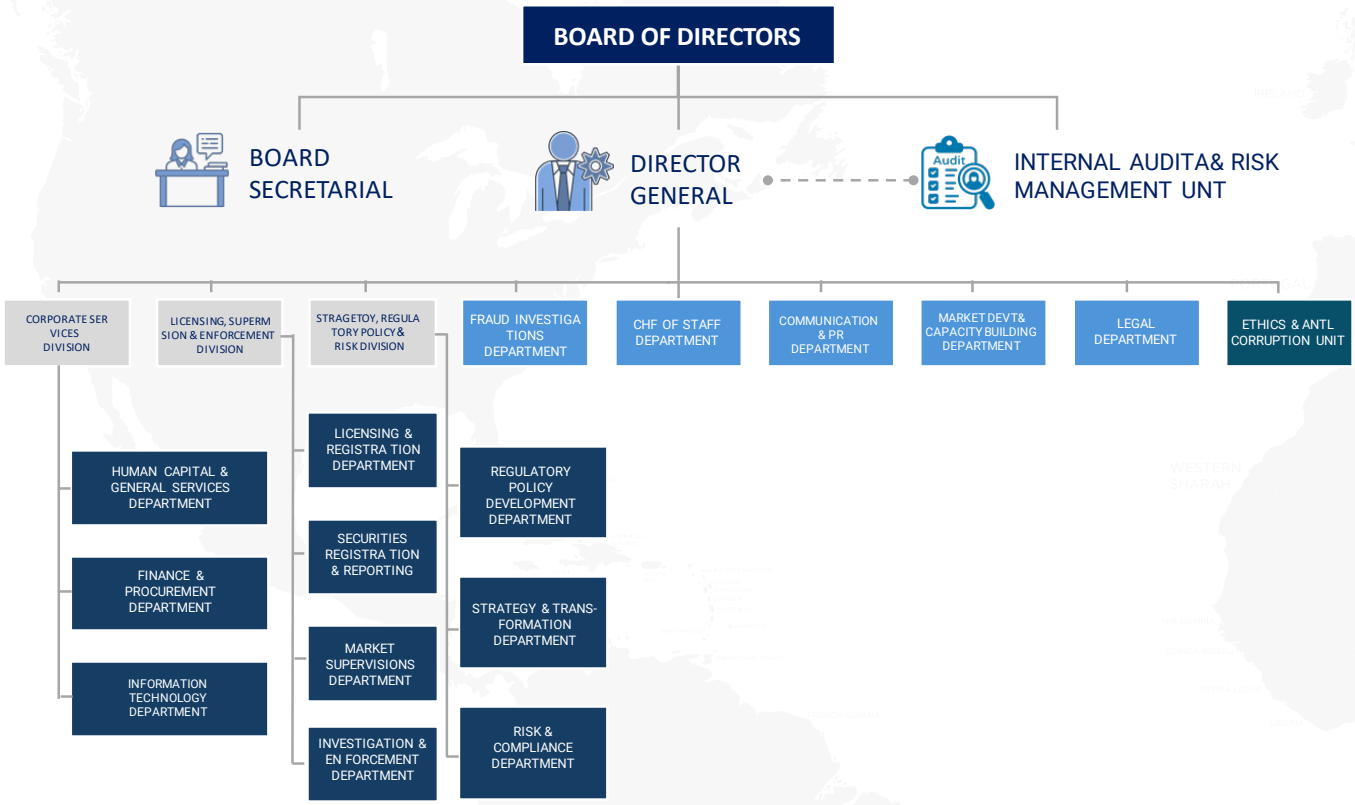
ECMA Structure

ECMA is headed by a Director General who oversees the entire operations of the authority, setting strategic direction, ensuring compliance with regulations and managing relationships with stakeholders. The authority is structured into several key divisions and departments, each tasked with specific responsibilities to facilitate the development and regulation of Ethiopia's capital market.

These divisions include Licensing, Supervision, and Enforcement, Strategy, Regulatory Policy, and Risk, and Corporate Services, among others. Each department within these divisions plays a vital role in ensuring the effective functioning of the capital market, from regulating market participants and ensuring compliance, to developing policies and managing risk, all of which are crucial for the sustainable growth of Ethiopia's capital market.

The figure below shows the organizational structure of the ECMA:

Figure 5. Organizational Structure of the ECMA



ECMA's Strategic Plan

In its medium-term strategic plan (2024-2026), ECMA has outlined four key strategic pillars that serve as the foundation for the Authority's purpose and operational objectives. These include:

Regulation and Enforcement: The ECMA seeks to establish a strong regulatory framework, implement an effective licensing and registration system, and strengthen its market surveillance and enforcement capabilities.

Market Development: At the outset, ECMA's market development plan will focus on developing the equity and bond markets. The government is expected to play a role in supporting the development of the capital market by increasing the supply of securities, through the privatization of state-owned enterprises, and promoting market-based debt financing with actively tradable government securities.

As part of its strategic market development plan, ECMA has also committed to focusing on the development of ICM in Ethiopia. ECMA has recognised Islamic finance as a key area for development, with the goal of creating a capital market that supports the issuance and trading of innovative financial instruments, including Shariah compliant products.

Capacity Development: To address the competencies gap, ECMA plans to launch a comprehensive capacity development initiative that will engage all key stakeholders, including market participants, regulators, industry associations, and educational institutions. The authority hopes that this focused approach will foster the creation of a robust ecosystem capable of supporting the growth and development of the capital market. To enhance investor's awareness, the ECMA is planning to focus on promoting investor education programs to enhance awareness and foster a financial investment culture in Ethiopia.

Enabling Environment: ECMA is committed to fostering an environment that enables the development and growth of a vibrant capital market. Sound macroeconomic policies, strong and active institutional investor base, neutral and supportive taxation policies and efficient alignment between various regulatory requirements on capital market participants, are the areas identified in the strategy to create a strong enabling environment.

b) National Bank of Ethiopia (NBE)

The National Bank of Ethiopia (NBE) is responsible for regulating and overseeing the country's banking system, implementing monetary policy, and ensuring financial stability. Its key functions include managing inflation, controlling interest rates, overseeing foreign exchange reserves, and promoting economic growth through financial sector development.

The NBE supervises and licenses financial institutions including commercial banks, insurance and reinsurance companies, microfinance institutions, capital goods finance/lease companies, payment instrument issuers/ system operators and independent foreign exchange bureaus.

In terms of capital market, the NBE remains an active participant in the capital market as a government entity responsible for issuing Treasury bills and government bonds on behalf of the Ministry of Finance. Treasury bills are auctioned regularly on bi-weekly basis. In 2024, the total outstanding Treasury Bills (T-Bills) decreased from ETB 447bn on June 30, 2024, to ETB 125.6bn on September 30, 2024. These instruments are held by banks and non-bank institutions.

The NBE also occasionally issues treasury bonds to finance government expenditures and/or to absorb excess liquidity in the banking system. In 2022, a new directive (Directive No. MFDA/TRBO/001/2022) was issued by the NBE, mandating all commercial banks to purchase a five-year treasury bond at 20% of their new loan disbursement and the stock of this new instrument was around ETB 109.6bn as of September 30, 2024[57].

Role of NBE in Promoting Ethiopia's Capital Market

NBE has played a pivotal role in the development of Ethiopia's capital markets ecosystem over the past several years. Working closely with key partners, NBE spearheaded numerous foundational initiatives, including the preparation of the Capital Market Proclamation and the establishment of ECMA.

Additionally, NBE in collaboration with Ethiopian Investment Holdings, initiated the creation of the ESX, to be the first securities exchange in the country. Furthermore, it established the Central Securities Depository, building and essential infrastructure tool needed for the effective recording and trading of securities[58].

c) Ethiopian Securities Exchange (ESX)

The Ethiopian Securities Exchange is Ethiopia's first, and only organized securities exchange. It was established as a public private partnership in line with Article 31 of the Capital Market Proclamation (No.1248/2021), and licensed by ECMA. The newly launched exchange is considered a historic milestone in Ethiopia's economic development.

ESX operates the business of a securities exchange, functions as a Self-Regulatory Organization (SRO) and serves as the central market organizer providing an integrated product suite covering the equities, fixed income, and money market segments of the capital markets.

ESX is organized as having two main markets - ESX Equity Market and ESX Fixed Income Market.

- **ESX Equity Market:** consists of a main market for large companies and a growth market for SMEs, with flexible listing requirements for the latter.
- **ESX Fixed Income Market**: to facilitate the trading of debt securities. The segment will include a quotation and trading platform for short-term money market instruments such as Government T-Bills, Commercial Papers, and the interbank market including Repurchase Agreements (Repos) as well as long term debt instruments such as Treasury and Corporate Bonds.

57 Ministry of Finance, Public Sector Debt Statistical Bulletin, Bulletin Number. 51, 2024
58 National Bank of Ethiopia, Keynote Speech at the Capital Market Summit, 2024

The exchange plans to introduce Sukuk, Islamic stocks, and Islamic mutual funds as financial instruments, providing Islamic banks in Ethiopia with avenues to allocate their excess liquidity into Shariah compliant investments.

As a practical measure, ESX has incorporated the listing requirements for Sukuk securities in its rulebook, demonstrating its commitment to introduce Shariah compliant instruments. The requirements specify the eligibility criteria for Sukuk issuers, along with disclosure, transparency, due diligence, and approval processes, as well as documentation requirements.

Additionally, the guidelines emphasize strict compliance with Shariah principles, mandating oversight by an independent Shariah board or advisor, and ensuring continuous adherence to these principles throughout the duration of the Sukuk. These initial steps lay a foundation for ESX to play a key role in the development of ICM, with encouraging potential for its growth and expansion.

d) Central Securities Depository (CSD)

The Central Securities Depository of Ethiopia is a robust, automated platform that provides secure and efficient post-trade services. The CSD was created with the vision to support the growth and modernization of Ethiopia's capital market by providing a world-class automated post-trade infrastructure, increasing market security, efficiency, and accessibility.

The Capital Market Proclamation No. 1248-2021 gave the NBE the power to establish, own, operate and participate and regulate central securities depository for Government securities. The proclamation also, under special authorization, allowed ECMA to authorize NBE to provide securities depository and clearing services to private securities traded at the securities exchange.

Accordingly, ECMA will regulate and oversee activities related to non-government securities, while NBE will operate the CSD in line with agreed terms and conditions as per the Capital Market Proclamation.

Key Functions

The key functions of the CSD can be outlined as follow:

- Depository of Securities: ensure securities are registered, verified, and lodged at CSD in strict compliance with securities laws and relevant regulations.
- Corporate Actions: registering and authenticating alterations or amendments undertaken by the issuer on securities issued.
- Clearing and Settlement: administrates the clearance procedure to ascertain the respective sums which the custodian is mandated to either disburse or acquire, corresponding with every settlement agreement approved by the relevant custodian.
- Liquidity Guarantee Fund: The Fund operates with legal autonomy and financial independence, managed by the CSD Board of Directors and the CEO. Its objectives include covering cash deficits for trade settlement and addressing deficits in securities accounts for sale settlement.

Currently, the CSD appears to be primarily focused on processing government securities. However, as Ethiopia progresses towards developing its capital market and with the launch of ESX, the CSD is positioned to play a vital role in ensuring transparent and seamless securities settlement, registration, and custody services for private securities traded at ESX as well.

The ESX's electronic trading platform is already integrated with the modern CSD for post-trade settlement and clearing, supporting the issuance and trading of various financial instruments such as Equities, Treasury Bills and Bonds, Corporate Bonds, Commercial Papers, Repos, and Derivatives[59]. While ESX provides a platform for investors to trade securities, the CSD will be responsible for the critical role of clearing and settling those transactions, ensuring a smooth and secure process.

59 FSD Africa, Ethiopian Securities Exchange Launch Marks a New Dawn for Ethiopia, 2025

6.4. Legal and Regulatory Framework

An enabling legal and regulatory framework is crucial for the successful development of capital markets. It provides the legal grounds for ensuring market integrity, investor protection, and fair practices, while fostering confidence among market participants. A well-designed legal and regulatory framework helps establish clear requirements and guidelines for market operations, reduces risks associated with financial transactions, and encourages both domestic and international investments.

Ethiopia has achieved notable milestones and taken initial steps in establishing a supportive legal and regulatory framework for its nascent capital market, through the issuance of multiple proclamations, regulations, and directives aimed at fostering its development. However, the existing legal and regulatory frameworks contain gaps for ICM activities. and the list of observed gaps are elaborated in the Section 10.4 of this Report with further recommendations on achieving an enabling legal and regulatory infrastructure to bolster ICM growth.

The table below outlines the key proclamations, regulations, and directives relevant to the capital market:

Table 3. Key Proclamations, Regulations and Directives

Title	Brief Summary
Ethiopian Civil Code of 1960	The Ethiopian Civil Code is a cornerstone of the country's legal system, encompassing a broad spectrum of legal topics that form the foundation for various aspects of civil and commercial law. It addresses key areas such as property law, contract law, and administrative law, providing detailed procedures and consequences for a wide array of legal situations. By establishing clear guidelines, the Civil Code serves as a critical reference point for resolving disputes and ensuring compliance with legal norms. In particular, the Civil Code lays down foundational principles for several concepts that are directly relevant to ICM instruments. For instance, the Code elaborates on the concept of usufruct, which is central to certain Islamic financial structures, such as leasing-based (Ijarah) Sukuk. It also outlines comprehensive rules governing agency relationships, which are frequently used in Islamic finance to facilitate profit-sharing or investment management arrangements. Furthermore, the Civil Code details the obligations of parties in contracts, the assignment of rights, and other provisions that establish a robust legal framework for financial transactions. These provisions offer clarity on how ICM instruments, such as Sukuk and Islamic collective investment schemes might be treated under Ethiopian law. By defining the rights and obligations of parties involved in these transactions, the Civil Code ensures that both conventional and ICM instruments can operate within a well-defined legal environment.
Commercial Code of Ethiopia 2021	The code provides a comprehensive legal framework for business operations in Ethiopia, modernizing and replacing the previous 1960 code. It covers the formation, operation, and dissolution of business entities, corporate governance, and the regulation of commercial contracts. The code also addresses trade, insolvency, secured transactions, and the rights and obligations of business stakeholders. The updated Code legally recognizes holding companies and single-member companies. Additionally, it introduces several insolvency procedures, including preventive restructuring and simplified reorganization processes, alongside traditional bankruptcy. The Code also recognizes various contractual structures, such as general partnerships, which could serve as the basis for Islamic financial transactions based on partnership models like Musharaka and Mudarabah. These contracts are fundamental for the issuance of ICM products, such as Sukuk. The new Code includes provisions to protect minority shareholders by enhancing corporate transparency, disclosure, and rights, while imposing stricter responsibilities on corporate boards. These reforms are anticipated to facilitate a more efficient and accessible business environment in Ethiopia.

Title	Brief Summary
Proclamation No.1248 /2021 **Capital Market Proclamation**	This proclamation aims to establish a well-regulated capital market to support Ethiopia's national economy. It includes several key provisions designed to shape and govern the country's capital market activities. Firstly, it outlines the formation of ECMA, detailing its organizational structure, leadership, and administrative functions, and granting ECMA the authority to oversee and regulate Ethiopia's capital market with operational independence. The proclamation also provides a framework for the establishment of SROs, subject to the approval and oversight of ECMA. In addition, the proclamation facilitates the creation of the ESX, outlining the regulatory requirements for establishing securities exchanges in the country. It also covers the establishment and regulation of securities depositories and clearing companies, which are essential for the functioning of the capital market. The proclamation also covers the licensing of capital market service providers, outlining the process and requirements for granting licenses to entities operating within Ethiopia's capital market. To handle disputes and appeals related to the capital market, the proclamation establishes a Capital Market Tribunal. Furthermore, the proclamation regulates the public offering and trading of securities and sets out guidelines for establishing and operating Collective Investment Schemes. It also introduces a compensation fund to protect investors in the event of losses caused by the failure of a capital market service provider or securities exchange to meet its contractual obligations. Other provisions address issues like disclosure of interests, the acquisition and protection of minority interests, and prohibited trading practices, ensuring that the capital market operates transparently and fairly.
Federal Government of Ethiopia Financial Administration Proclamation No. 648/2009	This proclamation outlines the framework for the financial management of the Federal Government of Ethiopia. It establishes clear regulations for the preparation, collection, and disbursement of public funds, as well as the management of public debts and fiscal resources. The proclamation details the responsibilities of the Ministry of Finance and Economic Development, including overseeing public finance, preparing the national budget, and ensuring compliance with internal control and audit standards. It authorizes the Minister to borrow money, or issue guarantees or securities on behalf of the government, thus laying the potential legal foundation for the issuance of Sukuk by the government. The proclamation also includes the procedures for the collection and deposit of public money, establishing a consolidated fund for public money, and managing budget subsidies. The proclamation also defines processes for budget transfers, disbursements of public money, remissions, and write-offs, along with conditions for the management of public property, debts, and financial reporting.
Federal Government of Ethiopia Financial Administration (Amendment) Proclamation No.970 /2016	This Proclamation amends certain provision of Proclamation No.648/2009 to improve the efficiency and effectiveness of the public finance system. It introduces changes related to budget transfers, allowing the Minister of Finance to authorize budget reallocations between public bodies and various programs, sub-programs, and projects. It outlines provisions focusing on debt management, ensuring that debts owed to the government are effectively managed and converted into capital if necessary. It also promotes the use of electronic methods to enhance public financial management and includes provisions for administrative penalties for non-compliance with reporting and audit requirements.
Federal Income Tax Proclamation No. 979/2016	The proclamation outlines the income tax framework for Ethiopia. It covers various types of income, including employment, rental and business income. It also covers the tax treatment of other income sources such as royalties, dividends, and interest. The proclamation specifies tax rates for individuals and businesses, provides guidelines for deductions, and establishes reporting and compliance requirements. The law also sets forth the taxation of specific sectors, such as mining and petroleum, and includes provisions for tax avoidance, tax withholding and tax exemption.

Title	Brief Summary
Council of Ministers Federal Income Tax Regulation No.410/2017	This regulation, issued by the Council of Ministers, sets out the provisions for implementing income tax in Ethiopia, detailing the tax treatment of various income types, pursuant to Federal Income Tax Proclamation No.979/2016. It addresses, among other things, the taxation of employment income, including fringe benefits and foreign employment income. It also covers rental income taxation and the depreciation of rental assets. In relation to business income, the regulation outlines aspects such as asset depreciation, allowable deductions, and the taxation of foreign exchange gains and losses. Additionally, it includes specific provisions on the taxation of banks, insurance companies, and microenterprises. The regulation further outlines provisions regarding other income sources, income exemptions, and the taxation of asset disposal and acquisition.
Ethiopian Value Added Tax Proclamation No. 1341/2016.	This proclamation establishes a detailed framework for taxing goods and services, covering key definitions, tax calculations, exemptions, business registration requirements, and penalties for non-compliance. It addresses specific scenarios such as mixed supplies, forfeited deposits, and imports while outlining procedures for VAT documentation, returns, and refunds. In the context of capital markets, the proclamation exempts financial services, including facilitating loans, managing credit, handling securities transactions, and investment fund management from VAT. Although it does not explicitly address VAT refunds or exemptions for ICM instruments, the exemption of "Islamic banking arrangements" under the broad definition of financial services provides a legal basis for integrating these instruments into the existing VAT regime. This might facilitate paving the way for the inclusion of ICM products, aligning them with the broader exemptions granted to conventional financial services.
Stamp Duty Proclamation No. 110/1998	The proclamation establishes a comprehensive framework for stamp duty, defining the rates applicable to various categories of contracts and legal instruments, while also outlining the obligations of taxpayers in affixing and paying such duties. In the context of capital market activities, stamp duty applies to transactions involving the transfer of shares, issuance of debt instruments, and other related financial operations. Notably, bonds are subject to a stamp duty tax at a rate of 1% of their value. However, the proclamation includes certain exemptions, with government-issued securities appearing to be exempt from stamp duty.
Financial Administration Council of Ministers Regulation No. 190/2010	The regulation, issued by the Council of Ministers, outlines detailed provisions for the government budget, including the preparation, submission, and approval processes. It also addresses public disbursements as well as fees, and charges imposed by public bodies. It contains provisions on the collection and deposit of public funds, as well as the write-off of receivables, obligations, and claims. The regulation further provides guidelines on the financial relations between the federal and state levels of government.
Public Debt Management and Guarantee Issuance Directive No 46/2017	The directive, issued by Ministry of Finance, outlines the framework for managing Ethiopia's public debt and issuing guarantees for external loans. It sets the procedures for contracting both domestic and external debt, ensuring that debt levels remain sustainable in line with the country's economic policies. The directive includes guidelines for evaluating loan requests, ensuring proper utilization of borrowed funds, and managing the repayment process. It also establishes the Public Debt Advisory Committee, which coordinates the management of external debt and provides recommendations on debt strategy and negotiations.

Title	Brief Summary
Directive on Licensing, Operation, and Supervision of Securities Exchanges, Derivatives Exchanges, and the Over-The-Counter Market No.1009/2024	The directive was Issued by ECMA in 2024, and it applies to entities which seek to establish or operate a securities exchange, a derivatives exchange, or an over-the-counter market. It outlines the application procedures, as well as the renewal, suspension, and revocation of licenses. For entities aiming to establish a securities exchange, the directive sets specific criteria, including minimum capital requirements, proper governance structures, and the implementation of adequate trading infrastructure and risk management systems. It also establishes requirements for obtaining an OTC market license, which includes meeting minimum capital standards, having the necessary technological infrastructure such as a quotation system, and adhering to disclosure requirements.
Capital Market Service Providers Licensing and Supervision Directive Number 980/2024	The directive was issued by ECMA in January 2024. The directive is applicable to any person who is applying to obtain capital market service license. This includes securities brokers, dealers, digital sub brokers, investment banks, investment advisors, Shariah advisors, robo advisors, collective investment scheme operators, crowdfunding intermediaries, market makers, custodians, portfolio managers, credit rating agencies and security appraisal firms. The directive outlines the role of Securities Shariah Advisors, which includes providing guidance on ICM products, ensuring that all aspects of securities comply with relevant Shariah principles, confirming that Shariah rulings are endorsed by the appropriate bodies in Ethiopia, and applying ijtihad (independent legal reasoning). The directive also addresses the minimum capital requirements for capital market service provider, corporate governance, competency requirements and code of conduct.
Public Offering and Trading of Securities Directive Number 1030/2024	The directive, issued by ECMA in 2021, sets out regulations for the registration, offering, and trading of securities in Ethiopia. It defines the requirements for issuers to register securities and prepare prospectuses, as well as conditions for public offerings, including handling over-subscriptions and under-subscriptions. The directive mandates ongoing financial disclosure by issuers to ensure transparency. It also outlines the requirements for trading securities on licensed markets, including provisions for suspension and delisting. Additionally, it grants the ECMA the authority to enforce compliance and impose penalties for violations, aiming to promote a transparent and efficient securities market.
The Capital Market Authority's Fee Directive No. 996/2024	The directive outlines various fees to be paid to ECMA, including those for securities registration, license applications, and capital market transactions.
Directive on Recognition and Supervision of Self-Regulatory Organizations No. 1031/2024	This directive, issued by ECMA in 2024, specifies the criteria for Self-Regulatory Organizations (SROs) to gain recognition from the authority. It includes provisions on the general duties and responsibilities of SROs, emphasizing the governance structure and the fit and proper standards that must be met by these SROs and their personnel. Additionally, the directive outlines administrative measures, including penalties for any misconduct by SROs.

6.5. Market Players and Participants in the Capital Market

The capital market in Ethiopia is in its early stages of development, but there are encouraging signs of rapid progress. This early interest reflects the potential for future growth as the market develops. As ESX begins to list financial instruments, the expectation is for even greater interest from both local and international entities looking to participate in the capital markets.

This will lead to an increasing number of applications for various licenses, further expanding the scope of market activities. The establishment of a structured and transparent regulatory environment by ECMA is creating a foundation that will attract more investors, service providers, and businesses as the capital market ecosystem develops.

As of March 2025, nine capital market participants are registered with the ECMA, including six securities investment advisors, two investment banks, and one securities dealer.

The table below provides more information on licensed entities:

Table 4. Islamic Capital Market Participants

No.	Name of the Licensee	Type of License	Status	Ownership
1.	D and T Ethiopia Management Consulting plc	Investment advisor	Registered	International
2.	The I-Capital Institute plc	Investment advisor	Registered	Local
3.	Habtamu Echete	Investment advisor (Individual)	Registered	Local
4.	Ethio Capital Solutions plc	Investment advisor	Registered	Local
5.	Commercial Bank of Ethiopia	Investment bank	Registered	Local
6.	Ethio Fidelity SC	Securities dealer	Registered	Local
7.	Wegagen Capital Investment Bank S.C.	Investment bank	Registered	Local
8.	Equation Securities Investment Advisory PLC	Investment advisor	Registered	-
9.	HST Investment Advisory Services PLC	Investment advisor	Registered	-

7. ISLAMIC FINANCE IN ETHIOPIA





The origins of Islamic finance in Ethiopia date back more than a decade, initially emerging as a response to the financial needs of the country's sizable Muslim population. Ethiopian Muslims aspired to access financial services that aligned with their beliefs, prompting community representatives to approach government officials for support in creating an enabling environment for Islamic financial solutions in the country.

7.1. Evolution of Islamic Banking

Islamic finance in Ethiopia has been evolving, particularly since the establishment of a legal framework in 2008 that allowed for the creation of Islamic banking options. The pivotal moment for Islamic finance came with issuance of the "Business Banking Proclamation No. 592/2008", which enabled NBE to issue directives to regulate banking business related to Islamic deposit mobilisation and funds utilisation. This marked the first tangible step toward establishing Islamic finance in the country, allowing banks to offer Islamic banking products and services.

In 2011, the NBE issued Directive No. SBB/51/2011, in accordance with the Banking Business Proclamation, allowing conventional banks to establish Islamic windows for offering Islamic banking products and services. This led to the establishment of the first Islamic banking window by Oromia International Bank (OIB) in 2013, followed by the Commercial Bank of Ethiopia later the same year. Following these pioneering efforts, a number of other conventional banks in Ethiopia followed suit, establishing their own Islamic banking windows, capitalising on the growing demand for Islamic financial products.

In 2019, the landscape of Islamic banking in Ethiopia evolved with the issuance of "Banking (Amendment) Proclamation No. 1159/2019", which granted the NBE the authority to issue directives establishing additional conditions for licensing, supervision, and the establishment of full-fledged Islamic banks. Following this, the NBE issued Directive No. SBB/72/2019, detailing the regulatory requirements for setting up full-fledged Islamic banks in the country. Based on these developments, Zamzam Bank, the first full-fledged Islamic bank, was established in Ethiopia in 2019.

a) Overview of Islamic Banking sector

As of 2025, Ethiopia is home to 32 banks, including two state-owned banks and 30 private banks. Four of the 30 private banks are fully-fledged Islamic banks: Hijra Bank, Zamzam Bank, Shebele Bank, and Rammis Bank[60]. NBE's annual reports do not provide specific details on the Islamic windows operated by conventional banks.

However, research findings indicate that 18 conventional banks are currently offering Islamic banking services through dedicated windows[61].

The largest player in Ethiopia's Islamic banking sector is the CBE, with total assets held by its Islamic window, CBE Noor, amounting to ETB 94bn as of 2023. While the exact total assets of the entire Islamic banking sector are not clearly documented, it is estimated that CBE Noor controls approximately 65% of the Islamic banking market.

This dominance is understandable, given that CBE was one of the first banks to establish an Islamic window and is the largest bank in the country, holding around 47.9% of the total banking assets in the market[61]. With its extensive resources and impressive outreach, operating 1,937 branches across the country, CBE was and remains to be well-positioned to rapidly expand and develop its Islamic banking services in comparison to other banks.

The Cooperative Bank of Oromia is another key player in the market, with approximately ETB 16bn in total assets held by its Islamic banking window, positioning the bank among the top players in the sector. Other notable institutions with Islamic banking windows include Dashen Bank and Oromia Bank.

The table below presents the total assets of full-fledged Islamic banks and notable Islamic windows for which asset data is available in their annual reports[63].

Table 5. Major Islamic Banking Providers

Name of Bank	Total Assets (ETB in Million)	Type	Indicative Market Share
Commercial Bank of Ethiopia (CBE Noor)	94,374	Islamic Window	63%
Cooperative Bank of Oromia	16,189	Islamic Window	11%
Zamzam Bank	9,378	Full-Fledged Islamic Bank	6%
Dashen Bank	8,383	Islamic Window	6%
Hijra Bank	8,183	Full-Fledged Islamic Bank	5%
Oromia Bank	5,150	Islamic Window	3%
Shabelle Bank	3,760	Full-Fledged Islamic Bank	3%
Ramis Bank S.C	2,320	Full-Fledged Islamic Bank	2%
Wegagen Bank	1,998	Islamic Window	1%

As shown in the table above, among the full-fledged Islamic banks in Ethiopia, Zamzam Bank leads with total assets of ETB 9.3bn as of 2024. It is followed by Hijra Bank with ETB 8.1bn, Shabelle Bank at ETB 3.7bn, and Rammis Bank with ETB 2.3bn. The relatively modest size of these banks' assets can largely be attributed to their recent establishment. Zamzam Bank, established in 2019, is the oldest of the group, while the other three, Hijra, Shabelle, and Rammis started operations in 2022.

60 National Bank of Ethiopia Bulletin, 2023-2024
61 Please refer to the Appendix for the list of Islamic Banking Providers.
62 National Bank of Ethiopia, Stability Report, 2024
63 Other Islamic windows are not included due to a lack of available information. The figures for full-fledged Islamic banks reflect data from 2024, while the figures for Islamic banking windows are based on 2023 data. This is because the 2024 annual reports, which would provide the most up-to-date information on the assets of these windows, have not yet been released. As a result, the data for conventional banks' Islamic windows is sourced from their 2023 annual reports. For the purposes of this project, relevant data has been requested from NBE, but no response received.

a) Challenges Faced by Islamic Banking

The Islamic banking sector faces several key obstacles that, if addressed, could unlock its full potential in the country. During the fact-finding mission and through engagements with various stakeholders, including representatives from the banking sector, several challenges were brought to attention.

While the scope of this Roadmap primarily focuses on the development of the ICM, understanding the key challenges experienced by Islamic banking in Ethiopia is crucial to learn lessons and ensure that these issues are not replicated in the ICM sector, as they could impede its growth and development.

Some of the most prominent challenges include:

- **Lack of Adequate and Effective Legal and Regulatory Frameworks:** the absence of any revisions to key legislation pieces, such as the Civil Code and Commercial Code[64], alongside the absence of adequate and effective regulatory and supervisory frameworks, poses significant challenges for Islamic banking in Ethiopia. Without adequate legal and regulatory provisions tailored to Islamic finance, these banks face operational hurdles and liquidity constraints, operating under an uneven playing field between conventional and Islamic banks.
- For example, Islamic banks, due to the distinct principles and contracts used to structure their products, may be exposed to a unique set of risks that conventional banks do not face. If the regulatory framework fails to address the specific risk management requirements for Islamic banks, it could leave them vulnerable to financial instability or hinder their ability to expand operations. Another example of regulatory challenges is the absence of detailed requirements on Shariah governance framework. Without clear guidelines, inconsistencies in market practices may arise, leading to reputational risks and undermining customer confidence in Islamic banking.
- **Liquidity Management Challenges:** Islamic banks in Ethiopia face significant liquidity challenges due to the absence of Shariah compliant central liquidity management instruments, limiting their ability to manage cashflow effectively. They are also not yet integrated into the newly established interbank system, though NBE is working on to address this.
- **Taxation Issues:** Ethiopia's tax legislation have not been amended to accommodate the unique structure of Islamic financial products[65]. Tax neutrality is important to ensure that Islamic banking providers and products have the same taxation treatment as their conventional counterparts.
- **Limited Product Offerings:** Islamic banking providers in Ethiopia rely on a limited number of structures, primarily Wadia for non-remunerating accounts, Mudaraba for saving deposits, and Murabaha for financing, limiting their ability to serve diverse customer needs. This lack of product innovation appears to be driven by skill gaps, regulatory constraints, and tax-related challenges, hindering the sector's potential growth.
- **Shortage of Expertise:** The shortage of skilled professionals in Islamic finance limits product innovation and the effective operation of Islamic banking providers. There is a critical need for capacity building across all stakeholders, including regulators, bankers, and market participants, to support the Islamic finance sector's sustainable growth. Interestingly, when representatives from over 20 banks were asked during stakeholders' consultations about their involvement with international advisers for structuring Islamic banking products, none confirmed any engagement. Instead, most, if not all, Islamic banking providers mainly relied on replicating the Islamic products initially introduced by CBE at the inception of Islamic finance in the country back in 2013.

64 The Civil Code and Commercial Code of Ethiopia may need to be amended to introduce necessary provisions applicable to Islamic finance
65 More details on taxation are provided under section (9) in this Roadmap.

7.2. Islamic Microfinance

Recognizing the need to boost financial inclusion and extend microfinance services to farmers and others engaged in small-scale production and service activities, Ethiopia introduced its first microfinance legislation in 1996 to facilitate access to financial services for underserved populations.

Proclamation No. 40/1996 provided the legal framework for the establishment of microfinance institutions (MFIs) in the country. It played a pivotal role in shaping the microfinance sector over the following decade, contributing to the development of financial inclusion across Ethiopia. By 2023, the sector had grown to include 47 active MFIs[66], reflecting its continued expansion and impact.

Islamic microfinance in Ethiopia began over a decade ago, with some microfinance institutions starting to offer Islamic financial services. One of the first Islamic microfinance institutions was Somali Microfinance Institution (SMFI), established in 2011. SMFI initially provided small-scale financing to clients, primarily in rural areas of Ethiopia's eastern Somali region, using the Murabaha contract as its main financing method. In 2022, SMFI transform itself into a full-fledged Islamic bank after obtaining the license from NBE, and currently operating under the name Shabelle Bank.

There is no clear data on the number of Islamic microfinance institutions operating in Ethiopia, as the NBE's reports on MFIs do not distinguish between Islamic and conventional MFIs. However, research indicates that at least two fully-fledged Islamic MFIs are operating[67], along with a number of other MFIs that have established Islamic windows[68].

Recognizing the potential role of Islamic microfinance in enhancing financial inclusion and providing access to Ethiopia's Muslim population, the NBE issued a Directive No. MFI/32/2021, which outlines the licensing and authorisation process for Islamic microfinance businesses.

The directive sets the regulatory requirements for establishing full-fledged Islamic MFIs or Islamic windows within conventional MFIs. Key provisions of the directive include the requirement for the board of directors to ensure Shariah oversight and the mandate for MFIs operating an Islamic window to segregate the accounts of the window from those of the parent institution.

7.3. Takaful

The Takaful market in Ethiopia emerged later than Islamic banking, and as a result, remains less developed in comparison. The establishment of Takaful in Ethiopia began with the issuance of Proclamation No. 1163/2019, which provided the legal foundation for the creation of Takaful products. This proclamation granted NBE the authority to issue directives establishing additional conditions for the licensing and supervision of Takaful operations.

Following the proclamation, NBE issued Directive No. STB/1/2020, which outlined the requirements for licensing Takaful operators or authorizing Takaful windows. This directive specified the need for a Shariah Advisory Council for each Takaful operator or window to ensure compliance with Shariah principles. It also outlined key operational requirements, such as the distribution of surplus, the surrender of certificates, and strict disclosure and transparency standards.

Currently, there appear to be several insurance companies operating Takaful windows in Ethiopia, with at least four out of the 18 existing insurance companies offering Takaful products. General Takaful products seem to be the most offered by these operators[69].

7.4. Islamic Capital Market

At present, there is no activity in the ICM in Ethiopia, as the overall capital market is still in its early stages of development and a dedicated ICM framework has yet to be established.

66 National Bank of Ethiopia, Annual Report 2022-2023

67 MFIs which appear to be offering only Islamic microfinance services include Amal Microfinance & Rays Microfinance.

68 Other MFIs that appear to offer both Islamic windows include Harar Microfinance & Dire Microfinance.

69 It appears that there is a lack of publicly available data on Takaful operations and products in Ethiopia

8. POTENTIAL FOR ISLAMIC CAPITAL MARKET PRODUCTS IN ETHIOPIA



This section analyzes the key factors which could potentially drive the supply and demand for ICM products in Ethiopia and identifies the relevant market participants. Additionally, there is an exploration of the potential issuers and suppliers of ICM products, such as Sukuk and Shariah compliant stocks, and an assessment of their role in shaping the nascent ICM.

8.1. Potential Supply of Islamic Capital Market Products

The ECMA's 2024-2026 strategy emphasizes the development of equity and bond markets as key priorities for market growth, a point that was reinforced during engagements with various ECMA teams. Shariah compliant stocks and Sukuk represent promising instruments for the development of Ethiopia's ICM. While stocks are expected to dominate in the initial phase, the potential for Sukuk issuance provides an exciting opportunity for expanding the breadth and depth of ICM.

Building on this foundation, the analysis of the potential supply of ICM products is centered around two key areas: Shariah compliant stocks and Sukuk.

a) Shariah Compliant Stocks

Prior to the establishment of ECMA, companies offering shares to the public were required to register with the Ministry of Trade. During this period, regulatory oversight on investor disclosures was relatively weak. This landscape is now shifting with the establishment of ECMA, whose mandate under the Capital Market Proclamation includes setting requirements for the offering and trading of securities.

In line with this, ECMA recently issued the Public Offering and Trading of Securities Directive No. 1030/2024, requiring all share companies to register with the Authority. A one-year compliance period has been granted for existing share issuers, while all future share companies will be required to register with ECMA from the outset.

Building on these recent efforts and initiatives, a key strategy to foster the development of Ethiopia's ICM is the establishment of a framework for determining the Shariah compliance status of listed and unlisted share companies. This would involve developing a structured screening methodology to assess companies based on their core business activities and financial practices, ensuring alignment with Shariah principles.

Establishing this classification framework would significantly expand the supply of Shariah compliant capital market products. Companies that meet the criteria would gain access to a broader investor base, including individuals and institutions seeking Islamic investment opportunities[70].

Potential Supply of Shariah Compliant Stocks in Ethiopia

Unlisted Share Companies

Since ECMA's registration requirements for share companies were only recently introduced, only a limited number of companies are in the process of registering with ECMA. Currently, two companies are officially registered, including Ethio Telecom and Wegagen Bank, while Gadaa Bank is in the process of registration.

Based on consultations with stakeholders during the fact-finding mission, it is estimated that there may be over 3,000 share companies in Ethiopia. Of these, several hundred may potentially register with ECMA in the medium term. However, uncertainties remain regarding both the exact number of companies and the industries they operate in. Due to these uncertainties, accurately assessing the potential supply of Shariah compliant stocks remains challenging at the present time.

However, according to the data obtained from ECMA, an estimated 30 banks, 18 insurance companies, and approximately 53 microfinance institutions are expected to register within the next two to five years. Based on this, all Ethiopian banks will eventually be registered with ECMA, including the four full-fledged Islamic banks, which are naturally eligible to be classified as Shariah compliant. Conventional banks, whose core operations do not align with Shariah principles, would definitely not qualify for Shariah compliant designation.

The same logic applies to microfinance institutions—only those operating as fully-fledged Islamic microfinance providers would be eligible for Shariah compliant status. As for the public companies, their eligibility will depend on both their core activities and financial practices. If their core business operations do not contradict Shariah principles, the primary challenge will be whether their financial activities, such as interest-bearing debts and investments, exceed the permissible thresholds outlined in the Shariah screening criteria. If they meet the required financial conditions, there is potential for these companies to be designated as Shariah compliant.

70 Section 10.3 (C) outlines the recommendation for the initiative on screening and classifying share companies.

While the exact number of potential unlisted Shariah compliant share companies remains uncertain, the anticipated company registrations indicate that Ethiopia's ICM is poised for gradual growth. Initially, the market will be supported by a foundational base of Islamic banks and a few public companies, and as several hundred share companies are expected to register with ECMA in the medium term, the supply of Shariah compliant stocks is likely to expand, driving further growth in the market.

Listed Share Companies

With the recent establishment of ESX, share companies that meet the listing criteria will have the opportunity to list their shares on the exchange. Currently, only Wegagen Bank is listed.

While the timeframe for having a substantial number of companies listed on the ESX may be relatively long, implementing the classification framework and designating listed companies as Shariah compliant will gradually increase the supply of ICM products. As more companies are listed and classified by ESX, it will expand the availability of ICM products and promote the development of the market.

b) Sukuk

The development of Sukuk markets has historically relied on government-led issuances to establish credibility, set benchmark yields, and demonstrate the adequacy of the legal and regulatory framework. Thus, sovereign Sukuk issuances serve as a foundation for private sector participation in the Sukuk market, assuring corporate entities that the necessary market infrastructure exists for Sukuk issuance. While corporate Sukuk have led the way in a few exceptions, such as Kazakhstan, government issuances have typically played a catalytic role in most jurisdictions.

Potential Government Sukuk Issuances

Currently, the Government of Ethiopia relies on various debt instruments and mechanisms to cover budgetary gaps and financing needs. These include Treasury bills, government bonds, Treasury Notes, and direct advances from the NBE. According to the Ministry of Finance, as of June 2024, the stock of Treasury bills, long-term government bonds, direct advances, and five-year Treasury bonds accounted for approximately 19.88%, 31.85%, 10.74%, and 4.17%, respectively, of the total domestic debt.

This indicates that while these instruments play a significant role in the government's debt management, Sukuk could also be considered as a viable additional tool to diversify funding sources and attract both domestic and international investors.

During consultations with NBE, it was indicated that the Bank is interested in exploring the issuance of Sukuk and Islamic treasury bills. As the primary government entity responsible for issuing government securities, NBE plays a crucial role in financing fiscal needs and managing liquidity.

The issuance of government Sukuk would be a significant milestone, potentially paving the way for future Sukuk issuances by the corporate sector. Sukuk would help diversify the government's funding sources and attract both domestic and foreign investors, particularly those seeking Shariah compliant assets.

Moreover, government Sukuk issuance would address a key challenge faced by Islamic banks in Ethiopia. By providing a Shariah compliant investment option, Sukuk would enable Islamic banks to invest their funds in line with Islamic principles, thereby improving their liquidity management.

Potential Development Bank of Ethiopia Sukuk Issuance

Another promising avenue for quasi-government[71] Sukuk issuance is through the Development Bank of Ethiopia (DBE). As a state-owned financial institution, DBE plays a critical role in financing Ethiopia's national development agenda, particularly in priority sectors such as agriculture, manufacturing, and infrastructure development. Historically, the bank has relied on bonds to fund large-scale projects, including the Grand Ethiopian Renaissance Dam (GERD) Bond.

Recognizing the growing demand for Shariah compliant financing, DBE has recently established DBE Ta'awun, its Islamic banking window. DBE Ta'awun aims to leverage the establishment of an organized capital market to raise funds through Sukuk issuance.

Given DBE's focus on financing large-scale infrastructure projects, Sukuk presents an ideal financial vehicle due to its asset-backed structure, making it particularly suitable for financing tangible development projects. Through this initiative, DBE could make a significant contribution to the development of ICM in the country.

71 In the context of Ethiopia, it can be labelled as quasi-government bond if a debt instrument is issued by the SOEs and guaranteed by the federal government

Potential Corporate Sukuk Issuances

There are several promising opportunities for corporate Sukuk issuance, with full-fledged Islamic banks and Islamic banking windows standing out as the most likely issuers. These banks can leverage Shariah compliant debt instruments to raise capital, supporting their expansion and strengthening their financial position.

As highlighted earlier, the rapid growth of Islamic banking underscores the necessity of alternative funding mechanisms like Sukuk to fuel their continued development.

Unlike other corporate entities, Islamic banking providers possess in-house expertise and dedicated Shariah boards, streamlining the structuring and approval process for Sukuk issuance. Given their immediate need for Shariah compliant funding solutions and their internal capacity to facilitate such issuances, Islamic banking providers are expected to be among the first to tap into the Sukuk market.

Islamic microfinance institutions, though fewer in number, also have potential to issue Sukuk to secure additional funding for their operations. As these institutions expand their outreach and service offerings, Sukuk could provide a viable mechanism for raising capital in a Shariah compliant manner.

Beyond financial institutions, other private companies, particularly those in capital-intensive industries such as manufacturing, agriculture, and real estate, may also consider Sukuk issuance to diversify their funding sources.

Potential Ethiopian Investment Holding Sukuk Issuances

Ethiopian Investment Holding (EIH) serves as the Ethiopian government's strategic investment arm, established to modernize the management of state-owned enterprises (SOEs) by promoting active ownership, professionalism, and best governance practices. Its mandate includes attracting investment to enhance economic productivity and foster sustainable growth.

EIH encompasses close to forty SOEs and holds flagship enterprises such as Ethiopian Airlines and Ethio Telecom in its portfolio. It oversees the majority of Ethiopia's major SOEs, positioning them as key potential issuers of Sukuk. Given that Regulation No. 487/2022, issued by the Council of Ministers, authorizes EIH to raise funds through the issuance of bonds and other financial instruments, EIH is well positioned to issue Sukuk and integrate it as a mainstream financing mechanism within its debt policy.

In fact, Sukuk issuance by EIH seems very viable, as EIH representatives during consultations expressed their openness to exploring Sukuk as a financing tool. This reflects an initial interest in the potential utilization of Shariah compliant financing mechanisms that could attract both domestic and international investors.

Issuing Sukuk would open new opportunities for EIH, diversify its funding sources, and strengthen Ethiopia's capital market by attracting investments.

Potential State-Owned Enterprises Sukuk Issuances

In Ethiopia, large state-owned enterprises (SOEs) appear to rely heavily on debt to finance their operations and execute large-scale infrastructure projects. Their debt is mainly composed of bonds and loans from the Commercial Bank of Ethiopia and the Development Bank of Ethiopia. As of 2023, SOEs hold 37.5% of the total domestic debt in Ethiopia, with approximately 30% of their funding coming from bond issuances. Considering this, SOEs are well-positioned to leverage Sukuk as an alternative financing option, which would help support their operational expansion and infrastructure projects.

For instance, Ethiopian Airlines has previously issued bonds to finance the purchase of several aircraft. More recently, the airline opted for a direct loan to fund the acquisition of new aircraft. As one of Ethiopia's most successful companies, Ethiopian Airlines is well-positioned to tap into the Sukuk market, potentially attracting both local and global investors. Sukuk is a well-established tool in the airline industry, with global carriers such as Emirates Airlines, Malaysia Airlines, and Etihad Airways successfully using Sukuk to raise capital.

Summary of ICM Supply Potential

In brief, the potential supply of ICM products is expected to begin with Shariah compliant stocks, as introducing a framework for identifying Shariah compliant share companies is relatively straightforward. As more share companies register with ECMA and get listed on the ESX, the supply of Shariah compliant stocks is anticipated to grow gradually.

For Sukuk, the supply is expected to start with sovereign or quasi-sovereign institutions like DBE and EIH. DBE, being involved in large-scale infrastructure projects, is an ideal candidate for Sukuk issuance, while EIH, controlling the majority of state-owned enterprises, is well-positioned to utilize Sukuk as a funding instrument to finance these enterprises.

8.2. Potential Demand for Islamic Capital Market Products

The potential demand for ICM products in Ethiopia is driven by several key factors, which are explored here. These include the large and growing Muslim population, as well as the remarkable growth of Islamic banking. The analysis also highlights the role that government stakeholders, such as pension funds and EIH, can play in driving demand for ICM products.

a) Demographics as Key Driver for Demand

Large and Growing Muslim Population

One of the primary drivers of demand for ICM products in Ethiopia is its large and expanding Muslim population. According to the latest national census conducted by the Population Census Commission in 2007, Muslims constitute approximately 34% of Ethiopia's total population, making them the second-largest religious group after Orthodox Christians. At the time of the census, this accounted for around 25 million people. However, given Ethiopia's population growth trends, the Muslim population has undoubtedly increased since then and is estimated to be around 40 million today.

The significant size of the Muslim community and its preference for financial solutions that are in line with their Islamic beliefs creates a strong market for Islamic financial products, including ICM products such Sukuk, Islamic investment funds, and Shariah compliant equities.

The rising demand for Halal products in Ethiopia further reinforces the idea that many Muslims actively seek products and services that align with their religious beliefs, whether in financial matters or other aspects of daily life[72]. This trend suggests that, if provided with appropriate opportunities, Ethiopian Muslims would similarly embrace Islamic investment products, offering them a Shariah compliant means to grow and manage their wealth.

If Ethiopian Muslims were provided with ICM products, such as Shariah compliant investment funds or retail Sukuk, it is deemed highly likely that they would actively participate. Currently, many Muslims avoid conventional finance due to concerns over interest and non-compliant financial practices. By offering Islamic investment alternatives, Ethiopia could unlock a vast pool of untapped investment potential, benefiting both the capital markets and the broader economy.

Business-Oriented and Entrepreneurial Muslim Community

Feedback from stakeholder consultations during the fact-finding mission highlighted that Ethiopia's Muslim community is highly business-oriented and entrepreneurial. Given this strong entrepreneurial culture, if the Ethiopian capital market provides Islamic investment and financing solutions, Muslims would actively participate as both investors and fundraisers. Muslim business owners would be inclined to raise capital using ICM instruments like Sukuk, while individual investors would channel their funds into Islamic investment funds or retail Sukuk offerings.

The introduction of a well-structured ICM could encourage more businesses to formalize their operations, as access to Shariah compliant financing would provide them with greater financial stability and expansion opportunities. This, in turn, would contribute to broader economic development by integrating a previously underserved segment into the formal financial system.

Non-Muslim Participation in Islamic Finance

While Islamic finance is faith-based, it is not faith-exclusive. During the fact-finding mission and consultations with stakeholders, it was indicated that non-Muslims in Ethiopia also engage with Islamic banking services. This could be driven by several factors, including the appeal of Islamic banking to individuals seeking ethical financial practices and greater transparency in transactions. This is not unique to Ethiopia; in many Muslim-minority countries, Islamic finance has gained widespread adoption due to its ethical investment principles, transparency, and risk-sharing mechanisms.

For example, in the United Kingdom, where Muslims make up only a small fraction of the population, Islamic banking has seen significant participation from non-Muslims. Many ethically conscious individuals may be drawn to Islamic finance as it aligns with their values, such as avoiding speculation, and view it as a socially responsible alternative. Islamic finance often prioritizes investments in sectors that promote real economic growth and community development, making it an attractive option for those seeking ethical and sustainable financial solutions.

72 Ethiopian Business Review, Proliferation of Halal Business in Ethiopia, 2024

The demographic trends in Ethiopia point to a strong demand for ICM products. With a large and growing Muslim population, increasing Halal market demand, and a business-savvy entrepreneurial culture, there is a clear market for Shariah compliant investment solutions. Additionally, non-Muslim investors have also shown interest in Islamic finance, further expanding the potential investor base. If Ethiopia develops ICM products, there is a high likelihood of strong participation from both investors and issuers, making Islamic finance a key driver of capital market growth in the country.

b) Islamic Banking Growth

The growth of Islamic banking in Ethiopia has gained significant momentum since its introduction, beginning with the establishment of Islamic banking windows in 2013. Since then, it appears that the majority of conventional banks in the country have recognized the potential of Islamic banking and have ventured into the sector by launching dedicated windows. Today, the sector has expanded to include four full-fledged Islamic banks and approximately 19 Islamic windows. This widespread adoption serves as clear evidence of the sector's rapid expansion and growing acceptance within Ethiopia's financial landscape.

The latest data highlights the growing importance of the Islamic banking sector within Ethiopia's overall banking system. As of December 2024, Islamic banking providers control 10% of the total deposits in the banking system. Out of the 162.7 million deposit accounts in Ethiopia, 24.7 million are Islamic deposit accounts, representing 15% of the total deposit accounts in the banking system. In addition, 8% of the total outstanding credit in the banking sector is held by Islamic banking providers[73].

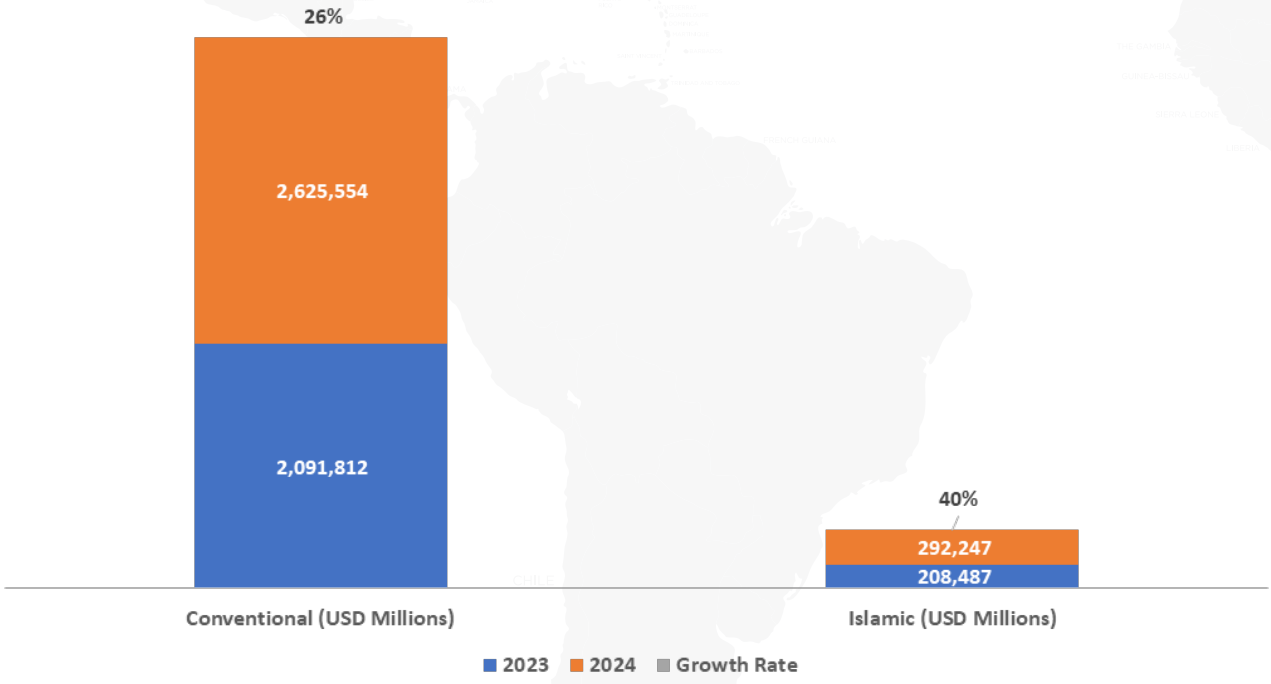
To assess the growth of Islamic banking compared to conventional banks, three key indicators are examined for the period between December 2023 and December 2024: growth in total deposits, growth in the number of deposits, and growth in outstanding loans/financing.

Growth in Total Deposits and Number of Deposits

The data reveals that Islamic banking is growing at a faster rate than conventional banking in terms of total deposits. Aggregate Islamic deposit value has grown by 40% in comparison to 26% for conventional banking deposit value. This growth in total deposits reflects rising market interest in Shariah compliant banking products.

Additionally, the total number of Islamic deposits accounts in the banking system grew by 24%, from nearly 20 million deposit accounts in 2023 to 24.7 million accounts in 2024. In comparison, number of conventional deposit accounts grew by 12% in the same period.

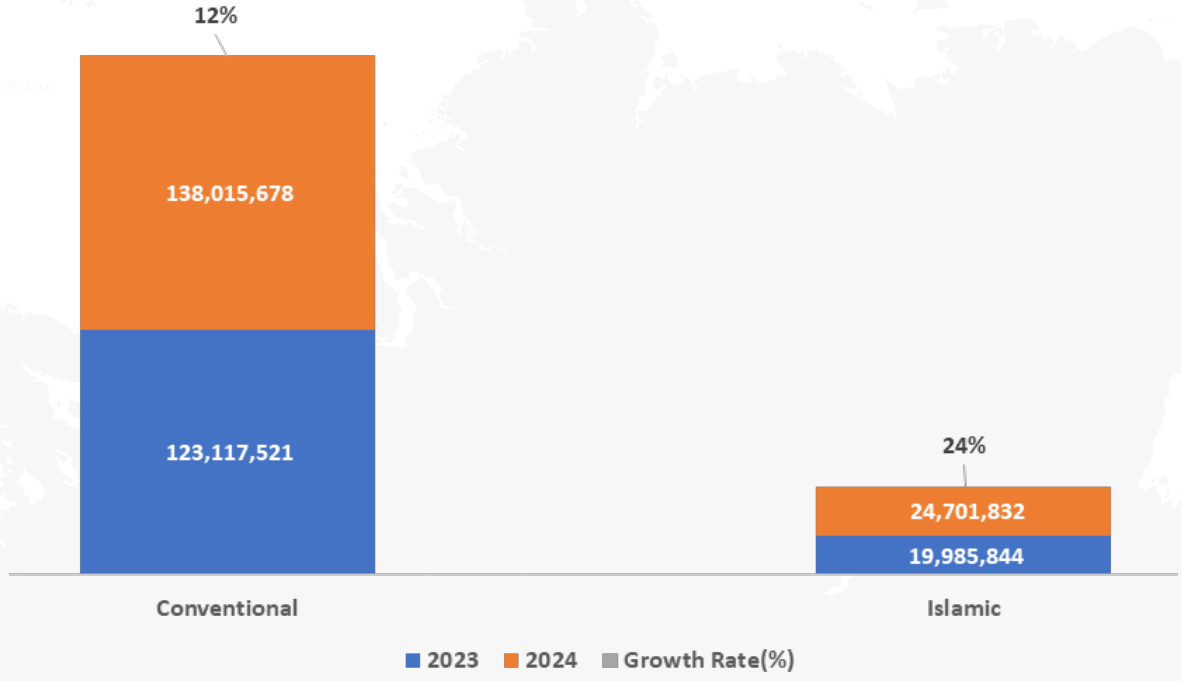
Figure 6. Growth in Total Deposits 2023-24



Source: NBE Statistics

73 National Bank of Ethiopia Statistics, 2024.

Figure 7. Growth in Number of Deposits 2023-24

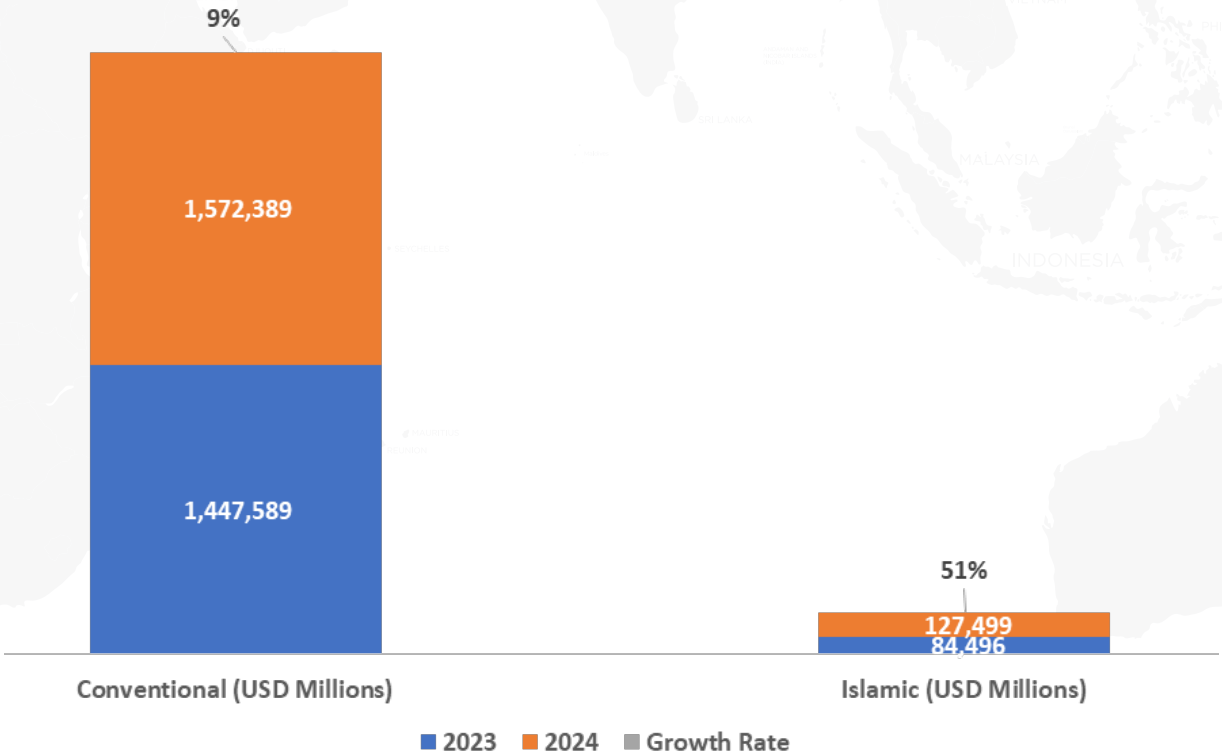


Source: NBE Statistics

Growth in Outstanding Loans/Financing

Islamic banking providers also experienced a substantial growth in outstanding financing. The aggregate value of total outstanding financing belonging to Islamic banking providers experienced a growth of 51%. In comparison, the aggregate value of outstanding credit of conventional banks grew only by 9%. This significant growth in financing, in comparison to conventional bank, underscores the growing demand for Shariah compliant financing solutions, highlighting the expanding role of Islamic banks in financing economic activities.

Figure 8. Growth in Outstanding Loans/Financing 2023-24



Source: NBE Statistics

Islamic Banking Growth as a Catalyst for Islamic Capital Market Development

The rapid expansion of Islamic banking in Ethiopia highlights two key factors that signal strong potential for the ICM.

Firstly, the high demand for Shariah compliant financial services indicates a natural appetite for ICM products. As demonstrated by the exceptional growth rates in the Islamic banking sector, it is highly likely that retail Sukuk, Shariah compliant stocks, and eventually Islamic investment funds will attract similar levels of demand once introduced.

Secondly, the fast-paced growth of Islamic banks underscores their urgent need for Shariah compliant liquidity management tools, such as Sukuk. Examining the 2024 financing-to-deposit ratios of two leading Islamic banks, Zamzam Bank at 66% and Hijra Bank at 54%, reveals the huge potential of idle funds and a long way to go to efficiently utilize them.

More notably, CBE Noor, the largest Islamic banking provider in Ethiopia, has a financing-to-deposit ratio of just 20%. Given its scale and market dominance, CBE Noor's limited financing activity highlights, among other things, the pressing need for ICM instruments.

This shortfall positions Islamic banks and banking windows as the primary early adopters of ICM products, playing a pivotal role in fueling the sector's initial expansion.

c) Offering of Potential Islamic Pension Funds

Another significant factor that could drive demand for ICM products is the introduction of Islamic pension fund schemes. There are two major pension funds operating in Ethiopia: the Public Servants' Social Security Agency (PSSSA) and the Private Organizations Employees' Social Security Agency (POESSA). While one caters to public sector employees and the other to private sector employees, both are supervised by the NBE and operate under conventional frameworks. These pension funds primarily invest their contributions in low risk instruments such Treasury notes[74].

At present, these pension funds do not offer Islamic pension schemes, meaning that Muslim contributors are required to participate in a system that may not align with their religious beliefs. Given that Islamic finance prohibits interest-based earnings and mandates Shariah compliant investment practices, the absence of an Islamic pension scheme creates a challenge for observant Muslims seeking retirement savings options that are Shariah compliant.

The development of Islamic pension schemes is closely tied to the growth of ICMs. As these pension schemes accumulate assets, they can invest in Shariah compliant financial instruments, such as Sukuk, thereby creating a steady demand for ICM products. This demand will directly contribute to the expansion of the ICM, providing a solid foundation for the issuance and trading of Islamic securities in Ethiopia. Over time, the growing pool of funds from Islamic pension schemes will play a critical role in expanding market depth, facilitating the creation of more innovative Islamic financial products.

Experience of Malaysia in Developing Islamic Pension Fund

Malaysia's Islamic pension system integrates Shariah principles into state-managed retirement funds, exemplified by the Employees Provident Fund (EPF)[75], which strategically allocates public pension assets to instruments like Sukuk. This approach ensures ethical management of retirement savings in alignment with Shariah principles, generating sustainable income for beneficiaries while bolstering liquidity and depth in the ICM.

A cornerstone of this system is the Simpanan Shariah scheme, a dedicated Shariah-compliant savings option designed to avoid non-permissible activities such as interest, gambling, and excessive uncertainty. Governed by a robust Shariah governance framework overseen by EPF's Shariah Advisory Committee, the scheme prioritizes ethical investments and caters primarily to Muslim members, though it remains accessible to non-Muslims seeking ethical financial alternatives.

Simpanan Shariah mirrors the structure and risk profile of conventional pension options but adheres strictly to Shariah standards through mechanisms like a Wakalah-based contractual agreement and irreversible account conversion. Managed via two sub-accounts, the scheme permits withdrawals under specific conditions, such as retirement, medical emergencies, or housing needs, while ensuring funds remain compliant throughout their lifecycle.

74 Ministry of Finance, Public Sector Debt Portfolio Analysis, 2023/2024.
75 Employees Provident Fund, 2023

Experience of Nigeria in Developing Islamic Pension Fund

Nigeria's Islamic finance landscape has taken a leap forward with the issuance of new regulatory framework by the National Pension Commission (PENCOM) in early 2019. The introduction of these detailed operational framework for the Non-Interest Fund (Fund VI)[76] outlines comprehensive rules for Islamic pension fund activities and enables the licensed pension fund administrators to offer Shariah compliant retirement savings options in Nigeria provided Shariah compliant saving opportunities for beneficiaries.

According to these rules, the contributors can opt to have their pension assets managed through a segregated Fund VI that invests exclusively in permissible instruments, such as Sukuk, while avoiding prohibited sectors like alcohol, gambling, and speculative transactions. This framework reflects a strategic shift toward ethical finance, allowing both active employees and retirees to align their retirement savings with Shariah principles. The initiative underscores the role of targeted regulatory reforms in fostering market inclusivity and driving demand for Shariah compliant financial products.

Further strengthening this ecosystem, Fund VI operates under a multi-fund structure, permitting fee-free transfers from conventional pension accounts while adhering to Shariah standards. Shariah governance is reinforced by National Pension Commission (PENCOM)'s Pension Industry Non-Interest Advisory Committee (PINAC) tasked with approving Shariah compliance frameworks, promoting financial literacy, and ensuring alignment with global best practices. By integrating rigorous investment guidelines, public education, and oversight mechanisms, the system enhances transparency, broadens financial inclusion, and catalyses innovation in Nigeria's ICMs

d) EIH Role in Developing ICM

Ethiopian Investment Holdings (EIH) is one of Africa's largest sovereign wealth funds, managing over $150 billion in assets[77]. Given its significant financial stature, EIH is strategically positioned to play a pivotal role in fostering the development of Ethiopia's capital market, including the ICM. As noted earlier, during consultations with EIH, it was highlighted that the organization is receptive to both participating in Sukuk issuance and investing in Sukuk.

EIH's substantial investment capacity could attract other institutional investors, thus generating greater demand for ICM products. The participation of a leading national entity such as EIH would signal the credibility and potential of the ICM, encouraging more players in Ethiopia's financial ecosystem to explore Shariah compliant investment opportunities. Furthermore, EIH's involvement in the ICM would likely help to diversify Ethiopia's capital market, making it more inclusive.

Summary of ICM Demand Potential

In summary, the potential demand for ICM products will be driven by several key factors. The growing Muslim population, seeking Shariah compliant financial solutions, will be a primary driver of this demand. The exceptional growth of the Islamic banking sector indicates a high likelihood that ICM products will also be in demand. Islamic banks are expected to be the first to tap into the ICM market, as they seek avenues to invest and raise funds in a Shariah compliant manner.

Prominent market players, such as EIH, with its substantial investment capacity, are well positioned to drive demand for ICM products, particularly given that EIH expressed interest in Sukuk investments. The pension funds in Ethiopia, if they start to offer Islamic pension schemes, could generate substantial demand for ICM products, as contributions to these schemes would need to be invested in Shariah compliant assets, primarily ICM products like Sukuk.

76 National Pension Commission, Operational Framework for Non-Interest Fund, 2021
77 International Forum of Sovereign Wealth Funds, 2025

9. BENCHMARKING



ICMs are experiencing significant growth globally, with several jurisdictions emerging as leaders in product innovation and best practices. Countries that have successfully developed their ICMs have focused on establishing an enabling environment by implementing necessary reforms in the legal, regulatory, and taxation frameworks. Additionally, their success in developing ICM can be attributed to the creation of supportive government policies and initiatives that directly contributed to the growth of the sector.

This section presents key findings from a benchmarking study of ICMs in leading countries, identifying best practices among regional and non-regional countries in creating supportive infrastructure for ICMs. The analysis in this section aims to provide stakeholders with valuable insights and lessons learned to inform the development of a robust and effective ICM in Ethiopia.

NON-REGIONAL

9.1. Malaysia 

Islamic finance in Malaysia has experienced a strong and continuous growth, making the country one of the most important Shariah compliant financial hubs. This momentum is the result of a political will and a clear vision of the government to make Malaysia the world leader in Islamic finance. This vision has been translated into strategies and action plans by all Malaysian stakeholders. Growth has been translated by the creation of a favourable environment, including an effective legal and regulatory framework, and the implementation of a comprehensive and holistic infrastructure and institutional framework.

a) Legal and Regulatory Framework

A 'two-tier' approach has been adopted to regulate Islamic financial products, through the application of general requirements for both conventional and Islamic products in addition to specific requirements only applicable to Islamic products. Islamic finance is governed by the Financial Services Act 2013 (FSA) and the Islamic Financial Services Act 2013 (IFSA) enacted in June 2013.

The regulation and supervision of Islamic financial markets is carried out by the Securities Commission of Malaysia (SCM) which has its own Shariah Advisory Council (SAC) whose role is to advise the SCM on Shariah related matters pertaining to ICM. In addition, Islamic financial institutions in the country are required to have internal Shariah compliance committees appointed by their respective boards of directors.

In Malaysia, prior to 2004, all private debt issuances, including Sukuk, were governed by a single set of regulations applicable to both conventional and Islamic products, with certain Shariah requirements specifically incorporated to govern the issuance of Islamic securities. For example, in Malaysia (prior to 2004), the use of the term bonds implies that only Sukuk structures that met the definition of bonds could be introduced.

As a result, certain accepted structures such as equity-based Sukuk structures) - were excluded. In 2004, the definition of Sukuk was de-linked from that of bonds and a new legal definition of Islamic securities was introduced. In 2015, the Capital Markets and Services Act 2007 was amended to incorporate the following definition of Islamic securities:

Islamic securities means:

a. *shares of a legal person or unincorporated body that are classified as Shariah compliant by the Shariah Advisory Council;*

b. *shares in a mutual fund or prescribed investments structured in accordance with Shariah principles;*

c. *an Islamic structured product; or*

d. *Sukuk structured in accordance with Shariah principles, and includes any right, option or interest therein that is consistent with Shariah principles.*

The 2004 Malaysian guidelines on the offering of Islamic securities - later replaced by the 2014 Sukuk guidelines - were introduced specifically to facilitate the issuance of both debt-based and equity-based Sukuk structures, thus providing the opportunity to use a wider variety of underlying Shariah compliant contracts.

The primary regulation for capital markets in Malaysia is the Capital Markets and Services Act 2007 (as amended, Malaysia CMSA). This Act regulates all activities, markets and intermediaries in the Malaysian capital markets, and extends to the ICMs. The CMSA provides powers to make specific regulations for ICMs, such as the power of the Malaysian Minister of Finance to prescribe what constitutes Islamic securities and to amend the provisions of the CMSA relating to such securities to give effect to Shariah law. Issuers of Islamic products must comply with relevant disclosure requirements, such as those relating to prospectuses or trust deeds.

b) Guidelines

In some areas, the Malaysian authorities have also introduced stand-alone guidelines for Islamic products or securities. This approach is useful where there are significant differences between the requirements for conventional and ICM products. The *Guidelines on Islamic Fund Management* set out Shariah principles and concepts that require the Islamic fund manager to ensure that its investment activities are limited to Shariah compliant investments, to maintain all its accounts with Islamic financial institutions or within financial institutions with a totally segregated Shariah compliant account.

c) Taxation and other Incentives

In addition to tax incentives, there are several initiatives and incentives making Malaysia an attractive wealth management and intermediation hub for Islamic finance. This can be clearly understood by reference to the release of the regulatory framework accompanied by a series of tax incentives. The special regime for Islamic fund management companies includes:

- Possibility of being wholly owned by foreign entities.
- Authorisation to manage institutional and *retail* funds such as open-ended investment funds, including *wholesale* funds.
- Authorisation to manage funds from within or outside Malaysia.
- Permission to invest 100% of their assets abroad.
- Exemption from the obligation to employ local directors, representatives or employees.
- Income tax exemption for all fees received from Islamic fund management activities.
- Tax exemption on income earned by foreign Islamic finance experts.

Under Section 377 of the Capital Markets and Services Act 2007 (as amended) (CMSA), the SCM has developed (and periodically updates) a set of detailed guidelines on Sukuk. Such updates also introduced a set of guidelines for socially responsible investment (SRI) projects. The Sukuk guidelines provide definitions for all Sukuk structures currently recognised by the SAC. Sukuk are defined as *certificates of equal value that evidence undivided ownership or investment in assets using Shariah principles and concepts approved by the SAC*.

There are also guidelines on the appointment of Shariah compliance committee members that clarify, among other things, their role in Sukuk transactions. In addition, issuers are required to comply with all decisions of the SAC and all proceeds from the issuance of Sukuk must be used in a Shariah compliant way. With regard to ratings, the guidelines clearly state that the Sukuk issuance's rating is compulsory, unless it is non-traded and/or non-transferable.

In addition, as mentioned above, an innovative update SRI Sukuk in the said guidelines has been released. This includes special rules on use of proceeds, guidance on eligible SRI projects, mandatory disclosure requirements and the obligation to appoint an independent party to facilitate the SRI reporting requirements. The SRI Sukuk is primarily designed to increase investment in Malaysia's environmental and agricultural sectors. The inclusion of an SRI Sukuk reflects general trends in the global bond market, which has seen an increase in SRI and green bond issuance.

The *Guidelines on Unit Trust Funds* contain provisions specifically for Islamic financial institutions. They include, for example, the following requirements:

a. the appointment of a Shariah advisor to supervise on all aspects of the management of mutual funds and assure that funds are in accordance with Shariah principles;

b. specific disclosure requirements to be included in the fund's annual and interim reports by the Shariah advisor, indicating its opinion on whether the fund has been operated and managed in accordance with Shariah principles for the relevant financial period; and

c. appointment of two Muslims as members of the Investment Committee.

d) Human Capital

Malaysia has established a robust framework for human capital development to support its Islamic financial industry, focusing on expanding the talent pool. In 2023, BNM collaborated with key stakeholders to strengthen the Shariah talent ecosystem, ensuring the Shariah Advisory Council (SAC) and Shariah committees can address emerging trends effectively. Additionally, initiatives like the Shariah Mentorship Programme, managed by the Securities Commission Malaysia (SC) and ISRA International Consulting, provide intensive training and mentorship to prepare participants for Shariah advisory roles in the Islamic capital market (ICM), combining academic modules with industrial training.

International Centre for Education in Islamic Finance (INCEIF), established in 2005, plays a pivotal role by offering advanced education programs such as the Professional Certificate in Islamic Finance (PCIF) and postgraduate degrees, equipping professionals with in-depth knowledge of Islamic finance principles. Complementing these efforts, the Islamic Capital Market Talent Development (ICMTD) programme, managed by the Securities Industry Development Corporation (SIDC) since 2009, has produced 891 graduates across 23 cohorts, funded by the Capital Market Development Fund (CMDF).

International Shari'ah Research Academy for Islamic Finance (ISRA), established in 2008 by BNM, serves as a global hub for applied Shariah research in Islamic finance, contributing over 200 research publications and maintaining the I-FIKR Portal as a comprehensive Shariah knowledge repository. Following its merger with INCEIF University in 2021, ISRA expanded its scope to include Islamic economics, fintech, and social finance, fostering innovation and ethical practices

These coordinated efforts underscore Malaysia's commitment to nurturing skilled professionals and thought leaders to sustain its leadership in Islamic finance globally.

e) Retail Sukuk

Retail Sukuk can be issued and traded either in Bursa Malaysia or over-the-counter through licensed banks. Access to the retail market is supported by an investor protection framework including a robust disclosure regime and a mandatory credit rating for all Sukuk that are offered in the retail market by a rating agency. Certain categories of issuers may be exempt from some of these requirements, for example Malaysian government or government guaranteed issuances. The legal framework for retail Sukuk has been developed in line with the Securities Commission Malaysia's Capital Market Master Plan (2) to facilitate greater retail participation in both: bond and Sukuk markets.

Retail investors' access to these securities is largely through unit-linked bond and sukuk funds and exchange traded funds. Retail investors now have direct access, notably through the iFAST Capital platform via FSM One (a licensed platform by BIX Malaysia (Bond & Sukuk Information Exchange)). This platform allows the sale or purchase of securities in the secondary market from RM 1,000 (USD 250) by creating an account linked to the bank account.

f) Sukuk Issuances

Malaysia being one of the first Sukuk issuers in the world issued RM 125mn (approximately USD 30mn) Sukuk in 1990 by Shell MDS of Malaysia which based on a deferred payment sale structure. It also pioneered the world's first Green SRI Sukuk in 2017 to fund large-scale solar power projects[78]. It also developed the SRI-Linked Sukuk Framework in 2022 to address sustainability challenges, raising RM18.92 bn in total SRI Sukuk since 2014 with RM10.58 bn issued in 2022 alone. Key milestones include a global ESG-related Sukuk issuance in 2021, reinforcing Malaysia's leadership in integrating Islamic finance with sustainability and ESG goals.

As of 2023 Malaysia is the market leader and is the dominant player in terms of issuances with market share of 36.21% (824 issuances totaling USD 76.77bn)[79]. Additionally, Sukuk issuances in Malaysia accounted for about 61% of total securities issuances as of 2023 with 72% of Sukuk issued by government[80].

78 Bixmalaysia, 2024
79 International Islamic Finance Market Sukuk Report 2024
80 Securities Commission Malaysia, 2024

9.2. Indonesia

Indonesia is the largest Muslim country in the world and a member of the G20 with the market share of Islamic finance is around 11% of the financial sector as of 2023. Given the great potential due to the population and market growth dynamics, the government is pushing Islamic finance to play an important role in the country's economic development. A National Master Plan was launched in August 2016 to enable Islamic finance to reach its full potential within ten years.

a) Legal and Regulatory Framework

The banking and non-banking financial markets in Indonesia are regulated by the Financial Services Authority (OJK), while Bank Indonesia, the country's central bank, is in charge of macro prudential and monetary policies. New Shariah compliant products can only be launched subject to the approval of the National Shariah Council - an independent body established specifically under the Indonesian Council of Islamic scholars (MUI) to deal with financial issues. In addition, all Islamic financial institutions have internal Shariah compliance committees.

There are two types of Islamic shares that are recognised in the Indonesian capital market: shares that meet the selection criteria (quantitative and qualitative) based on OJK Regulation 35/POJK.04/2017, and shares that are listed as Islamic shares issued by Islamic issuers or public companies based on OJK Regulation No. 17 / POJK.04 / 2015. In particular, the quantitative criteria concerning financial ratios refer to the ratio of interest-bearing liabilities to total assets shall not exceed 45% and the sum of interest income and other non-compliant income shall not exceed 10% of the total income.

With regard to Sukuk, government Sukuk are treated under Law No. 19 of 2008 on State Islamic Securities (SBSN) and Corporate Sukuk issued by companies, both private and public, are subject to the requirements of OJK No. 18 / POJK.04 / 2005. The underlying assets (tangible assets, services, beneficiaries, investments, etc.) shall not contradict Islamic principles.

Islamic investment funds are subject to POJK. No. 19/POJK.04/2015. Their management shall not contradict ICM principles. Based on this definition, any type of mutual fund can be issued as an Islamic one as long as it complies with Islamic principles, including the underlying assets, contracts and portfolios.

Islamic Exchange Traded Funds (ETFs) shall comply with OJK Regulation No. 19/POJK.14/2015 and the investor who wishes to buy or sell Islamic ETFs shall go through a member of the exchange having the Shariah Online Trading System (SOTS).

Indonesian regulations also recognise Islamic asset-backed securities (ABS) based on OJK Regulation No. 20/ POJK.04/2015. They are of two types:

- Islamic ABS in the form of a collective investment contract between the investment manager and the custodian bank are asset-backed securities whose portfolio (consisting of financial assets in the form of receivables, financing or other financial assets), contract and management method are not contrary to ICM principles.
- Islamic ABS in the form of a participation letter (EBAS-SP) is an Islamic asset-backed security issued by the issuer whose contract and portfolio (in the form of debt collection or real estate financing) does not contradict ICM principles and also serves as evidence of proportional ownership by a group of EBAS-SP holders.

In the area of real estate funds, OJK Regulation No. 30/POJK.04/2016 has recognised *Islamic Real Estate Investment Trusts* (IREITs) which consist of form used to raise funds from investors to invest in real estate, real estate-related assets and/or cash and cash equivalents that do not conflict with the ICM principle. All IREIT contracts and assets must be Shariah compliant.

Retail Sukuk (Green Sukuk) is a type of Shariah compliant securities issued by the Indonesian government and intended for domestic retail investors. Until 2019, two types of Retail Sukuk have been issued, namely (i) Retail Sukuk and (ii) Saving Sukuk. The main differences between these two types of sukuk are in the tradability and the time period. The Retail Sukuk (SR) series is tradable in the secondary market by investors after the end of the allocation period. Savings Sukuk are not tradable, although there is a possibility of early redemption.

b) Human Capital

Indonesia leverages its large Muslim population to become an Islamic finance hub via actively enhancing its human capital. Programs at Islamic Economics at Universitas Gadjah Mada (UGM) and Universitas Islam Internasional Indonesia (UIII) offer dual degrees and specialized training in Sukuk, governance, and fintech. Industry-led internships with banks like Bank Syariah Indonesia (BSI) and digital learning platforms enhance practical skills and accessibility. Early financial literacy in Islamic boarding schools (pesantren) and government-academia partnerships aim to inspire future professionals and bridge talent gaps developing Islamic finance literacy at an early stage.

c) Sukuk Issuances

The Sukuk market in Indonesia is heavily dependent on sovereign issuance. The government started issuing Sukuk since 2008 regularly in both currencies: local and US dollars. Sovereign Sukuk are issued alongside with conventional sovereign bonds. Both securities have the same rating, but different yield. The growth of the Sukuk market has been slow but steady.

Indonesia also has a unique feature in its capital market translated into a regular issuance of retail sovereign Sukuk since 2009. The issuance on local currency is mainly serving small local investors and remains to date one of few similar Retail Sukuk programs in the world.

Initially driven by corporate issuances in the early 2000s, the government took a leading role in 2008 with the enactment of Law No. 19/2008 on State Shariah Securities (SBSN), which facilitated the issuance of its first Sukuk Al-Ijarah. Since then, the Government of Indonesia has regularly issued Sukuk, creating a framework for corporate issuances.

By 2023, Indonesia's cumulative Sukuk issuances since 2001 across all tenors and currencies reached 865, totaling USD 191.72 bn, representing 9.56% of the global Sukuk market. That year alone, Indonesia issued 95 Sukuk, totaling USD 21.81 billion and capturing 10.29% of the global market. As of 2023, Indonesia also issued significant sovereign Sukuk in both domestic (IDR 38.25 tn) and international markets (USD 2 bn), while leading in Green Sukuk issuance alongside Malaysia, collectively raising USD 12.9 bn[81].

9.3. UAE



The UAE, through various government initiatives, has prioritized the development of ICM. The Securities and Commodities Authority (SCA), the regulatory body overseeing the securities and commodities markets in the UAE, has included ICM development as a key component of its 2018 Master Plan for Sustainable Capital Markets. On the regional front, the UAE set up the Dubai Islamic Economy Development Centre (DIEDC) in 2013 and launched its Islamic economy strategy (2017–2021) with the vision to transform itself into a global hub of the Islamic economy and a global leader in ICMs.

a) Legal and Regulatory Framework

The UAE SCA has issued its Board Decision No. 16 of 2014 on the UAE Sukuk Regulations. These Regulations provide a detailed regulatory framework covering a wide range of areas, including the issuance and listing of Sukuk and the minimum face value of Sukuk issuance (UAE dirhams 10mn, unless otherwise approved by the SCA).

In addition to companies, any entity or legal person receiving funds from the issuance of Sukuk (the Obligor) shall obtain the approval of the SCA before issuing or listing any Sukuk, but Sukuk must be approved by the sponsor's Shariah Board. Where it does not have a Shariah Board, approval for Shariah compliance must be provided by the arranger's Shariah Board.

The Sukuk Regulation provides rules and provisions on Sukuk trading and clearing as well as general requirements relating to its issuance and listing. The said regulation also stipulates that the entity issuing the Sukuk must be established in the UAE (or in a free-zone area in the UAE) in order to offer the Sukuk to the retail market.

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b) Dubai International Financial Centre

Dubai International Financial Centre (DIFC) has developed a regulatory framework to govern Islamic collective investment funds. The Islamic Finance Rules Module of the Dubai Financial Services Authority (the DFSA) (IFR Rules) contains additional requirements for a collective investment fund managed or represented as being an Islamic fund. These requirements supplement those in the Collective Investment Rules module of the DFSA's regulations (CIR Rules), which also applicable to Islamic funds. As per the CIR Rules, an Islamic fund is defined by A fund is an Islamic fund if all its operations are conducted, or represented to be conducted, in accordance with the Shariah. The additional requirements include:

a. The fund manager must establish and maintain systems and controls ensuring that its management of the fund and the fund's assets are in compliance with Shariah law;

b. the fund must appoint a Shariah Board composed of at least three competent members;

c. the fund's constitution and prospectus must be, and remain, approved by the fund's Shariah Board;

d. a policy and procedures manual on Islamic financial activities should be established, setting out (among other things) in detail how the fund will ensure that it remains Shariah compliant at all times;

e. The Shariah Board should undertake external and internal Shariah compliance audits in line with AAOIFI standards.

c) Abu Dhabi Global Market

The Abu Dhabi Global Market (ADGM) has developed a similar approach to that adopted by the DIFC with respect to Islamic collective investment schemes. Like the DIFC, the ADGM is a financial free zone defined by UAE Federal Law No. 8 of 2004. It is an independent jurisdiction within the UAE, empowered to create its own legal and regulatory framework for all civil and commercial matters, and is based on the *common law* principles of England and Wales.

ADGM has its own independent financial regulator namely the Financial Regulatory Services Authority (the FRSA). The Islamic Finance Rules chapter of the FRSA Handbook contains the same requirements as those in the DFSA IFR Rules, above stated, which complement the IFSB requirements applying to all funds under the Funds Rules chapter of the FRSA Handbook.

d) Islamic Securities

The Emirates Securities and Commodities Authority (ESCA) defines Islamic securities as securities that are compatible with the principles of Islamic jurisprudence and issued in accordance with the provisions of the Federal Law No. (2) of 2015 regarding commercial companies, as amended, or securities issued by a foreign issuer in accordance with the laws of the country of issuance.

An issuer wishing to offer or issue an Islamic security inside or outside the State, as well as a foreign issuer wishing to offer an Islamic security in the State, must include the following information and documents, at a minimum, in its offering circular or prospectus:

- The names, qualifications and expertise of the members of the Shariah Compliance Committee (Committee).
- Mechanism for organising the composition and functions of the Shariah Compliance Committee and remuneration of its members.
- Full details of the Islamic security and the issuer, including the structuring and issuance mechanism, related contracts and documents, as well as the valuation methods and assets, the risks arising from the ownership of these assets for the holders of the Islamic securities.
- Mechanism for reallocation of resources, and methods of disposing of them or their proceeds if the Islamic security or issuer ceases to be compatible with Shariah principles.
- Shariah controls governing the negotiability (trading) of Islamic securities and the necessary measures in case of violation.
- Mechanism to address and manage conflict of interest situations between the duties assigned to Shariah Compliance Committee members and their personal interests.
- Methods of resolving disputes relating to the Islamic security or the issuer;
- Disclosure mechanisms.

The Fatwa issued by the Committee approving the structure, all related contracts and documents, the manner in which the Fatwa was obtained, the Shariah arguments in support of the Fatwa, documentation of the procedures for issuing the Fatwa, where the Islamic security is inconsistent with AAOIFI Shariah standards and the reasons for the inconsistency with these standards (if applicable).

a) Human Capital

The UAE is home to several world-renowned Islamic financial institutions, such as Dubai Islamic Bank, the world's first Islamic commercial bank established in 1975, which has played a key role in nurturing local talent. Institutions like Zayed University and Dubai's Innovation Hub offer certifications in fintech and sustainable finance.

Strategic partnerships with Abu Dhabi Global Market ADGM and Mohammed bin Rashid Al Maktoum Knowledge Foundation (MBRF) foster research, while internships at Higher Colleges of Technology (HCT) bridge academia and industry offering Work-Integrated Learning Program. The UAE's focus on tech-driven solutions and global forums cements its status as a leader in Islamic finance innovation.

b) Sukuk Issuances

The UAE, a pioneer in Islamic finance and home to one of the world's first Islamic banks, is among the global leaders in Sukuk issuance. By the end of 2023, the UAE ranked as the leading country for international Sukuk issuance after supranational entities, with a 22.66% share of cumulative issuance since 2001, totalling USD 105.51 bn across 166 issuances[82].

In 2023 alone, the UAE accounted for 16.04% of global international Sukuk issuance, amounting to USD 8.45 bn from 15 issuances, including sovereign, quasi-sovereign, corporate issuances.

Domestically, the UAE launched dirham-denominated treasury Sukuk in 2023 to bolster the local bond market and diversify financing resources[83]. Furthermore, the UAE is a leader in Green Sukuk issuance, driven by its hosting of COP28 and commitments to sustainability, contributing nearly 33% of global green and sustainability Sukuk proceeds in 2023 and issuing USD 6.9 bn in Green Sukuk between 2017 and 2023.

9.4. Bahrain



The Bahraini government, through the Central Bank of Bahrain (CBB), actively supports the growth of Islamic finance by establishing a regulatory framework aligned with international standards while fostering innovation in areas like fintech, crypto assets, governance, and Sukuk.

The CBB has functioned as the single regulator for the entire financial system since 2002. CBB's Capital Markets Supervision Directorate (CMSD) is mandated to supervise and regulate the Kingdom of Bahrain's capital markets; its main objective being to maintain a transparent, fair and efficient capital market for ensuring investor protection, thereby protecting the Kingdom's integrity and reputation as the region's leading financial center.

Bahrain achieved several milestones in the Islamic finance industry. In 2001, the Bahrain Monetary Agency (later renamed the Central Bank of Bahrain - CBB) became the world's first central bank to issue Sukuk, marking Bahrain's inaugural Sukuk issuance and establishing a foundation for regular Sukuk issuance to support Islamic liquidity management.

Bahrain's first corporate Sukuk followed in 2005, when the Durrat Sukuk Company raised USD 152.5mn. The CBB initiated its Sukuk program in 2008. Regulations were issued between 2006 and 2013 covering both conventional and Shariah compliant investment and financing companies, Islamic mutual funds and Sukuk.

82 International Islamic Finance Market Sukuk Report, 2024
83 Ministry of Finance, 2023

a) Legal and Regulatory Framework

All regulations relating to the capital markets in the Kingdom of Bahrain are under Volume 6 of the CBB Rulebook and the designated Capital Market Regulations section on the CBB website. These regulations were developed in accordance with international standards and best practices.

The CBB issued a new regulatory module in 2013, the Regulatory and Supervisory Module on Issuing and Offering of Securities and Shariah compliant Sukuk (OFS Module). The module, which is a significant part of Volume 6 of the CBB's capital market rulebook, opens up Bahrain's Sukuk market to GCC issuers. This framework regulates the issuance, offering, floating and subscription of fixed income securities, including Sukuk, issued in Bahrain or by a Bahrain-licensed institution. This chapter sets out the requirements for Islamic securities, including:

a. the audited financial statements must comply with IFRS and AAOIFI standards;

b. the issuer must be an SPV;

c. a Shariah advisor or committee, or an Islamic bank must be appointed to advise on Shariah compliance (and the advisor must pass a suitability test);

d. the types of Islamic securities or Sukuk contracts that are permitted; and

e. additional information to be attached to the application for a Shariah compliant securities offering.

This example shows the types of requirements that are imposed on Islamic financial institutions when issuing and offering securities, including how international standards, such as those issued by AAOIFI, are incorporated into the regulations.

All Bahraini Islamic bank licensees must obtain the CBB's prior specific written approval if they want to be involved in an SPV in the capacity of an originator, sponsor or manager of that SPV, or if they intend to participate in the creation of an SPV or acquire a holding of 20 % or more of the equity capital of an SPV.

All Bahraini Islamic bank licensees must seek prior specific written CBB approval if they are appointed as nominee shareholders of SPVs or hold votes by proxy arrangement in SPVs on behalf of other investors. In addition to providing necessary information to the CBB when requesting approval, Bahraini Islamic bank licensees that are involved with SPVs must not allow such SPVs to:

1. obtain any conventional financing;

2. give any type of financial guarantees, warranty or indemnity to the *rab-al-mal* (capital provider), the *muwakil* (principal) or investors in the SPVs; and

3. ensure that there are no restrictions on the availability of financial and other information relevant to the SPV or in terms of access to its business premises and records.

For Bahrain-based private equity funds, any fund that is to be Shariah compliant will have to obtain a fatwa and make its investments in Shariah compliant products and in compliance with the various tenets of Shariah. The number of Shariah compliant funds stood at 88 as of June 2021.

Bahrain's new Trust Law replaced the 2006 Financial Trusts Law, providing comprehensive guidance on establishing and managing trusts while formally recognizing those governed by foreign laws, enhancing certainty for international investors. This legal framework supports onshore Shariah compliant structures for asset holding and enabling the development of real estate investment trusts established under CBB fund regulations.

b) Taxation Framework

Bahrain does not impose income, corporate (except for the oil and gas sector), capital gains, inheritance, or gift taxes. Real estate-related Islamic finance transactions may incur registration fees, such as a 2% fee on property purchases, reduced to 1.7% for timely registration. Most Islamic finance transactions avoid taxation as they typically involve the transfer of economic or beneficial ownership rather than legal title. Payments under bonds, Sukuk, or notes are not taxed, and any potential withholding would be grossed up by the issuer.

While Bahrain introduced VAT in 2019, Islamic finance transactions are generally exempt, except for fees, commissions, and discounts, which are taxed at the standard 5% rate. As per Bahrain's VAT legislation, Islamic finance products provided through written contracts that adhere to Shariah principles and mirror the purpose and outcomes of conventional financial products are afforded the same VAT treatment as their Shariah non-compliant counterparts, qualifying for the financial services exemption.

c) Human Capital

Bahrain has earned a distinguished reputation as a global hub for Islamic finance, largely due to its robust regulatory frameworks, commitment to innovation, and a focus on human capital development. Bahrain's Bahrain Institute of Banking and Finance (BIBF) offering 600+ programs and AAOIFI set global standards and provide certifications like Certified Islamic Finance Executive (CIFE) and Certified Shariah Advisor and Auditor (CSAA).

Collaborations with IsDB enhance skills in risk management and Shariah compliance, while Bahrain FinTech Bay promotes Islamic fintech. Academic programs at the University of Bahrain blend theory with practice, and conferences like World Islamic Banking Conference (WIBC) facilitate knowledge exchange. These efforts solidify Bahrain's role as a pioneer in Islamic finance education and regulation.

d) Sukuk Issuances

Bahrain, a pioneer in sovereign Sukuk issuance since 2001, relies on Islamic instruments to meet 26.19% of its total financing needs, addressing budget deficits and supporting development plans. The country has introduced Al Salam Sukuk launched in June 2001 and recorded 275 issuances by March 2024.

Al Salam Sukuk structure was a BHD-denominated and based on sale and purchase contracts collateralized by Residue Gas. Short-term Ijarah Sukuk, first issued in August 2005, recorded 223 issuances by March 2024, featuring six-month maturities and based on Islamic leasing contracts involving government-owned assets. Both Al Salam and Ijarah Sukuk are issued through fixed-rate tender procedures, with rates determined by the Central Bank of Bahrain's Monetary Policy Committee.

As reported in the Central Bank of Bahrain's latest annual report of 2023, the Islamic securities offers for 2023 stood at 6 issuances: 5 private placements and 1 government issuances. They totaled USD 1bn for government issuances and USD 3.65bn through private placement[84]. Furthermore, Bahrain has made progress in the issuance of Green Sukuk with a cumulative sukuk value of USD 900mn issued in the time period 2017 – 2023[85].

9.5. UK



The UK has been actively involved in Islamic finance for over three decades. The UK government has strongly supported its vision with a bespoke strategy to build on the UK's excellence in finance, making the country the Western world leader in the Islamic finance space.

Although the Muslim population is less than 5%, Islamic financial activities are quite widespread with over a dozen of Islamic banking providers including couple of high street banks offering Islamic financial products and services to both Muslim and non-Muslim customers.

London is one of the top three places in the world to list and trade Sukuk. In 2014, the UK Government undertook a GBP 200mn *Ijara Sukuk* issuance with a 5-years maturity. The issuance was undertaken by Her Majesty's Treasury (HMT) through its wholly-owned subsidiary, HM Treasury UK Sovereign Sukuk PLC (the Issuer).

The proceeds of this issuance were used to acquire the lease of certain land and buildings from the Secretary of State for Communities and Local Government (SSCLG). The properties were then sublet to the SSCLG in return for periodic rental payments corresponding to the remuneration to be paid to the Sukuk holders.

a) Taxation Framework

A key aspect of the authorisation of this Sukuk issuance was the introduction of the 2009 Finance Act (in particular Schedule 61) which removed the tax barriers that had made Shariah compliant financial products less tax competitive than their conventional counterparts, thereby introducing tax neutrality between Sukuk and bonds. For example, returns generated by the underlying assets of Sukuk are treated like interest generated by conventional bonds from a taxation perspective. Tax neutrality also applies to VAT and stamp duty on asset sales/transfers for financing purposes under Sukuk structures.

84 Central Bank of Bahrain Annual Report, 2023
85 International Islamic Finance Market Sukuk Report, 2024

b) Legal and Regulatory Framework

The UK's legislative approach to enabling Islamic finance has been to allow for future adjustments through *statutory instruments* or other forms of regulatory guidance) without necessarily requiring primary legislation (i.e. Acts of Parliament). The Finance Act 2008 (FA 2008) states that HMT "*may, by regulations, make provision for raising funds by other means*."

By virtue of this broad power, the UK authorities enacted the *Government Alternative Finance Arrangements Regulations* 2014 (S.I. 2014/1327) (GAFAR), by means of a statutory instrument, which makes more specific provision for HMT and the UK Secretary of State to enter into transactions that facilitate the issuance of alternative finance arrangements (i.e. Islamic financial instruments), and provides equal treatment to such instruments with UK sovereign bonds (i.e. Gilts). This power was used in the UK sovereign Sukuk issuance mentioned above, to introduce GAFAR, which confirmed the necessary powers and aligned the fundraising of Sukuk with certain requirements of the UK National Loans Act 1968.

Specifically, GAFAR provides for the payment of funds from sovereign Sukuk to the UK National Loans Fund, as is the case for other public debt instruments (such as *Gilts*). It also provides for amendments to the UK National Loans Act 1968, so that Sukuk are treated in the same way as Gilts for UK debt management purposes.

In addition, to reduce the risk of default, HMT is empowered to provide financial assistance to any company participating in alternative financial arrangements (i.e. Islamic financial instruments). This serves as a useful example of how governments are facilitating Sukuk issuances from a legal and regulatory standpoint.

c) Human Capital

The UK leads Western Islamic finance via degrees at Durham and Dundee, Chartered Institute for Securities and Investment (CISI) certifications, and UK Islamic Finance Council (UKIFC) workshops. Other initiatives like the London Sukuk Summit highlight its market resilience. E-learning platforms and partnerships with banks like HSBC Amanah and Al Rayan offer access to training via internship and apprenticeship opportunities, ensuring that future professionals gain hands-on experience. Gender inclusion programs (such as Women in Islamic Finance Forum, organized by UKIFC) and ESG-focused innovations ensure the UK remains a hub for ethical finance talent.

d) Sukuk Issuances

In March 2021, the UK government issued its second Sukuk raising GBP 500mn from investors in the Middle East, Asia, and the UK. As with the first issue, the second UK sovereign Sukuk has used the Ijara structure with 5-year maturity.

The UK has established itself as a leading hub for Islamic finance, becoming the first non-Muslim majority country to issue sovereign Sukuk in 2014. Its initial GBP 200mn issuance was followed by a GBP 500mn Sukuk in 2021, enhancing the availability of Shariah compliant assets and supporting the growth of Islamic finance products.

The London Stock Exchange plays a pivotal role in Sukuk listings, raising over USD 50bn through 68 issuances and serving as the third-largest listing venue globally for US dollar Sukuk, with a 35% market share and around USD 80bn outstanding by mid-2024. Additionally, English law governs most dollar Sukuk globally, with UK banks actively participating as arrangers and counterparties in Islamic finance.

9.6. Kenya 

The Kenyan government has the ambition to become an African hub for Islamic finance. Several reforms have been implemented by the political authorities and regulators in all sectors of financial services, especially the capital market one. The strategy to accelerate Islamic finance uptake is underpinned by the ambition to transform Kenya into an International Finance Centre as part of the implementation of the Capital Market Master Plan, which was a Vision 2020 flagship project.

a) Legal and Regulatory Framework

Over the past years, the capital market has undergone a major transformation to enable Islamic financial instruments to function properly under the supervision of the Kenya Capital Market Authority (KCMA). In 2017, the following definition of Sukuk was added to the Public Finance Management Act, among other laws and regulations, to provide the necessary legal legitimacy and allow for the issuance of sovereign, quasi-sovereign, and corporate Sukuk:

Sukuk are *certificates of equal value, representing undivided shares of ownership of tangible or intangible assets, usufruct of assets, services or investment activity, structured in accordance with Islamic law.*

In addition, the Kenyan Capital Markets Act, CAP 485A, specifically includes *securities structured in accordance with Islamic investment principles* in the definition of securities. The KCMA has also developed a policy guidance note (PGN) on asset-backed securities, which recognises the structuring role of the special purpose vehicle (SPV) in an asset-backed securitisation scheme.

The PGN also recognises the actual sale of assets to the SPV in order to unbundle the assets from the claims of parties other than Sukuk investors and other stakeholders in the securitisation. With further regulatory changes, Sukuk are among the securities that can be issued by a special purpose vehicle under the NMP in Kenya.

With respect to Islamic funds, the Collective Investment Schemes Regulation 2001 governs the operation of collective investment schemes in Kenya and covers topics such as registration, incorporation, management, share trading, financing and borrowing. Although these regulations do not provide a separate definition of Islamic Collective Investment Schemes and do not provide additional requirements beyond their unique characteristics, the KCMA has developed a specific procedure manual that sets out the requirements for participants and securities in ICMs, focusing on Shariah governance and compliance requirements.

The KCMA has also approved a number of Islamic funds in compliance with the regulations while having a specific investment strategy and guidelines that have been adapted to comply with Shariah. The Capital Markets Real Estate Collective Investment Schemes Regulations 2013 have also been amended to introduce the concept of Islamic Real Estate Investment Trusts to maximise the growth potential of Islamic finance. To continue this momentum in Islamic finance, the KCMA was admitted by the IFSB as an associate member on 14 December 2016.

b) Taxation Framework

The Finance Act exempts Sukuk from VAT and amends the Value Added Tax Act and Income Tax Act explicitly defining Islamic finance arrangements as those compliant with Islamic law. These amendments broaden the definition of interest to encompass returns from Islamic finance and define financial returns to include payments from Sukuk and similar arrangements. Sukuk is also exempted from stamp duty tax under Stamp Duty Act.

c) Human Capital

Kenya is emerging as a significant player in the Islamic finance sector in East Africa, actively investing in human capital to support sustainable growth. Kenya's Central Bank and Common Market for Eastern and Southern Africa (COMESA) have advocated for specialized training programs that enhance the competencies of professionals in Islamic banking. Kenyan universities and training institutions have started offering specialized courses in Islamic finance. For instance, the University of Nairobi, Islamic University of Kenya, Kenya School of Monetary Studies and Strathmore University have launched diploma and certification programs in Islamic banking and finance.

Moreover, professional associations such as the Kenya Institute of Bankers (KIB) and the Institute of Islamic Finance Professionals (IIFP) have introduced workshops and certifications tailored to mid-career professionals seeking to transition into Islamic finance. To promote a sustainable pipeline of talent, Kenya is exploring the establishment of a National Islamic Finance Competency-Based Curriculum, a policy initiative that seeks to align industry needs with academic output.

d) Sukuk Issuances

Kenya marked a significant milestone with the launch of its first Sukuk, the Linzi Sukuk, in September 2023. This issuance enabled Linzi Finco Trust, a property developer, to raise KES 3bn (around USD 23mn). The funds are dedicated to developing 3,069 institutional housing units, supporting the government's Bottom-Up Economic Transformation Agenda where the affordable housing initiative is a key component[86].

9.7. South Africa 

The rapid global growth of Islamic finance has drawn the interest of governments in traditional Western economies, with South Africa aiming to position itself as Africa's gateway and a leader in this emerging industry. South Africa is among the African pioneers in Islamic finance since the 1990s with the opening of Bank Al Baraka, one of the largest international Islamic banking conglomerates. The Financial Sector Conduct Authority (formerly Financial Services Board) of South Africa regulates the financial services sector including the Islamic financial sector.

a) Taxation Framework

The government enacted targeted tax legislation to address Shariah compliant financing arrangements, aiming to establish tax parity between Islamic and conventional securities. This led to the introduction of Section 24JA in the Income Tax Act, complemented by accommodating provisions in the VAT Act, the Transfer Duty Act, and the Securities Transfer Tax Act.

These amendments established tax-neutral treatment for sovereign Sukuk, exempting asset disposals, acquisitions by trust vehicles, and re-acquisitions by the South African Government from income tax. Additionally, the trust vehicle is not classified as a business entity, making it exempt from VAT, while income from the assets is taxed as interest for the purposes of income tax.

b) Human Capital

In recent years, financial authorities and industry stakeholders have collaborated to strengthen the talent ecosystem and address the growing demand for Shariah compliant financial expertise. South Africa's Johannesburg Stock Exchange (JSE) regularly conduct training workshops that aim to prepare professionals for leadership roles in the growing Islamic finance industry while aligning South

African practices with international standards such as those set by the AAOIFI. The Regent Business School and several private institutions offer advanced education in Islamic finance, including certifications and degree programs tailored to the needs of policymakers, financial professionals, and regulators.

c) Sukuk Issuances

In September 2014, South Africa issued its first Sukuk (via the *ZAR Sovereign Capital Fund Proprietary Limited* as trustee of the RSA Sukuk No. 1 Trust) using an Ijara (lease contract) structure for USD 500mn, with 6-year maturity[87]. It is important to note that the South African Sukuk issuance was denominated in USD, which is the dominant global currency, as opposed to the South African Rand.

Meanwhile, after a nine-year hiatus, the South African government returned to the Sukuk market with its second issuance. The inaugural domestic Rand-denominated Al-Ijara Sukuk, issued in November 2023, raised ZAR 20.4bn (USD 1.085bn) and was oversubscribed by 1.77 times[88].

86 Capital Markets Authority, 2023
87 Sukuk.com, 2025
88 Bloomberg, 2023

9.8. West Africa Monetary Union

The West African Monetary Union (WAMU), comprising eight member countries (Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo) with a majority Muslim population of 65%, is fostering the growth of Islamic finance to enhance financial inclusion and sustainable economic development. Building on its foundation established in 1962 and formalized in 1994, the West African Economic and Monetary Union (WAEMU) aims to harmonize legal systems, implement a common customs union, and promote regional integration.

The union shares a single currency, the CFA franc, managed by the Central Bank of West African States (BCEAO), and is increasingly focused on developing regulatory frameworks to support Shariah compliant banking, capital markets, and financial instruments across the region. Recent initiatives, such as the development of an ICM framework and the adoption of regulations governing Islamic securities, underscore the region's commitment to expanding its financial landscape.

a) Legal and Regulatory Framework

WAEMU has adopted a structured approach to regulate Islamic financial products, incorporating both general requirements applicable to all financial products and specific provisions tailored for Islamic finance. The regulatory framework for Islamic finance is encompassed within the broader financial regulations of the Union.

In June 2023, the WAEMU Council of Ministers adopted a new uniform banking law that introduces the concept of "Islamic banking activity," defined as conducting, on a professional basis, one or more Islamic banking transactions.

In the absence of a legal structure like the Anglo-Saxon trust, sukuk issuance in WAEMU relies on securitization techniques or asset-backed securities. Securitization is not mandatory under Islamic Finance principles but is widely employed. Sukuk issuance is governed by Regulation No. 02/2010/CM/UEMOA, which outlines rules for debt securitization mutual funds (FCTC).

FCTC is defined as a co-ownership vehicle designed to acquire receivables and their accessories. These receivables can be represented by units and debt securities, as stated in Article 17.1 of Regulation No. 02/2010/CM/UEMOA.

Assets can only be held under current regulations if they result from the creation or realization of security interests attached to receivables. This restriction limits the potential structuring of sukuk to assets derived from receivables, hindering the use of tangible assets like real estate.

The regional financial markets authority, WAEMU Financial Markets Authority (AMF-UMOA), is responsible for overseeing and regulating Islamic financial markets in WAEMU. In February 2023, AMF-UMOA introduced guidelines for setting up and running Islamic Collective Investment Schemes (CIS), such as equity funds and investment companies., since 2015, Sukuk issuances have received compliance notices from external Shariah Boards.

This followed a regulation adopted by WAEMU in January 2023, which aimed to regulate the use of Islamic financial products like sukuk and investment funds in the West African financial market. In January 2023, WAEMU adopted a regulation on Islamic securities, sukuk issuance companies, and sukuk issuance funds. This regulation aimed to organize the use of Islamic securities in the West African financial market.

b) Shariah Governance

Regarding Shariah governance, while there is no centralized Shariah Advisory Council at the regional level akin to models in more developed countries, a compliance board (Shariah Board) is in place to certify that financial securities issued on the market comply with Islamic finance rules. As of February 20, 2023, any player planning to carry out Islamic finance-related activities, issue Islamic securities, or establish Islamic mutual funds in the WAEMU region must seek the compliance council's approval.

c) Taxation Framework

From a fiscal perspective, equal treatment and neutrality compared to conventional financial instruments are critical to promoting the use of Islamic instruments across the member states. However, each WAEMU member state retains sovereignty over tax treatment, creating variances in how Islamic financial instruments are treated across the region.

d) Sukuk Issuances

WAEMU countries have made strides in Islamic finance through major Sukuk issuances. Senegal led the way with a Sukuk Ijarah: a 4-year CFA 100bn (USD 168mn) issuance in 2014. Côte d'Ivoire entered the Sukuk market with a 5-year CFA 150 bn (USD 244mn) issuance in 2015 and Togo issued a 10-year CFA 156 bn (USD 277mn) Sukuk in 2016, supported by the Islamic Corporation for the Development of the Private Sector (ICD), to fund development projects. By the end of 2023, WAMU countries had collectively issued nine Sukuks, totaling USD 2bn. Senegal led with five Sukuks, followed by Côte d'Ivoire with two, and Mali and Togo with one each.

9.9. Nigeria

The Securities and Exchange Commission (SEC) being regulator of ICMs (ICMs) in Nigeria has implemented various initiatives to develop Nigeria's ICMs and ensure their sustained growth. Key among these is the development of regulations for Sukuk offerings, which enabled the issuance of Nigeria's first Sukuk, the Osun Sukuk, in October 2013.

SEC also introduced a 10-year ICM Masterplan (2015–2025) with strategic recommendations aimed at growing the ICM's contribution to 25% of total market capitalization by 2025. SEC has intensified efforts to position Nigeria as a hub for ICM products as indicated in the SEC's 'Nigerian Capital Markets Master Plan 2021-2025.

The SEC has an ambitious target to list 50 Shariah compliant products with a combined market capitalization of at least NGN 5tn (USD 11bn) by 2025.To further support the sector, regulations were enacted to guide Islamic Fund Management operations, leading to the registration of Nigeria's first Islamic Fund Management firm in 2008. By November 2019, the sector had grown to include five non-interest/ethical funds with total assets under management of NGN 4.37bn (around USD 12mn), highlighting its increasing depth and appeal.

In addition to regulatory advancements, SEC has prioritized public awareness and stakeholder collaboration to expand the ICM. Roundtable enlightenment programs were organized in partnership with Kano and Sokoto State Governments in 2015 and 2016, with plans to extend similar initiatives across the country's six geopolitical zones.

Furthermore, SEC collaborated with the Debt Management Office (DMO) to facilitate Nigeria's first Sovereign Sukuk issuance in 2017. Continuous engagement with key stakeholders remains a priority, ensuring the development of a robust, inclusive, and globally competitive Islamic finance ecosystem in Nigeria.

a) Legal and Regulatory Framework

Sukuk transaction is regulated through the framework provided under the Investment and Securities Act 2007 and SEC's Rules on Sukuk (Rules) issued in 2013. Sukuk is defined in the Rules as *investment certificates or notes of equal value which evidences undivided interest/ownership of tangible assets, usufructs and services or investment in the assets of particular projects or special investment activity using Shariah principles and concepts approved by the SEC*.

SEC also introduced Islamic funds activities in 2011 under dedicated rules for such activities defining Islamic fund management as *fund management that complies with Shariah requirements.*

b) Shariah Governance

The Rules provides legal grounds for the AAOIFI standards to be referred to for Shariah compliance purposes stating that *all shariah principles and concepts applied in structuring an issue, offer or invitation of sukuk under these guidelines shall be consistent with the general Shariah rulings, principles and concepts as approved by AAOIFI or any other standard setter recognized by Commission*.

It also mandates the Sukuk issuer to appoint Shariah advisor and clarified the responsibilities in addition to providing qualification requirements. Additionally, the Rules provide relevant Shariah requirements on the underlying asset and raised funds in accordance with AAOIFI requirements.

Dedicated rules on Islamic funds mandates the fund manager to appoint Shariah advisor (person, corporation or Islamic bank) to receive advice on Shariah related matters. The rules specify qualification requirements of Shariah advisor and its responsibilities. Additionally, it requires that an *investment committee shall include at least a member who is knowledgeable in Islamic finance and fiqh, and a fund manager to establish internal audit monitoring and ensure Shariah compliance of its activities.*

c) Taxation Framework

The Federal Inland Revenue Service (FIRS or the Service) recently published the Non-Interest Finance (Taxation) Regulations 2022 (Regulations) which provide a framework for the taxation of financial institutions offering Islamic financial products and services in Nigeria.

Sovereign Sukuk is exempt from taxes, including personal income tax and companies' income tax due to Sukuk being considered government securities under the Personal Income Tax Act and the Company Income Tax (CIT) Act.

Additionally, Paragraph 13 of the Regulations prescribes that the Islamic funds will be treated in the same manner as conventional fund management transactions provided under the CIT Act.

d) Human Capital

Nigeria has been prioritizing human capital development to support the growth of its Islamic financial industry. To expand the talent pool and ensure a steady pipeline of qualified professionals, the IsDB has collaborated with Nigerian stakeholders to provide training and capacity-building initiatives. The International Institute of Islamic Banking and Finance (IIIBF) at Bayero University plays a pivotal role in advancing Islamic finance education in Nigeria.

Additionally, the Chartered Institute of Bankers of Nigeria (CIBN) has introduced certifications in non-interest banking to address the demand for Shariah compliant financial services. In partnership with international organizations like the Islamic Research and Training Institute (IRTI) and the AAOIFI, Nigerian institutions have been actively involved in organizing workshops and seminars.

e) Sukuk Issuances

A Sub-national Sukuk worth about NGN 11.4bn (USD 62mn) was issued by Osun state in 2013. As of recent, the federal government of Nigeria (FGN) achieved a noteworthy milestone with the successful conclusion of its maiden Sovereign Sukuk at the end of 2024. This first FGN's sovereign sukuk 7-year instrument that had been oversubscribed, making its historic NGN 100bn (USD 241mn) debut in the capital market, was issued in in September 2017.

Since then, the Federal Government has subsequently offered 5 highly over-subscribed Sovereign Sukuk, raising an additional sum of NGN 992 bn (USD 640mn) from the capital market, reaching a total of over NGN 1.1tn (USD 709mn) in federal government sukuk issuances.

9.10. Kingdom of Morocco



Islamic finance in the Kingdom of Morocco has appeared under the name participatory finance, inspired by the terminology used in Turkey. This terminology was adopted in the Banking Law 103.12, in 2015, in which an entire chapter is devoted to participatory banks whose activities are subject to the assent of the Supreme Council of Oulemas (CSO), the only constitutional body empowered to pronounce on issues related to compliance with Shariah.

a) Legal and Regulatory Framework

As far as capital markets are concerned, to date, only Sukuk have been subject to regulatory treatment. This legislative and regulatory framework is defined by Law 33-06 on securitisation, progressively amended by Law 119-12, Law 05.14 and Law 69.17. This law created collective investment funds in securitisation, a structure for Moroccan securitisations inspired by the former French Fonds Communs de Créances (mutual debt fund).

In 2013, this law has been subject to a heavily reform that was inspired by best practices at the European level and involved all regulators of the Moroccan banking sector, capital market and insurance companies. One of the main objectives of the reform was to broaden as much as possible the purpose of the Funds for Collective Investment in Securitization (FPCT) to the securitisation of any asset, tangible or intangible, and to no longer limit it to receivables only. This law has therefore notably:

- broadened the scope of assets eligible for securitisation by replacing the notion of receivables with the notion of eligible assets, including tangible, real estate or movable assets. (The extension to tangible assets (such as aircraft, ships, machinery, other equipment, etc.) was necessary to allow FPCTs to issue Sukuk certificates, among other things;
- defined the modalities for obtaining the conformity opinion of the CSO;
- defined 4 categories: Financing Sukuk (Murabaha, Salam and Istisna); Ijara Sukuk, Investment Sukuk (Mudaraba, Wakala and Musharaka); Investment Portfolio Sukuk.

b) Taxation Framework

Tax exemptions related to Sukuk issuance include financial income of legal entities from Sukuk certificates being exempt from withholding tax under the General Tax Code and proceeds from securitization aimed at Sukuk issuance being exempt from VAT, albeit without the right to deduct. Additionally, the 2013 Finance Law ensures fiscal neutrality for originators and FPCTs, particularly for sale and leaseback Sukuk (al-Ijara), by mitigating costs related to corporate tax, registration fees, and land registry charges.

c) Human Capital

Morocco continues to prioritize human capital development to support the sustainable growth of its Islamic financial industry. In 2023, Bank Al-Maghrib collaborated with key stakeholders to focus on expanding the talent pool and enhancing the succession pipeline for Shariah boards and committees. To foster advanced education in Islamic finance, Al Akhawayn University and other institutions have introduced specialized programs, such as certifications and postgraduate degrees in Islamic finance.

Digital platforms now offer ESG and ethical finance training, while internships with banks like Assafa provide practical experience. International collaborations and a sustainability focus align with Morocco's goal to become a regional Islamic finance leader.

d) Sukuk Issuances

The Kingdom issued its first sovereign Sukuk certificate in October 2018 using the Ijara structure and for an amount equivalent to USD 116mn, with no further issuance to date. Legal provisions such as decrees have been prepared by the Ministry of Finance and submitted to the CSO in 2020 for approval to complete the law and specify the technical characteristics and main Shariah compliance rules of Sukuk certificates.

9.11. Key Takeaways

The following is a summary of key takeaways and lessons learned from the experiences of the countries mentioned above in developing their ICMs. These insights can provide valuable guidance for establishing and building ICM in Ethiopia. By leveraging these best practices, Ethiopia can create a solid foundation for its ICM and ensure its alignment with global best practices.

- **Clear Government Vision and Strategy**: Successful ICM growth is driven by a strong political will and a clear, strategic government policy. A unified vision is crucial for guiding the development of the sector.
- **Supportive Legal and Regulatory Framework**: A well-structured legal and regulatory framework supports ICM development by providing clarity and confidence to market participants.
- **Robust Shariah Governance Farmwork**: The establishment of robust Shariah governance frameworks are critical to mitigating Shariah non-compliance risk and fostering trust. Whether the country follows a centralised or decentralised Shariah governance model, the key is ensuring adherence to Shariah rules and principles and effective oversight over the sector.
- **Tax Neutrality and Incentives**: ensuring tax neutrality is a must for establishing an enabling environment for ICM. Offering tax incentives on the other hand provides an edge for the country to fast-track the development of the ICM, in addition to enhancing competitiveness and attractiveness to local and international investors.
- **Human Capital Development**: Investing in specialised education programs and professional training in Islamic finance helps build the necessary expertise and support for ICM growth.

While establishing the aforementioned pillars is crucial for the success of ICM in any country, there is no one-size-fits-all approach. Ethiopia will develop its own unique model, drawing from the experiences of other countries while considering its distinct national context and requirements.

10. ENABLERS AND BARRIERS FOR THE DEVELOPMENT OF ICM



10.1. Government Support and Cooperation

There is widespread agreement among stakeholders that the Ethiopian government has shown a reasonable level of political commitment to fostering the growth of the Islamic finance sector over the last few years. This support is evident in the government's early efforts to create an enabling environment for the introduction of Islamic banking and microfinance, reflecting a broader commitment to economic diversification and financial inclusion.

These early government efforts were marked by the introduction of legislative changes that facilitated the establishment of Islamic banking in the country, effectively kick-starting Islamic finance in the country. As the regulator of the banking sector, the NBE issued key directives to facilitate the implementation of relevant proclamations, enabling the establishment of full-fledged interest-free banks and windows. The NBE also made the promotion of interest-free banking a central element of its 2023-2026 strategic plan, recognizing it as a key tool for advancing financial inclusion and strengthening the financial sector.

Furthermore, in line with the government's broader efforts to develop Islamic finance, the ESX has already published the listing requirements for Sukuk in its rulebook, signalling a clear intention to create an environment conducive to the issuance and trading of Islamic financial products[89].

The establishment of an Islamic banking window by DBE further underscores the government's vision in promoting Islamic finance in the country. This initiative aligns with the broader efforts to diversify the financial sector and enhance financial inclusion. By launching an Islamic window, DBE is providing an additional avenue for Shariah compliant financial services, supporting the growth of the Islamic finance sector.

ECMA also has shown a strong commitment to cultivating an environment conducive to the development of ICM. This is evident in the incorporation of the "Islamic Capital Market" as a central focus in its (2024-2026) strategy to diversify the local capital market. This commitment is further reinforced by the initiation of this project to develop an ICM roadmap, which will serve as a guiding framework for the sector's growth in the coming years.

Together, these initiatives reflect the various efforts by stakeholders to develop individual plans and strategies to advance Islamic finance within their respective sectors. However, a significant challenge remains: the lack of a coordinated approach to integrate Islamic finance into Ethiopia's broader national development agenda. This fragmented approach may hinder effective growth and strategic planning, potentially leading to less impactful results.

Developing an ICM will be particularly challenging without a unified vision for Islamic finance in the country. The capital market is an essential component of a larger financial ecosystem, and it cannot function effectively in isolation. Its success relies on the interconnectedness of various financial institutions, regulatory frameworks, and supporting infrastructure. Therefore, a clear and unified policy for Islamic finance is critical for the successful development of an ICM in Ethiopia.

The lack of coordination and a clear national vision can result in significant efforts being made with little results to show for it. This issue has been observed in other countries, and it is valuable to learn from their experiences. For example, in Pakistan, despite the government's plan of gradually converting the entire financial system into Islamic since the 1980s, the Islamic banking market share stood around 10% at the end of 2013[90].

The State Bank of Pakistan (''SBP'') subsequently launched a new 5-year Strategic Plan to improve the market share of Islamic banking. New measures were introduced to create an enabling environment, including the creation of a new role of Deputy Governor at the SBP whose sole responsibility was to drive the 5-year plan by coordinating the efforts of all stakeholders and delivering the objectives of the plan. Pakistan subsequently announced by the end of 2019, the market share of Islamic banking was around 15%, a clear vindication for the strategic plan they had implemented.

Other key examples of such similar "National Leadership Approach" are Malaysia, and the UK. These countries have successfully managed to position themselves among the leading jurisdictions in the global Islamic finance industry. Further details are provided in the following sub-sections.

89 Ethiopian Securities Exchange, Rulebook, 2024

90 Strategic Plan for Islamic Banking Industry in Pakistan, 2014.

a) Malaysia

Malaysia's positioning is "World's Islamic Finance Marketplace" and it has been propelled by BNM over the last few years. As part of the overall Malaysian strategy to promote, strengthen and brand Islamic finance as one of Malaysia's key sectors, BNM has set up several supporting organizations. These organizations cover different aspects of Islamic finance in a comprehensive way and include:

1. Islamic Banking & Finance Institute Malaysia (''IBFIM'') – talent and human capital development in Islamic finance;
2. International Syariah Research Academy (''ISRA'') for Islamic finance;
3. International Centre for Education in Islamic Finance (''INCEIF'') – world's first university entirely dedicated to Islamic finance education; and
4. Finance Accreditation Agency ('FAA'') for consolidating and approving Islamic finance educational and training syllabus and accrediting the academic and training institutes.

All the organizations have been established by BNM, and their concerted efforts have positioned Malaysia as the leader in the global Islamic finance industry.

Finally, the Labuan International Business and Financial Centre ("IBFC") was established in 1990 under the administration of the Labuan Financial Services Authority as Malaysia's sole offshore business and financial hub within a special economic zone on the island of Labuan[91]. Today, Labuan is an attractive destination for companies from all over the world and it is regarded as a key international business hub and a premium Islamic financial center for regional Asian financial institutions looking to expand internationally, as well as for global financial institutions planning to enter the Asian markets.

b) United Kingdom

The UK, despite being a non-Muslim majority country, has recognized the growing importance of Islamic finance in the world economy and has supported its growth and development to maintain its world-leadership position as one of the largest international financial hubs.

Besides a number of measures taken to align the country's legal, regulatory and taxation regimes with the requirements of Islamic finance products and instruments, the UK government took a major step in March 2013 by officially instating the "UK Islamic Finance Task Force"[92]. The Task Force was given the role of "UK Ministerial Champion" to cement London's status as the western hub for Islamic finance by showcasing the UK as the preferred choice for the Muslim world to invest in and do business with. It also oversees the development of UK's Islamic finance sector with the objective of strengthening the UK economy by increasing inward investment for UK infrastructure.

The Task Force successfully led the 9th edition of the World Islamic Economic Forum in October 2013, the first time it was held outside the Muslim world. Top ranking officials including the UK Prime Minister made strong statements to promote Islamic finance as a national strategy for the UK at the forum. The strong political will demonstrated at the forum later transpired into UK's first sovereign Sukuk issued in summer 2014, the first sovereign issuance from a non-Muslim majority country.

Recommendations

i. Islamic Finance Task Force (IFTF)

It is recommended to set up an Islamic Finance Task Force ("IFTF")[93] as the central orchestrator, tasked with driving the development of a cohesive and sustainable Islamic finance ecosystem in the country. The IFTF's mandate is to translate the government's vision into actionable strategies, coordinate stakeholders, and ensure the effective implementation and monitoring of initiatives aimed at fostering the growth of Islamic finance. This approach has been adopted by several governments globally, including Malaysia and the UK.

The IFTF will be instrumental in positioning Islamic finance as a key driver of Ethiopia's inclusive economic development. It should be responsible for implementing the National Islamic Finance Policy and tracking its effectiveness and progress against set targets.

91 Labuan enjoys preferential tax status.

92 UK Government launches first Islamic Finance Task Force, 2013.

93 Islamic Finance Task Force (IFTF) is a generic name which has been temporarily given to this body. The name may be altered to suit the Ethiopian context.

The Ethiopian Government is advised to establish the IFTF to coordinate and support the development of the Islamic finance sector. The proposed structure of the IFTF is as follows:

- The IFTF should be chaired by the a Senior Government Official to provide the necessary political support, authority, and power for the task force to effectively serve as the national catalyst for Islamic finance.
- Three voting members from the MoF, the NBE, and the ECMA. This structure ensures that the three main government entities involved in the financial industry are directly represented by senior officials, which is critical for the successful implementation of the National Islamic Finance Policy.
- An executive director to manage all operational issues related to the IFTF (a senior official reporting to the chairman, preferably with working knowledge/experience in Islamic finance).
- An advisory panel of technical experts drawn from other stakeholders, including but not limited to public and private sector entities. This will help ensure that the IFTF benefits from diverse, specialised knowledge and insights from experts, fostering well-rounded decision-making and effective policy implementation.

Objectives of the IFTF include:

- Driving the development of a cohesive and sustainable Islamic finance ecosystem in the country;
- Leading the industry at macro level and assuming the role of the "Islamic Finance Champion" in Ethiopia;
- Creating harmony among all stakeholders and optimizing the performance of the industry; and
- Facilitating regulatory and institutional reforms.

ii. National Islamic Finance Policy

A unified vision for must be translated into a concrete national policy aimed at developing Islamic finance in Ethiopia. The policy would establish a strategic framework to align stakeholders and drive the growth of Ethiopia's Islamic finance sector. By incorporating Islamic finance into the broader development agenda, the policy would harness its potential to enhance financial inclusion, attract ethical and foreign investments, and mobilize capital for key economic priorities such as poverty alleviation, infrastructure, education, and SME development.

The policy should focus on creating an enabling environment for Islamic finance by ensuring that the legal, regulatory, and taxation frameworks are supportive and do not hinder the industry's growth. This will require introducing necessary amendments to these frameworks to facilitate the development of Islamic finance in Ethiopia.

iii. Islamic Capital Market Steering Committee (ICM-SC)

To ensure the effective implementation of this Roadmap, it is recommended that ECMA establish an inter-governmental steering committee. The primary role of the ICM-SC[94] will be to coordinate initiatives, align efforts, and provide technical guidance for the development of a robust ICM in Ethiopia. This coordination is especially needed when there is an overlapping of regulatory responsibilities between different regulator[94]. Effective coordination through this committee is essential to ensure a smooth development process for the ICM.

The ICM-SC should be headed by the ECMA's Director General, and its members should be composed of senior representatives from key stakeholders such as the National Bank of Ethiopia, the Ministry of Finance, the Ethiopian Securities Exchange, and Ethiopian Investment Holdings.

While the Islamic Finance Task Force (IFTF) will provide strategic oversight, the ICM-SC will focus on the practical, operational aspects of implementation, ensuring that initiatives are well-coordinated, challenges are addressed, and progress is aligned with national goals.

94 Islamic Capital Market Steering Committee (ICM-SC) is a generic name which has been temporarily given to this body. The name may be altered by the stakeholders to suit the Ethiopian context.

The following are some of the responsibilities of the ICM-SC:

- Ensuring effective coordination between different government agencies to align their actions and initiatives with the overall strategies to develop ICM;
- Coordinating with relevant stakeholders to promote the development and adoption of ICM products;
- Leading the coordination and oversight of a nationwide sensitization campaign on Islamic finance and ICM, aimed at raising public awareness and highlighting its potential contribution to Ethiopia's economic development; and
- Creating harmony among all stakeholders and optimizing the performance of the ICM sector.

iv. Strategic Government Initiatives

As part of the National Islamic Finance Policy, the IFTF is advised to include several strategic government initiatives designed to support the development of Ethiopia's emerging ICM. These initiatives may encompass the following:

- Launching Special Retail Sukuk Program

Capitalizing on Ethiopia's large and growing Muslim population, the Ethiopian Government should consider leveraging retail Sukuk as a strategic tool for raising capital, particularly for funding critical public infrastructure projects. Ethiopia's untapped domestic savings, particularly from its Muslim community, presents a valuable resource that could be mobilized through Sukuk issuance to support national development goals. The government can tap into this underutilized capital while fostering a sense of economic participation and empowerment within the local community.

Based on this, it is recommended that MoF, in partnership with NBE, consider the launching of a Special Retail Sukuk Program designed to support socially impactful projects, such as education, healthcare, infrastructure, and environmental sustainability, aligning with national development goals.

- Issuance of Islamic Treasury Bills, Notes and Sukuk

In addition to issuing Retail Sukuk, the government can explore other Islamic financial instruments to further diversify its funding sources and support its fiscal needs. As highlighted earlier, the government currently relies on conventional financial instruments to raise capital to address its budget deficits. Incorporating Islamic financial instruments into the government's financing strategy would not only provide an alternative means of raising funds but would also contribute to enhancing fiscal sustainability by expanding the pool of available resources.

The introduction of these Islamic liquidity tools would also be instrumental in helping Islamic banks and Islamic windows in Ethiopia manage their liquidity more effectively. As indicated earlier, these banks face challenges in managing their liquidity, due to a limited range of Shariah compliant instruments and tools available within the domestic market.

Considering this, it is recommended that MoF, in partnership with NBE, work on establishing the necessary internal infrastructure and introduce the required legislative amendments to facilitate the issuance of Islamic Treasury Bills, Islamic Treasury Notes, Islamic Treasury Sukuk, and Government Sukuk.

These steps will create a conducive environment for the issuance of Shariah compliant instruments, ensuring that the government can effectively tap into the Islamic finance market to meet its funding needs while fostering the growth of the ICM in Ethiopia.

- Promoting Sukuk Issuance by Public Sector Entities

Another key initiative that the government can pursue to support the development of ICM is to promote the use of Sukuk by government-linked entities and SOEs. As mentioned earlier, several of these institutions, including the DBE and EIH, have already expressed interest in Sukuk issuance.

SOEs have also significant opportunities to tap into the Sukuk market to raise capital for various projects, thereby diversifying their funding sources and enhancing financial flexibility. EIH, as the primary shareholder in several prominent SOEs, has substantial influence over their borrowing decisions.

Therefore, EIH should implement a policy requiring SOEs to prioritize Sukuk issuance, particularly for large-scale infrastructure projects, positioning Sukuk as a mainstream financing tool across these entities. Moreover, CBE, as the largest player in the Islamic banking sector, controlling around 65% of the market, is well-positioned to explore Sukuk issuance as part of its capital-raising strategies.

Based on this, It is recommended that DBE, EIH, CBE, and other SOEs adopt Sukuk issuance as a complementary financing tool, with a policy ensuring that a specific portion of all funds raised by these institutions come from Sukuk. This approach would not only diversify funding sources but also improve liquidity management for local Islamic financial institutions. Additionally, it would attract a broader investor base, including both domestic and international Muslim and ethically oriented investors, supporting the overall growth of Ethiopia's emerging ICM.

- Promoting the Development of Shariah Compliant Pension Schemes

To further support the development of Islamic finance in Ethiopia, it is recommended for the Public Servants' Social Security Agency (PSSSA) and the Private Organizations Employees' Social Security Agency (POESSA), to offer Islamic Pension schemes. These schemes would offer an alternative to conventional pension plans, ensuring that employees have the option to contribute to retirement savings in a manner consistent with their religious and financial beliefs.

It is important to note that establishing an Islamic pension scheme does not require the formation of a separate legal entity. The primary focus should be on ensuring that contributions to Islamic pension schemes are pooled separately from conventional schemes, which can be achieved through appropriate operational, accounting, and systemic controls. These pooled funds should be invested solely in Shariah compliant assets, including ICM instruments such as Sukuk, ensuring alignment with Shariah principles while providing sustainable retirement benefits. This will ultimately generate a direct channel of demand for ICM products.

- Supporting Islamic Banking

To further support the development and growth of Islamic banking in Ethiopia, it is recommended that all ministries, government institutions, and State-Owned Enterprises be required to deposit a minimum proportion of their funds in Islamic banking accounts. This measure would provide a significant boost to the liquidity and financial stability of Islamic banks operating in the country. This will ultimately boost the liquidity of Islamic banks, providing them with the necessary capital to participate in and support the development of the ICM.

It is also recommended to include interest-free banks in the list of government-operational banks and offer government employees the option to receive their salaries through either interest-free or conventional bank accounts.

10.2. Institutional Capacity

a) Resource Allocation

Establishing adequate institutional capacity is essential for ECMA to effectively drive the development of the ICM in Ethiopia. The growth of a robust ICM depends on a well-equipped and capable institution that can develop sound regulations, ensure proper market oversight, and foster collaboration among all stakeholders. In the absence of sufficient organizational resources, expertise, and systems, ECMA will face significant challenges in achieving its objectives and unlocking the full potential of Islamic finance in the country.

Currently, ECMA lacks permanent dedicated human resources responsible for leading and coordinating ICM initiatives. This is understandable, as ECMA is still in the process of establishing its core organizational functions. However, as ICM evolves in the coming years, it is crucial to address this gap and avoid the missteps made by the NBE. Despite the existence of interest-free banking in Ethiopia for over a decade, the NBE has not assigned a full-time staff member dedicated to leading Islamic banking development projects and initiatives. This absence of focused oversight is a key factor contributing to the slower progress of interest-free banking in the country.

ECMA has taken a commendable step by allocating resources to coordinate this project on developing the roadmap, demonstrating its serious commitment to ICM development. This is a positive move in the right direction. However, it is essential to go further by establishing permanent, dedicated resources to lead and coordinate ICM initiatives for long-term success.

Dedicating sufficient resources to develop the ICM is not an unusual practice; several countries that have successfully developed ICMs have followed this approach. For instance, at the outset of its efforts to build the ICM, Malaysia, a global hub for Islamic finance and a leader in ICM development, established a dedicated department to support the growth of ICM. This department was tasked with conducting research, driving development initiatives, and formulating long-term plans to further strengthen Malaysia's ICM.

b) Building Internal Capacity

During the engagement with ECMA management and staff, it was highlighted that there is a lack of specialized knowledge and skills in Islamic finance and capital market instruments such as Sukuk and Islamic funds. This knowledge gap poses a challenge for the effective supervision, regulation, and promotion of these products, once become available in the market. Addressing this knowledge gap will be crucial for the successful development and oversight of ICM products.

Recommendations

i. Islamic Capital Market Lead

To support the development of the ICM, it is strongly recommended that ECMA allocate dedicated human resources to drive its growth. While it may be too early to establish a separate division or team specifically for ICMs, given ECMA's recent establishment and the current nascent state of the market, it is advisable to appoint a senior person within ECMA to lead the development efforts.

This ICM Lead should be equipped with in-depth knowledge of Islamic finance in general, as well as specialized expertise in ICM products and offerings. To this end, the selected person must undergo intensive training to develop the necessary capacity and expertise to effectively carry out the responsibilities assigned to them. Such a leadership role would be critical for guiding the development of the ICM and ensuring its effective promotion and regulation.

A primary role of this lead will be to liaise with internal stakeholders and key divisions within ECMA, such as the Licensing, Supervision and Enforcement Division, the Strategy, Regulatory Policy and Risk Division, and the Market Development and Capacity Building Department. Acting as the subject matter expert in ICM, all work related to ICM will be coordinated through him. He will closely collaborate with these respective functions to provide the necessary guidance and advice, leveraging his expertise to ensure a cohesive and aligned approach to the development, regulation, and promotion of the ICM.

The lead responsibilities should include the following:

- Contributing to the enhancement of the legal and regulatory framework to foster the development of the ICM.
- Promoting public awareness and education about ICM products through workshops, seminars, and training programs.
- Monitoring and analyzing market trends in Islamic finance globally and regionally, applying best practices to the Ethiopian context.
- Collaborating with financial institutions to support the issuance and trading of ICM products.
- Engaging with international Islamic finance bodies such as AAOIFI and IFSB to foster partnerships, seek expertise, and ensure alignment with global standards.
- Providing regular reports and recommendations to ECMA's senior leadership on progress, challenges, and opportunities in developing the ICM.
- Leading training and capacity-building initiatives for ECMA staff and market participants to deepen their understanding of ICMs.

ii. Structured Approach to Capacity Building

Given the significant need for capacity building in ICM within ECMA, it is strongly recommended to adopt a structured and continuous capacity building approach rather than a one-time initiative. This will enable staff to develop the necessary expertise progressively, with regular refresher training to stay aligned with international standards and best practices.

The overarching objective of this capacity building framework is to assist the internal stakeholders in duly discharging their professional duties and responsibilities towards regulating and supervising the emerging ICM sector, ensuring alignment with international standards and best practices.

The learning objectives of these tailored capacity-building programs should include, but not be limited to:

- Understand key Islamic financial and investment products, their legal and Shariah compliance features, technical characteristics, operational applications and specific risks with a focus on innovation and product development in other leading ICM s.
- Equip the stakeholders with the needed knowledge, skills and comprehension of the various regulatory and supervisory tools needed to build the required internal capacity to prudently supervise the developing ICM in Ethiopia.
- Raise awareness on the potential role that ICM could play in the national economic development by way of attracting foreign direct investments, boosting financial inclusion, deepening financial markets, promoting entrepreneurial culture, and providing new financial alternatives for all Ethiopians.

To ensure establishing a well-coordinated and sustainable capacity building framework, the Islamic Capital Market Lead should actively participate in and oversee the implementation of the following recommendations:

a) Launch a comprehensive and multi-level capacity building program starting with foundational topics covering the fundamentals of Islamic finance and ICM which should be made available to all staff. More specialized and advanced training can be tailored to target different internal stakeholders based on their specific roles, covering topics such as Shariah governance, regulations, Sukuk structuring, liquidity management, and taxation. To ensure continuous learning, it is essential to regularly assess training needs, provide refresher programs, and update training materials in response to industry developments and local market demands.

b) To gain international exposure and benefit from global experiences, it is recommended to take the following steps:

- Organize technical workshops (online or onsite) with other ICM sector regulators, industry bodies, and standard-setting institutions to keep up to date with the industry's developments and innovation, and to gain a better international perspective on the Islamic financial services industry.
- encourage participation in global Islamic finance conferences, certification programs, and exposure visits to enhance local expertise and strengthen regulatory and market development capabilities.
- Establish cooperation programs with leading global countries in Islamic financial services, such as Malaysia, UAE and Bahrain, to develop and exchange best practices and strategies. Collaborating with regional countries like Kenya and Nigeria which are also advancing their Islamic finance industry, would also be highly beneficial.
- Consider becoming a member of international standard-setting bodies for the Islamic finance industry, such as AAOIFI, IFSB, and IIFM, and collaborate with them on research, education, and training initiatives.
- Ensure continuous learning by regularly assessing staff training needs, delivering refresher programs, and updating training material based on industry developments and local market demands.

10.3. Shariah Governance

a) Overview of Existing Shariah Governance in ICMs

The ECMA management recognized the importance of Shariah governance in the ICM early on and, as an initial measure, introduced a license for Securities Shariah Advisers (SSAs). The Capital Market Service Providers Licensing and Supervision Directive No. 980/2024 further defines the licensing and competency eligibility criteria, as well as the capital requirements for SSAs. This is a positive step and a commendable measure toward establishing an initial base for Shariah governance in Ethiopia's ICM.

However, the above-mentioned directive positions SSAs under "Client Functions", potentially limiting their role to product-specific Shariah endorsements. While this might be sufficient at an Islamic product-level, a comprehensive, institution-wide SGF is essential for participants where ICM offering is an integral part of the business, whether as a full-fledged ICM participant or an Islamic window. Furthermore, the directive does not provide a broader framework for Shariah compliance oversight, industry-wide Shariah governance arrangements, or clear regulatory enforcement requirements.

Based on the above, the absence of a clearly defined and dedicated SGF for ICM presents a significant barrier to the industry's development. It also exposes the ICM to Shariah non-compliance risks, which, if not properly mitigated and managed, could lead to both reputational and financial damage.

Nevertheless, given that Ethiopia's ICM is still in its infancy, the absence of SGF is expected and understandable. Further developments are likely to depend on the broader progress of capital market infrastructure, particularly the establishment of enabling legal and regulatory frameworks.

The sub-sections below provide more details on the recommendations for managing Shariah governance at the sector, institution, and product levels within the Ethiopian ICM, and a quick-win proposal for Shariah screening of share companies.

Recommendations

i. Central Shariah Advisory Board

Considering the findings from secondary research, stakeholder consultations[95], reported public differences in Shariah opinions causing confusion, and the benchmarking analysis, a centralized Shariah governance model is recommended for Ethiopia's ICM. This model includes an advisory body, namely the Central Shariah Advisory Board (CSAB), attached to the ECMA. This proposal aligns with industry standards[96] and best practices[97] while being tailored to the local context and requirements of the Ethiopian market.

The CSAB shall be the primary Shariah governance authority established as an independent and legally anchored[98] entity to oversee Shariah governance in Ethiopia's ICM. Attached to ECMA, it will provide sector-level Shariah compliance guidance and assurance for ICM stakeholders in Ethiopia[99].

95 The stakeholders met during the fact-finding mission of the project including but not limited to ECMA, NBE, Islamic banking providers, and Shariah scholars, reported that a centralised Shariah board would support the market development.
96 AAOIFI Governance Standard No. 8 - Central Shariah Board.
97 8 out of the top 10 countries (including Malaysia, Saudi Arabia, Indonesia, Bahrain, Kuwait, UAE, Oman and Pakistan) in Islamic finance according to the Islamic Finance Development Indicator (joint initiative between the ICD, Islamic Corporation for the Development of the Private Sector, a member of the IsDB Group, and Refinitiv, a leading provider of financial market data and infrastructure) have adopted the centralized model of Shariah governance.
98 This is critical to provide legitimacy, credibility, and adequate authority to have the final decision on the interpretation of Shariah matters and support ECMA to establish applicable Shariah standards/guidelines related to the ICM.
99 The IFTF may also consider either expanding the mandate of the CSAB into a standalone body responsible for overseeing Shariah matters across the entire Islamic finance industry, including Islamic banking, microfinance, insurance, and others, or establishing dedicated sub-committees under the CSAB for specific sector(s) such as Islamic Banking and Microfinance Shariah Committee, ICM Shariah Committee, etc.

Key responsibilities of the CSAB are as follows:

- Advise ECMA on the development of legislative, regulatory, and supervisory frameworks for the ICM, including market-wide guidelines and requirements for Shariah governance, compliance, and audit. This will ensure a reasonable level of consistency and standardisation in ICM products and services offered/used by market participants.
- Supervise and oversee Shariah compliance in Ethiopia's ICM at a macro level, in coordination with ECMA, to ensure proper Shariah governance and adherence to Shariah requirements across ICM products and activities[100].
- Mitigation of conflicts of interest related to the institutional SGF and resolve any differences of Shariah opinion among institutional SSBs.
- Provide Shariah advisory to other financial sector regulators and government bodies such as NBE, MoF, ESX, and EIH, in coordination with ECMA, on matters and initiatives related to the ICM, including sovereign Sukuk issuances, Islamic funds and investment products, etc.
- Resolve Shariah related disputes and serve as ECMA's ultimate arbitrator on Shariah interpretation for ICM matters in Ethiopia.
- Provide Shariah consultations to competent courts in litigation cases related to ICM disputes in Ethiopia, ensuring that judicial decisions align with Shariah principles and relevant regulatory requirements[101].
- Play a thought-leadership role in research and innovation in the local ICM (e.g. product development and Shariah compliance assurance).
- Collaborate with ECMA to support public awareness campaigns and educational programs that promote ICM products, highlight their economic benefits, and address misconceptions about Shariah compliant investment opportunities, emphasising their role as alternative ethical financial solutions accessible to all Ethiopians.
- Assist ECMA in enhancing the credibility of Ethiopia's ICM, strengthening investor confidence in Shariah compliant investment products, and positioning Ethiopia as a committed and emerging jurisdiction for ICM development.

In terms of CSAB's composition, it is important to prioritize expertise and local representation. The CSAB could consist of seven members, including five Shariah scholars and two technical experts, with a majority being Ethiopian nationals to build local capacity. Additionally, the inclusion of international scholars and experts will facilitate knowledge transfer, ensuring alignment with global best practices.

Based on the above, it is expected that the CSAB will help ECMA in managing systemic Shariah non-compliance risks, ensuring regulatory stability, raising public awareness, and enhancing market confidence in the local ICM.

By harmonizing Shariah compliance through a centralized model, this could help in reducing costs, accelerating product development efforts, and enhancing operational efficiency. The centralized model would further align Ethiopia with leading Islamic finance jurisdictions like Malaysia and emerging ones like Kenya, strengthening its competitiveness in the regional and global ICM landscape.

It is important to note that the establishment and operationalization of the CSAB require addressing key issues, including the mechanism for providing the needed legal anchoring, defining its scope of jurisdiction, establishing appropriate fit and proper criteria, and developing its operational framework. A detailed analysis is necessary to address these issues and ensure a seamless and successful integration of the CSAB into the ICM sector.

100 The CSAB will not have a regulatory role, as its primary function will be to provide advice and guidance to ECMA, which will remain the regulator of ICM in Ethiopia.

101 The CSAB will not function as a court and will not have judicial jurisdiction.

ii. The Shariah Governance Framework Directive

While the establishment of the CSAB at the sector level is a crucial step, it is equally important to implement a comprehensive SGF that provides clear requirements and guidelines at both the institutional and product levels. To this end, it is imperative that the ECMA issues a Shariah Governance Framework Directive (hereinafter referred to as the "SGF Directive"), which will serve as the Shariah governance regulatory foundation for ICM participants, products, and services.

The proposed SGF Directive should comprehensively cover the following key areas, among others:

i. Institutional Shariah Governance Organs and Requirements

- Define the Shariah governance organs applicable to full-fledged ICM participants, Islamic windows, and ICM products, and specify how they interact with the CSAB, where applicable.
- Establish the roles, responsibilities, and accountability of the board of directors, senior management, institutional SSB, and relevant staff in relation to Shariah governance.
- Specify the required SGF documentation to be established by different types of ICM participants, ensuring a structured and standardised approach to Shariah governance[102].
- Outline Shariah compliance, review, risk management, control, and audit requirements across all stages of the ICM products' lifecycle to ensure continuous adherence to Shariah principles.
- Consider mandating compliance with the Shariah Standards of AAOIFI as a regulatory requirement for full-fledged ICM participants, Islamic windows, and ICM products[103].

ii. Shariah Certification Process

- Define the Shariah authorities at both the institutional and product levels that are qualified to issue Shariah opinions ("Fatwas"). These authorities may include institutional SSBs, external Shariah advisers, or specialised Shariah advisory firms.
- Outline the procedures for obtaining Shariah certification for ICM products and services.
- Establish conflict of interest requirements in the Shariah advisory and certification process to ensure independence, objectivity, and transparency.

iii. Fit and Proper Criteria for Shariah Governance Personnel

- Set comprehensive criteria for the appointment of institutional SSB members, Shariah auditors, Shariah advisory firms, and other personnel, emphasising qualifications, experience, and integrity.
- Define ongoing professional development requirements to maintain high competency levels.

iv. Transparency, Disclosure, and Reporting Requirements

- Mandate the disclosure of key Shariah governance policies, ICM products' Fatwas, and the overall Shariah compliance status of ICM participants and instruments to the stakeholders[104].
- Require periodic reporting on the Shariah compliance status of ICM participants and activities, Shariah audit findings, and Shariah non-compliance risk assessments to ECMA.

v. Enforcement Mechanisms and Sanctions for Non-Compliance

- Define enforcement actions and penalties for breaches of the SGF requirements.
- Establish procedures for addressing and rectifying instances of non-compliance, including corrective action plans and monitoring.

102 E.g. Shariah governance policy, Shariah compliance manual, Shariah non-compliance risk management framework etc.

103 These standards are considered the unanimous opinion of Shariah scholars representing different schools of Islamic jurisprudence worldwide on Islamic finance and ICM, and they have been adopted in many countries. Adoption of such standards in Ethiopia provides an internationally recognised benchmark for Shariah compliance and facilitates day-to-day business activities in the ICM, particularly where local capacity may be limited due to the ICM being newly introduced.

104 An institutional SSB typically issues an annual brief report (1-page) to provide its overall opinion on the Shariah compliance status of an ICM participant's activities.

iii. Shariah Screening for Share Companies

As discussed in section (8), the initiative to classify share companies and designate their stocks as Shariah compliant is expected to quickly boost the development of the ICM in Ethiopia. Based on this, ECMA, in partnership with ESX, is advised to establish a structured and transparent framework for identifying Shariah compliant share companies, covering both private (unlisted) and public (listed) businesses. This initiative primarily aims to expand investment opportunities for Muslim and ethically conscious investors in the short to mid-term. Recommendations for implementation are as follows:

- ECMA to issue Shariah screening guidelines aligned with AAOIFI's Shariah Screening Methodology, with necessary adjustments for the Ethiopian market context. The guidelines should clearly outline the Shariah screening criteria for both public and private share companies.

  As part of the guidelines, companies seeking Shariah compliant designation must undergo an annual certification and review by eligible Shariah adviser(s) and/or Shariah advisory firm[105].

- ECMA to develop an online self-assessment toolkit on its official website enabling companies to conduct an initial compliance check against the published Shariah screening criteria[106].

- ECMA and/or ESX to introduce a publicly available and periodically updated list of Shariah compliant share companies (both public and private) to enhance transparency and investor confidence.

As Ethiopia's public equity market develops over the years, ECMA may consider revising the Shariah screening requirements for publicly listed companies. ESX may also partner with a specialised data provider firm to manage the Shariah screening process for public share companies and facilitate the creation of Islamic Public Equity Index(es) in Ethiopia, enhancing market transparency and investment opportunities for Muslim and ethically oriented investors.

10.4. Legal, Regulatory, and Supervisory Framework

a) Legal System in Ethiopia

Ethiopia's legal system is based on codified laws, drawing inspiration from the French, Swiss, and other European civil law systems. Customary law also plays a significant role, particularly in rural areas. The system also includes procedural laws principally inspired by the common law system. The civil system includes comprehensive, continuously updated written legal codes such as the Civil Code and the Commercial Code.

b) Capital Market Legal Framework

Ethiopia's capital market legal framework is governed by several key proclamations and regulation, with the Capital Market Proclamation No. 1248/2021 serving as the foundational legislation. This proclamation establishes the foundational infrastructure for Ethiopia's capital market, defining critical terms such as "Debt Security" and "Securities," which include bonds, shares, derivatives, and other financial instruments.

This proclamation also outlines the establishment and powers of the ECMA, detailing its oversight and enforcement roles, as well as licensing requirements for service providers. The proclamation provides a good legal foundation and general framework that, with the necessary amendments, can facilitate the integration of ICM instruments like Sukuk into the capital market.

The Ethiopian Civil Code of 1960 further enriches the legal landscape by addressing property law, contract law, and administrative law, providing general rules on arbitration and compromise, concept of usufruct, agency, and obligations that can serve as a basis for a number of ICM instruments. Complementing this, the New Commercial Code of Ethiopia Proclamation No. 1243/2021 regulates commercial activities, including business structures and insolvency proceedings, offering existing frameworks for Islamic financial transactions.

103 The fit and proper criteria for Shariah advisers/firms can be defined within the Shariah Screening Guidelines as an interim measure until the proposed SGF Directive is issued and enacted.

104 This will help businesses to conduct an initial check to assess their eligibility for Shariah compliant designation before undergoing formal certification, improving efficiency and accessibility in the screening process.

Additionally, the Federal Government Financial Administration Proclamation No. 648/2009 and its amendment No. 970/2016 establish a comprehensive framework for managing public funds, including borrowing, issuing securities, and debt management. These proclamations define "security" to include treasury bills, notes, and bonds, and outline procedures for guarantees, repayments, and record-keeping, creating a reasonable foundation for incorporating Sukuk into the public debt management system, provided that the required legislative reforms are enacted.

The Council of Ministers Regulation No. 190/2010 further details the implementation of federal government financial administration, covering definitions, disbursement procedures, debt management strategies, and investment of surplus funds in securities. Together, these existing legislative frameworks provide an existing legal environment for the development of both conventional and potentially Shariah compliant financial products in Ethiopia.

c) Capital Market Regulatory and Supervisory Framework

Ethiopia's capital market regulatory and supervisory framework primarily consists of multiple directives issued by the ECMA to govern capital market activities.

The Capital Market Service Providers Licensing and Supervision Directive No. 980/2024 establishes licensing and supervision requirements for capital market service providers, covering corporate governance, capital adequacy, fit and proper criteria, and digital services. Notably, it recognizes SSA, defining their roles and relevant licensing regulatory requirements, which is a good initial step toward establishing a proper Shariah governance framework within the securities market.

Similarly, the Public Debt Management and Guarantee Issuance Directive No. 46/2017 outlines debt management regulations. This directive, with potentially minor amendments, can provide a reasonable regulatory foundation for the introduction of Sukuk as a public debt instrument in Ethiopia.

Meanwhile, the Public Offering and Trading of Securities Directive No. 1030/2024 outlines regulations for public offerings and trading of securities, detailing registration requirements for shares, debt securities, and preferred rights. By establishing timelines and procedures for application review and approval, the directive ensures transparency and efficiency in the securities market while creating a broad framework for public offerings for all securities, which could be largely applicable to Islamic securities.

The Directive on Licensing, Operation, and Supervision of Securities Exchanges, Derivatives Exchanges, and Over-The-Counter Market No. 1009/2024 lays the groundwork for operating exchanges and over-the-counter markets, detailing licensing procedures, fees, and operational standards. It covers areas such as capital requirements, governance, risk management, technology, and surveillance, ensuring robust oversight of trading platforms.

Complementing this, the Capital Market Authority's Fee Directive No. 996/2024 outlines various fees applicable to capital market participants, covering a couple of provisions for Islamic financial transactions. It defines "Sukuk Bond" as a Shariah compliant debt security and assigns distinct application, licensing, and renewal fees for SSA (both corporate and individual).

The Directive on Recognition and Supervision of Self-Regulatory Organisations No. 1031/2024 specifies criteria for recognizing and supervising Self-Regulatory Organisations (SROs). It details the application process, duties, and responsibilities of SROs, emphasizing fit-and-proper standards and governance structures. This allows exchanges to potentially establish specialized platforms or listing procedures for Islamic securities, subject to ECMA approval, thereby fostering an inclusive and competitive market environment. Together, these directives form a comprehensive regulatory and supervisory framework that could potentially support both conventional and ICM instruments.

d) Potential Barriers in the Legal, Regulatory, and Supervisory Framework

While the existing legal, regulatory, and supervisory framework (LRS) of capital market provides a foundation for potentially introducing ICM in Ethiopia, there are certain barriers that prevent the recognition and treatment of certain ICM products in the LRS.

The following outlines the key gaps and barriers that exist within the LRS, which need to be addressed to foster the growth and integration of ICM in the country:

- Absence of legal and regulatory recognition for Islamic finance contracts, their key features, and the treatment of their distinct returns, creating uncertainty in structuring and enforcing transactions.
- Lack of proper definitions for ICM products and instruments[107], limiting market participants from offering or using Shariah compliant investment opportunities.
- Absence of legal anchoring for the CSAB at ECMA.
- Absence of legal and regulatory basis for Shariah Governance Framework Directive (SGF Directive)[108].
- Legal, regulatory, and supervisory gaps for enabling Sukuk, preventing its integration into the existing capital market.
- No dedicated and clear provisions in the LRS for integrating Sukuk into Ethiopia's public debt management system, resulting in the absence of government-issued Shariah compliant securities.
- No legal or regulatory provisions to establish a Shariah compliant compensation scheme under the compensation fund.
- Absence of specific disclosure requirements for ICM products, including Shariah compliance certificates, SSB opinions, and other relevant disclosures in the LRS.

Recommendations

Ethiopian policymakers, lawmakers, and regulators are advised to introduce a number of amendments and draft the relevant legal texts to implement the required legal, regulatory, and supervisory reforms for the full integration of the ICM and ensure it operates on a level playing field with the conventional capital market in Ethiopia. The table below highlights the recommendations to address the identified barriers that should be considered in the process of introducing the required reforms in the LRS:

Table 6. Recommendations for Establishing an Enabling LRS for ICMs

RECOMMENDATION	PARTICULARS AND RATIONALE
Amend the LRS to define Islamic finance related contractual arrangements along with their key features and clarify the treatment of their distinct returns[109].	Defining Islamic finance contracts and outlining their key characteristics and clarifying the treatment of their unique returns in LRS ensures legal clarity, Shariah compliance, and integration within the broader system. It provides a common understanding among stakeholders, prevents misinterpretation, and facilitates standardized practices aligned with industry standards. Additionally, clear recognition of Islamic finance contracts enables accurate financial reporting, appropriate tax treatment, and enhance legal enforceability, reducing disputes that supports market growth, encourages product innovation, and attracts investors by creating a stable and predictable regulatory environment. The LRS should also recognize Islamic finance return alternative to interest income, where applicable. It is essential for the framework to formally recognize Islamic finance returns as distinct from interest income, in accordance with the underlying Islamic finance contracts, ensuring they are classified appropriately in line with the principles of Shariah. In this regard, any amendments in the LRS should align with, and maintain consistency in terminology and approach with amendments (if any) to the Civil Code, Commercial Code, and tax legislation, ensuring consistency, and clarity across different pieces of the country's legislation.

107 This could be done by either by amending existing definitions and/or introducing new definitions in the LRS depending on the nature of the instruments.
108 Further details on this are provided in Shariah Governance Framework section No.10.3
109 As alternative to interest, where applicable.

RECOMMENDATION	PARTICULARS AND RATIONALE
Establish the needed legal anchoring for Sukuk and other ICM products.	A definition of "Sukuk"[110] should be introduced in the LRS to recognize it as a Shariah compliant alternative to a bond instrument that can be issued by government, quasi-government and corporates, among others. In addition, the existing definition of "Securities"[111] broadly cover various instruments like shares, bonds, and derivatives. It could be needed as well to amend this definition to include Sukuk, and other ICM instruments like ICM structured products and Shariah compliant alternatives to derivatives, where applicable. The legal anchoring to other ICM products, such as Islamic mutual funds and Islamic collective investment schemes, might also be required to ensure their legal recognition and providing legal basis for introducing specific regulatory and supervisory requirements to their activities like the ones to be included in the SGF Directive. The existing definition of "Collective Investment Scheme"[112] is broad and ECMA may consider amending this definition to include "Islamic Collective Investment Scheme" to achieve a level playing field between conventional and Islamic schemes with the latter being subject to additional SGF requirements.
Introduce the necessary amendments in the LRS to incorporate Sukuk into the public debt management system.	While Sukuk may arguably fall under the general definition of 'Securities' in Proclamation No. 648, the LRS for public debt management is designed specifically for enabling conventional bonds and other interest-bearing fund-raising instruments. Based on the above, defining Sukuk and introducing ad-hoc provisions to provide clear legal and regulatory basis for the same is deemed very important for the adequate and effective integration of Sukuk into the public debt management system in Ethiopia with parity to conventional bonds, including clear definitions, roles, and governance requirements[113].
Provide the needed legal basis for the CSAB at ECMA.	To establish the CSAB as a formal advisory body to ECMA, it must be legally recognized and empowered. The appropriate way to achieve this may require deeper analysis and further consultation with relevant stakeholders. In principle, it could be done through an Executive Order from the Prime Minister (strong political support and backing), dedicated Council of Ministers Regulation (ensuring government-wide recognition), amendment to Capital Market Proclamation (the key legislative document for capital market in the country), etc. The primary objective is to ensure that the CSAB has the legitimacy, authority, and power to effectively support ECMA in overseeing Shariah compliance in ICM instruments and activities. Moreover, as the CSAB shall be attached to ECMA, its resolutions shall be binding on all institutional SSBs, Shariah advisers/personnel, and Shariah advisory firms engaged with ICMPs. Without clear and adequate legal anchoring, the role of the CSAB could be weakened, limiting its effectiveness in mitigating Shairah non-compliance risks at the sector-level.
Provide the legal basis for the Shariah Governance Framework Directive.	The SGF Directive shall serve as the overarching regulatory and supervisory document detailing all Shariah governance and compliance oversight organs and arrangements applicable to different types of ICMPs and instruments. Therefore, it is critical to establish the legislative basis in the relevant proclamation(s) for the issuance of the SGF Directive in Ethiopia. Otherwise, the SGF Directive, if successfully issued, may lack legal enforceability and could potentially face legal challenges in courts with issues in implementation and compliance.

110 It is important to note that the term 'Sukuk' was mentioned in the Rulebook of the Ethiopian Securities Exchange (ESX), 2024 while in ECMA-Fee-Directive-No.996/2024 used the term "Sukuk Bond" with no definition provided in the LRS.

111 Defined in Capital Market Proclamation No. 1248/2021 and Federal Government Financial Administration Proclamation No. 648/2009

112 Defined in Capital Market Proclamation No. 1248/2021

113 The key stakeholder in this recommendation is the MoF, unlike the other recommendations in this section where ECMA is the main stakeholder. This is because the MoF plays a central role in public finance, debt management, and fiscal policy, making it the most relevant entity to own and implement this specific recommendation.

RECOMMENDATION	PARTICULARS AND RATIONALE
Develop the necessary legal, regulatory, and supervisory basis to fully integrate Sukuk into Ethiopia's capital market.	Sukuk is a unique instrument where it is structurally different from conventional bonds with various potential contractual arrangements such as profit deferred payment sales, sale and lease back structures, profit-sharing partnerships, investment agency relationships, etc. Therefore, it is important to create the necessary legal, regulatory, and supervisory foundations for the integration of Sukuk into the LRS. This should include clear definitions and requirements for the main Sukuk parties, issuance and listing procedures, application and approval processes, Sukuk structures and their main features, eligible asset types for Sukuk structuring, asset ownership and transfer rules, SPV establishment and management, utilization of proceeds, rating, depository and settlement, audit, reporting, disclosure, penalties and sanctions, risk management, redemption mechanisms, Shariah governance, etc. A well-defined framework for Sukuk will ensure regulatory clarity, investor protection, and market stability, aligning with international best practices while taking into account's Ethiopia's unique context.
The LRS to be amended to provide legal, regulatory and supervisory parity between Islamic and conventional capital market participants and instruments, where applicable.	General administrative and licensing requirements, market oversight, disclosures, trading regulations, corporate governance, risk management, and supervisory measures applicable to conventional capital market activities are also largely applicable to ICMPs and instruments. However, ICMPs and instruments must comply with additional special requirements including but not limited to adherence to the requirements of the SGF Directive. Therefore, it is important to ensure that the LRS is amended to achieve parity between both conventional and ICM in the aforementioned areas, as this is crucial for achieving alignment and market integration.
Provide legal and/or regulatory provisions to establish a Shariah compliant compensation scheme under the compensation fund.	Overarching objective of this Shariah compliant compensation scheme is to extending compensation fund coverage to ICM instruments, where applicable. Establishing a Shariah compliant compensation scheme does not necessarily require a separate legal entity but must ensure segregation from conventional funds through systemic, operational, and accounting controls. Contributions should be pooled separately and exclusively invested in Shariah compliant assets, including ICM instruments like Sukuk. At present, it is understood that the compensation fund is not established yet and in accordance with the ECMA's objectives in Strategic Plan 2024-26, development of Compensation Fund Regulation and Directives is at the drafting stage. Thus, it is advised to use this opportunity to include required provisions for Shariah compliant compensation scheme.

A regulatory sandbox may be considered as an interim mechanism to facilitate the accelerated issuance of Sukuk, particularly sovereign Sukuk. However, its implementation must be supported by a comprehensive legal assessment to determine whether the sandbox can override potential taxation impediments, and/or provide temporary exemptions from existing tax legislation, and other conflicting legislative provisions.

10.5. Taxation Framework

While taxation policies and relevant legislation are generally designed to ensure fair revenue collection and economic stability, their impact on ICM activities and instruments must be carefully assessed due to the unique nature and features of Islamic finance.

For the purposes of this Roadmap, having a broad perspective and understanding about the existing tax legislation is crucial for identifying potential gaps and areas of misalignment in the current tax system that may affect the emerging local ICM. To this end, below is a summary of key documents of tax legislation in in Ethiopia:

Federal Income Tax Proclamation No. 979/2016. This proclamation establishes a federal income tax system for Ethiopia, outlining tax rates for individuals and businesses with numerous provisions for various income categories (employment, rental, business, and other income sources). The proclamation also details taxpayer categories, addresses international tax implications, provides guidelines for eligible tax deductions, lists tax exemptions, and establishes reporting and compliance requirements.

The proclamation includes withholding tax treatment which governs withholding tax from employment income, payments to non-residents, dividends, interest, domestic payments and others. Furthermore, the proclamation regulates the taxation of gains arising from the disposal of assets including securities.

As this proclamation defines key terms related to commerce and finance (such as “dividend,” “interest,” and “capital gain”) and sets their applicable tax rates, it is considered directly relevant to capital market instruments in general and ICM products in particular.

Ethiopian Value Added Tax Proclamation No. 1341/2024. This proclamation establishes a comprehensive VAT system for goods and services within Ethiopia, including definitions of key terms, rules for tax calculation and exemptions, registration requirements for businesses, and penalties for non-compliance. The proclamation also addresses specific situations, such as mixed supplies, forfeited deposits, and imports. It also details procedures for VAT documentation, returns, and refunds. It sets forth the scope of VAT application, including the taxation of goods and services at different stages of production and distribution.

In the capital markets context, facilitating loans and managing credit, handling transactions in shares, bonds, and derivatives as well as managing investment funds are exempt from VAT under the definition of “financial services”.

Stamp Duty Proclamation No. 110/1998. This proclamation defines the rates applicable to different categories of contracts and instruments, prescribes the levy of duties on various legal documents and stipulates the responsibilities of taxpayers in affixing and paying stamp duty. As regards capital market activities, stamp duty is applicable to the transfer of shares, issuance of debt instruments, and other related transactions. According to the proclamation, bonds are subject to the stamp duty tax and taxed at 1% of the bond’s value.

As explained, the aforementioned pieces of tax legislation, among others, directly and/or indirectly governs and relates to capital market activities and instruments, including potentially ICM products whenever they become available. Therefore, there are several potential tax barriers that may adversely impact certain ICM activities and instruments.

Since a number of ICM instruments and activities, particularly Sukuk, are structurally different from their conventional counterparts as they are based on contracts of sale, lease, agency, profit-sharing and etc. instead of the standard interest-based lending and borrowing in conventional capital market, this structural difference implies that ICM instruments and activities are likely to incur additional taxes that may make them more expensive compared to conventional alternatives. Key examples include:

- **Classification of income:** lack of clarity on the tax classification of income from certain ICM instruments may lead to mistreatment. For example, income generated from an Islamic profit-sharing structured product may be treated as dividends instead of receiving similar tax treatment to interest from a conventional product, potentially resulting in unintended tax burdens.
- **Double or triple taxation:** certain Shariah compliant contractual arrangements like Murabaha and Ijara may involve multiple asset transfers, potentially triggering multiple instances of VAT, capital gains tax, or stamp duty.
- **Tax deductibility of finance cost:** uncertainty regarding whether finance costs in ICM transactions receive the same tax-deductible treatment as interest expenses in conventional capital market activities may create inefficiencies and higher tax burdens for ICM participants.
- **Tax implications for SPVs:** the establishment and operation of SPVs, which are essential for structuring Sukuk, among other ICM products, may trigger unintended tax liabilities, such as income taxes, withholding taxes, or stamp duties, potentially increasing costs and reducing the attractiveness of Sukuk issuance.
- **Other state dues and levies**: other state dues like notarisation or registration fees, imposed on transactions required for Shariah compliance[114] during the structuring and operation of ICM products, may create higher costs compared to conventional instruments.

The aforementioned tax issues have been addressed, in varying degrees, in many jurisdictions including UK, Malaysia, Indonesia, Kenya, Pakistan, UAE and others, by amending the relevant tax legislation to provide taxation neutrality to ICM instruments and activities, putting them on the same footing as their conventional peers. Currently, Ethiopia does not address adequately and effectively key ICM products and activities within its tax legislation[115]. Therefore, at present, conducting ICM activities in Ethiopia would be more expensive and unduly burdensome for the ICM participants, customers and/or investors.

Recommendations

i. Tax Study for ICM

ECMA is advised to commission a detailed study of Ethiopia's tax legislation to identify and assess necessary amendments for accommodating ICM products, particularly Sukuk. The primary objective of this review should be to establish a level playing field between ICM products and their conventional counterparts, by identifying and addressing potential tax disadvantages that may hinder their competitiveness and market adoption.

This study should evaluate the tax treatment of key Islamic finance structures, such as investment agency, profit-sharing, trade and asset transfers, and lease-based arrangements, which are commonly used in Sukuk issuance and other structured products[116]. It should also examine the tax implications related to the establishment and operation of SPVs, which are integral to structuring Sukuk and ensuring compliance with Shariah requirements.

Additionally, other imposed state dues or levies, such as any notarization or registration fees on transactions required for Shariah compliance during the structuring and operation of ICM products should also be examined to ensure a level-playing field in this regard.

ii. Tax Study for Islamic Finance

The ICM-SC may consider expanding the scope of the ICM-related tax study or, alternatively, commissioning a separate tax study to cover other Islamic finance sectors, such as Islamic banking, microfinance, and Takaful (Islamic insurance). This would support tax neutrality at the entire financial services industry level, promote consistency within the tax legislation, and facilitate the harmonized development of Ethiopia's Islamic finance ecosystem.

114 Such registration fees for asset transfers, lease arrangements, etc.

115 Share companies are potentially excluded from this consideration, as Shariah screening does not alter their fundamental structure. Instead, it serves as a classification mechanism to identify companies that comply with Shariah principles, without necessarily changing their legal definition or statutory requirements.

116 E.g. potential double taxation on asset transfers, treatment of profit generated under Sukuk versus interest under conventional bonds, tax deductibility of certain expenses incurred in Islamic financial transactions, etc.

10.6. Human Capital

One of the key pillars of the Islamic financial ecosystem is human capital. The process for continuously developing professional and capable human resources that are equipped with sufficient knowledge and experience is a major challenge in the global Islamic finance industry, particularly for new Islamic finance markets like Ethiopia. It is an ongoing process that needs continuous efforts to build and maintain the required capacity for the market players and other stakeholders.

It is widely acknowledged that there is a global shortage of experienced professionals in the Islamic finance sector, and so there is clearly scope for more education and training. The shortage of resources also extends to Shariah scholars who shall have relevant experience and qualifications to understand both Shariah and financial instruments in order to provide meaningful and constructive opinions and guidance in their roles of Shariah advisors or members of the Shariah supervisory boards.

Besides the general technical capacity amongst the market players, bespoke capacity is also required amongst the Shariah scholars and the judiciary for arbitration of any disputes and court proceedings arising within the Islamic financial markets over time. It will be best to have special programs tailored to train the Shariah scholars and court judges, enabling them to give the right decisions when required.

During consultations with various stakeholders, including market players and Shariah scholars during the fact-finding mission in Ethiopia, the need for capacity building was strongly emphasized as essential for the successful development and integration of ICM products into Ethiopia's emerging capital market.

Based on the above, there is a clear need to develop specialized Islamic finance training programs and professional qualifications in Ethiopia. Comprehensive capacity-building initiatives are essential for policymakers, regulators, and key market participants in the capital market, including entities like ESX and EIH, who will play a pivotal role in the development of the market. These programs should also target any market players interested in offering or utilizing ICM products. These initiatives should be spearheaded by the ICM-SC, in collaboration with ECMA, NBE and MoF.

The following sections provide a few of the key global benchmarks and experiences on developing human capital in the Islamic finance industry.

a) Malaysia

Malaysia has put in place a wide range of educational and training courses offered at different levels of all major disciplines with the objective of encouraging professional development in the Islamic finance sector. In 2006, the Malaysia International Islamic Financial Centre (MIFC) was launched by the government in order to promote the development of the Islamic finance industry and in particular develop human capital in this area.

This center was established with a dedicated fund of approximately USD 47.5m to support Islamic finance talent development amongst Shariah scholars and also provide tax relief of up to MYR 5,000 (approx. USD 1,200) for education expenses in Islamic finance studies for Malaysia-resident individuals.

Another achievement in this area is the International Centre for Education in Islamic Finance (INCEIF), which was established by BNM in 2006. Its programs are wholly dedicated to undergraduate and postgraduate study on Islamic finance and industry orientated certifications. Students have come from over 70 different countries to study at the first university in the world entirely dedicated to Islamic finance.

INCEIF is part of Malaysia's initiatives to promote educational excellence in Islamic finance for the domestic and international finance community. Its establishment reflects Malaysia's continuous effort and commitment towards development of a progressive Islamic financial industry by developing and enhancing human intellectual capital in Islamic finance. Furthermore, the Malaysian government introduced special incentives for employers encouraging them to invest in the development of their talent and, accordingly, receive tax reliefs and other advantages in return.

Securities Commission Malaysia (SC) Efforts

In recognition of the importance of skilled resources in supporting the growth of ICM, SC in collaboration with other stakeholders, has developed comprehensive capacity-building programs. These include the following:

The Islamic Capital Market Talent Development (ICMTD) Program

Funded by the Capital Market Development Fund (CMDF), a trust fund established to support the development of Malaysia's capital market, this program is designed to facilitate the development of human capital for the ICM. Since its inception, the program has produced 23 cohorts with 891 participating graduates. The ICMTD program offers industry-focused modules delivered through various methodologies, including virtual classrooms, hands-on workshops, business simulation projects, case study discussions, presentations, and e-learning. The program includes a 2-month intensive virtual classroom training, followed by a 3-month internship at selected financial institutions and companies. The program is built on four main pillars, including ICM:

- Capital Markets.
- Technology.
- Self-Development.
- Sustainability.

Islamic Markets Program (IMP)

This program is a collaborative initiative between the SC and the Securities Industry Development Corporation (SIDC), the learning and development arm of SC Malaysia. It aims to create a platform for business discussions, bringing together industry leaders, thought leaders, and subject matter experts to present and discuss strategies for business growth and profitability in today's challenging market.

The Shariah Professionals Program (SPP)

The program is an initiative by SC Malaysia aimed at providing continuous professional development in Shariah Advisory for ICM. Organized by SIDC, it is designed to integrate both theoretical and practical aspects of industry knowledge. The program covers a wide range of topics, including the Shariah rule-making process in modern Islamic finance, regulatory requirements and legal documentation in ICM, accounting, auditing, and taxation in ICM, Islamic equity markets, Islamic derivatives, and the Sukuk market.

a) UAE

As mentioned in section (9.3), The Dubai Islamic Economy Development Centre (DIEDC) was an initiative established by Dubai Law No. 13 of 2013 to help develop and promote Dubai as an international capital for the Islamic economy. One of DIEDC's programs includes the Hamdan Bin Mohammed e-University for Islamic Banking and Finance, as well as the Dubai Global Sukuk Centre. Such achievements serve as an example of a government backed program to promote human capital within the Islamic finance industry.

Recommendations

i. Capacity Building of the Key Stakeholders

The ICM-SC may consider launching, in partnership with the key stakeholders, including government bodies and market players among others, a comprehensive Islamic finance capacity building program that is designed as follows:

- **Macro-level:** targeting policy makers and regulators particularly ECMA, NBE and MoF[117].
- **Meso-level:** aimed at key market participants (ESX and EIH) and other market players that are interested in offering/using ICM products[118].

117 Building the internal capacity of the policy makers and regulators is of key importance for the development of a robust Islamic finance industry (a 'Train-the-Trainer' model could be implemented to boost transfer of knowledge and reduce training expenses).
118 The training should be practical and aimed at equipping the relevant staff with knowledge and skills required to undertake their professional duties.

The following considerations are crucial to the successful launch of an Islamic finance capacity building program:

- The program shall focus on the economic benefits and universal ethical values of Islamic finance instead of solely relying on religious arguments.
- Regular assessments, refresher trainings, and knowledge-sharing platforms should be established in the market to ensure ongoing skill development and alignment with the industry's best practices.
- The program should issue a professional qualification certificate that can be a regulatory requirement for those who will have leading positions in the ICM.

ii. Institutional Budget for Human Capital Development

The ECMA and NBE, where applicable, may mandate all ICM participants to:

- Allocate a specific portion of their annual budget for human capital development to Islamic finance related programs and certifications.
- Regularly report on compliance with the aforementioned requirement, with non-compliance subject to regulatory sanctions and penalties.

10.7. Accounting

In Islamic finance, greater emphasis is placed on the legal structure of transactions (the form) rather than their economic substance, which differs from conventional finance where economic substance typically prevails over legal form. This distinction is crucial when addressing the accounting treatment of Islamic financial transactions, which should ideally reflect their legal form to preserve the integrity of the transaction.

For example, the accounting treatment for Sukuk involves careful consideration of their unique characteristics. The returns generated from Sukuk are linked to the profits generated from the underlying assets, making Sukuk fundamentally different from conventional bonds. Sukuk can be structured based on different Islamic finance contracts[119].

Given these various structures, the accounting treatment of Sukuk must reflect the underlying economic transactions and legal structures, ensuring compliance with both Shariah and accounting standards.

AAOIFI accounting standards are largely based on IFRS standards, with some modifications to accommodate the unique nature of Islamic financial transactions and Shariah requirements.

AAOIFI accounting standards are adopted in approximately 18 countries and jurisdictions, with varying levels of implementation. In some countries, AAOIFI standards are either fully or partially adopted and introduced as mandatory regulatory requirements. These jurisdictions include Bahrain, Jordan, Kyrgyz Republic, Mauritius, Nigeria, Qatar, Qatar International Financial Centre (QIFC), Oman, Pakistan, Sudan, Syria, and Yemen.

Other countries such as Indonesia and Pakistan have utilized AAOIFI standards as the foundation for developing their national accounting frameworks for Islamic finance. In addition, other jurisdictions such as Labuan and Maldives adopted the standards by allowing secondary reporting based on AAOIFI accounting standards. In Bangladesh, the adoption is on voluntary basis where individual banks are permitted to apply the standards if they choose to do so.

Overall, it is observed that majority of countries around the world elect to enforce IFRS standards on both Islamic and conventional financial institutions, with examples such as Malaysia and UAE. However, some of these countries often issue additional guidelines to specifically address the Shariah compliant nature of Islamic financial products. These supplementary guidelines ensure that while adhering to global IFRS standards, the accounting treatment for Islamic finance products meets the requirements of Shariah compliance.

During consultations with stakeholder, it was noted that Ethiopia's financial services sector is currently transitioning to IFRS standards. They offer a set of principles for the preparation of financial statements and promote consistency, transparency, and comparability of financial information across borders. IFRS standards are widely recognized as a comprehensive framework for financial reporting and are applied by numerous countries globally. While IFRS standards were not specifically designed for Islamic financial products such as Sukuk, they may be adapted to accommodate them.

119 Examples of different Sukuk structures have been explained in-depth in section (4) 'ICM Overview'.

Recommendations

Although IFRS standards accommodate the key requirements of ICM products, to further harmonize accounting practices, enhance transparency, and align Ethiopia's ICM with international standards and best practices, ECMA in partnership with Accounting and Auditing Board of Ethiopia (AABE), is advised to:

- Issue guidelines to standardize terminologies for ICM products and clarify the appropriate accounting treatment for various Sukuk structures, ensuring consistency and comparability in financial reporting under IFRS.
- Evaluate the feasibility of adopting or localizing relevant AAOIFI Accounting Standards by assessing the costs, benefits, and market impact of implementing these standards within Ethiopia's ICM framework.

10.8. Public Awareness

Lack of awareness is one of the major obstacles to the growth of the global Islamic finance industry and Ethiopia is not an exception. During consultations with various stakeholders during the fact-finding mission, it became clear that significant efforts are needed to address misconceptions about Islamic finance, both within the Muslim and non-Muslim[120] communities.

It was noted that some segments of the Muslim population remain skeptical about financial institutions offering both conventional and Shariah compliant products, expressing concerns over the Shariah permissibility of the products and the window model. Similarly, some members of the Christian community view these financing arrangements as being driven solely by religious considerations, believing they are applicable only to Muslims. These misconceptions must be addressed through comprehensive public awareness campaigns.

Higher levels of awareness among the public of all socio-economic backgrounds, and across different sub-sectors including but not limited to retail, businesses, and corporates, will expand the landscape and horizons for the IFSPs in Ethiopia.

Customer awareness of ICM products should encompass a comprehensive understanding of the opportunities, benefits, and associated risks, enabling them to make informed decisions before dealing with these products. This awareness is also critical from Shariah, legal, and consumer protection standpoints. On the other hand, awareness among the public on the government's vision and national policy on Islamic finance is equally important as it will enable the industry to play an active role in the nation's economic development.

Recommendations

i. Launch a government-sponsored Islamic Finance Sensitization Campaign

The Islamic Capital Market Steering Committee (ICM-SC) to lead on launching a sensitization campaign, in association with other governmental entities including ECMA, using a full mix of communication channels, including national TV, newspapers, social media etc. to deliver the following key message to the public on the government's Islamic finance policy:

- Islamic finance is a financial alternative to conventional finance that has a unique set of ethical values. Therefore, Islamic finance is not a mere religious offering limited to practicing Muslim customers.
- Islamic finance has the potential to play a key role in the nation's economic development by way of attracting foreign direct investments, boosting financial inclusion, deepening financial markets, promoting entrepreneurial culture, and providing new financial alternatives for all Ethiopians.

The ICM-SC may enforce upon IFSPs, through their respective regulators such as ECMA and NBE, to allocate a specific budget for this program.

ii. Institutional Budget for Public Awareness

As the ICM sector develops and products are offered, ECMA may introduce a regulatory requirement for upcoming market participants offering ICM products to allocate an annual budget to raise Islamic finance awareness among the public. Such additional regulatory requirements should include the following:

- Mandating that all ICM players to allocate a specific portion of their annual marketing budget on Islamic finance awareness campaign and initiatives.
- Regularly report on compliance with the aforementioned requirement, with non-compliance subject to regulatory sanctions and penalties.

120 As observed in some countries, proposed amendments to existing regulations to accommodate Islamic finance may be misunderstood and convoluted with potential encroachment of religious practices on the country's system. Experiences of other countries, such as the UK and Kenya, shows that governments need to sideline media rhetoric, and approach the issue from purely strategic and economic perspectives.

10.9. Green Finance

a) Outlook

'Green finance' (GF) refers to the integration of environmental considerations into financial decision-making, aiming to promote sustainable development by supporting projects and initiatives that benefit the environment. This encompasses investments in renewable energy, energy efficiency, pollution prevention, biodiversity conservation, and sustainable resource management, among others.

The global GF market is segmented into equity, fixed income, and mixed allocation, with the fixed income segment dominating due to the rising popularity of green bonds[121] and sustainability bonds. The fixed income green finance segment is divided into green bonds, social bonds, and mixed-sustainability bonds, with the green bond segment experiencing significant growth due to expanding investor interest and strong market performance providing numerous advantages to issuers and investors, driving their adoption and broadening the financier base globally.

The GF sector has experienced significant growth in recent years. The global GF market is projected to expand from USD 4.18tn in 2023 to an estimated USD 28.71tn by 2033, achieving a compound annual growth rate (CAGR) of 21.25% during the forecast period[122]. With respect to fixed income green finance instruments, China and the United States have the world's largest green bond markets, accounting for 13.6% and 11.6% of total global green bond issuance between 2012 and 2021. According to the UNDP, the global green bond market can be worth between $4.7tn and $5.6tn by 2035[123].

In Africa, only Kenya, South Africa, Nigeria, and Seychelles have issued sovereign green bonds as of 2024. Particularly, Kenya, a pioneer in GF in Africa, has established key institutions (such as Kenya Climate Change Directorate and Working Group, and Kenya Green Bond Programme) to support its energy transition, issuing its first green bond in 2019 to raise USD 40mn and subsequently promoting green bonds to fund eco-friendly projects.

Policy and regulatory frameworks have been instrumental in driving the adoption of GF. It's reported that GF witnessed a 317% increase in green financial measures since the 2015 Paris Agreement, with 100 new policies added in 2022, bringing the total to 784 policy measures across 109 countries. Many of these measures aim to mobilize investment and strategically address climate goals, including over 350 initiatives by 65 countries to promote sustainable investment assets. Additionally, more than 30 countries are supporting sustainable banking and insurance sectors through targeted green financial mechanisms[124].

b) Islamic Green Finance

Islamic green finance (IGF) integrates Shariah principles with sustainable and environmentally friendly practices, aiming to promote financial stability while addressing environmental challenges. IGF promotes ethical investments, transparency, risk-sharing, and responsible investing. The most widely used instrument to support IGF initiatives is Green Sukuk (GS).

GS is used to raise funds specifically for environmental projects, such as renewable energy, energy efficiency, and sustainable infrastructure. GS has played a crucial role in advancing environmental initiatives, with Malaysia and Indonesia setting leading examples.

In 2017, the government of Malaysia issued the first sovereign GS under its Sustainable and Responsible Investment Sukuk Framework providing investors with reasonable financial returns and taxations incentives. The Indonesian government followed suit with its first sovereign GS transaction, valued at USD 1.25bn[125].

In terms of corporate GS issuances, in 2017, a Malaysian solar energy firm Tadau issued a USD 59mn GS under its Sustainable Responsible Investment framework to fund a 50MW solar plant[126]. In November 2019, IsDB, the only full-fledged Islamic development and multilateral institution in the world, issued its first GS. The Islamic supranational bank raised EUR 1bn in a 5-year GS under IsDB's recently developed Sustainable Finance Framework.

121 The International Climate Market Association (ICMA) defines Green Bonds as "any type of bond instrument where the proceeds or an equivalent amount will be exclusively applied to finance or refinance, in part or in full, new and/or existing eligible Green Projects and which are aligned with the four core components of the Green Bond Principles (GBP)".
122 Spherical Insights, 2024
123 UNDP, 2025
124 Green Finance Platform, 2023
125 Climate Promise – UNDP, 2018
126 Tadau, 2017

In Africa, OneWattSolar Limited pioneered the first GS issuance in Nigeria and Africa in 2021 and the proceeds of NGN 1bn (circa USD 2.4mn) in a 7-year GS issue (Tranche II) assigned for financing solar energy projects, including the deployment of solar home systems, mini-grids, and other renewable energy infrastructure[127]. Additionally, Sudanese Sanabel, a subsidiary of the Bank of Khartoum, in 2021 launched the country's first GS, amounting USD 11.3mn, aimed at financing renewable energy (55 megawatt hours per day) for commercial use.

The London Stock Exchange Group's Islamic Finance Development report also highlights that the GS market has experienced remarkable expansion, with issuances reaching $7.7bn in 2023[128]. This trend indicates a growing recognition of the compatibility between Islamic financial instruments and sustainable development goals.

The alignment between Islamic finance and GF is evident in their shared emphasis on ethical investment and social responsibility. Both frameworks advocate financial practices that contribute positively to society and the environment, making IGF a promising avenue for addressing global sustainability challenges.

c) Green Finance in Ethiopia

Ethiopia, a country grappling with the intricate challenges posed by climate change, has been significantly impacted by global warming, ranking 155th out of 187 nations on the 2022 Global Climate Vulnerability Index. Facing mounting economic and environmental pressures due to a growing population, widespread deforestation, and soil degradation, Ethiopia has implemented ambitious initiatives to combat these issues. These include the Climate Resilient Green Economy (CRGE) strategy, the Long-Term Low Emission and Climate Resilient Development Strategy (2020-2050), and the Green Legacy Initiative (GLI)[129].

Ethiopia introduced the CRGE strategy as the first national level climate policy document in 2011 and set to achieve middle-income status by 2025 while building a green economy[130]. In June 2020, Ethiopia released its Ten-Year Development Plan (2021-2030), titled "A Pathway to Prosperity". This plan aims for an annual economic growth of 10.2% while supporting a climate-resilient green economy. It includes targets to increase the country's greenhouse gas emissions reduction capacity from 92.7 $MtCO_2e$ to 162.3 $MtCO_2e$ by 2030[131].

Ethiopia has been implementing various programs within those policy frameworks. One among them has been the Green Legacy Initiative (GLI). Rooted in a vision of building a green and climate-resilient Ethiopia, the GLI was launched in June 2019. The National Bank of Ethiopia (NBE) has also shown support for this program and In August 2023, the NBE endorsed the GLI[132]. Additionally, ECMA has included the issuance of Green Bond Issuance Guidelines and issuances of Green Bonds as 2 out of 32 key targets in its 2024-26 Strategy document.

Ethiopia is achieving success in advancing its energy sector through policies and projects focused on hydropower, solar, and wind energy development. Over the past decade, the country has secured approximately USD 400mn in grants from international climate funds, including the Global Environment Facility (GEF), Green Climate Fund (GCF), and Adaptation Fund (AF).

Overall, East Africa, including Ethiopia, has made notable strides by attracting nearly USD 44bn in climate finance between 2011 and 2021, with Ethiopia among the top five African countries that obtained the highest climate finance[133].

The country has been actively pursuing climate finance initiatives to address climate change and promote sustainable development. In the fiscal years 2019/2020, the country secured an average of USD 1.7 bn annually for climate-related activities[134].

Despite progress, Ethiopia faces a substantial gap between its green financing needs and the resources mobilized. A UNDP analysis of current funding sources and their contributions to climate-related investments (both adaptation and mitigation) highlights a significant shortfall. The Nationally Determined Contribution (NDC) requires approximately 19.7bn annually to meet its climate goals[135].

127 CNBC Africa, 2021
128 LSEG Islamic Finance Development Report, 2024
129 UNDP, 2025
130 Landscape of Climate Finance in Ethiopia, 2022
131 Climate Action Tracker, 2022
132 NBE, 2023
133 United Nations Framework Convention on Climate Change (UNFCCC) Standing Committee on Finance (SCF) 2020 defines Climate Finance as: "Financial resources mobilized by developed country Parties, international institutions, and other entities to support climate action in developing countries. This includes mitigation, adaptation, and capacity-building efforts to address climate change".
134 Landscape of Climate Finance in Ethiopia, 2022
135 UNDP, 2025

Recommendations

i. Green Sukuk

It is recommended that ECMA incorporate a dedicated chapter on Green Sukuk in the upcoming Green Bond Issuance Guidelines. This inclusion would support the integration of Shariah compliant green finance into Ethiopia's developing ICM. Additionally, it could enhance regulatory clarity, draw in Muslim and ESG-focused investors, and reinforce Ethiopia's commitment to the Paris Agreement objectives, bolstering its standing in sustainable and Islamic finance. Should tax incentives be offered to green bond issuers, similar benefits should also be extended to green Sukuk issuers to ensure equitable treatment and foster a level playing field in the market.

10.10. FinTech

a) Overview

FinTech (Financial Technology) refers to technological innovation in the financial sector. It encompasses all innovations that affect trading, payments, services, processes, contracting and even regulations. FinTech is rapidly growing due to its disruptive nature as it works fast on reshaping the markets and the industry. It affects and helps in bringing the required change to the economy much faster than other traditional methods. Hence, all financial regulators, investors and financial institutions are expecting a future dominated by FinTech.

Globally, the FinTech market has witnessed substantial growth in recent years. In 2024, the global market was valued at approximately USD 218.8 bn and is projected to reach USD 828.4bn by 2033, reflecting a compound annual growth rate (CAGR) of 15.82% during this period[136].

One of the significant drivers of this expansion is the increasing adoption of digital payments. The total transaction value of digital payments is expected to surpass USD 20.37tn in 2025[137], indicating a robust shift towards cashless transactions. Artificial intelligence (AI) has also become a pivotal component in FinTech by offering enhanced personalization and efficiency, while blockchain technology and cryptocurrencies have also gained prominence within the FinTech landscape.

FinTech continues to revolutionize the financial services industry by leveraging technology to provide more efficient, accessible, and personalized services to consumers and businesses worldwide. Among the major changes that are shaping the FinTech landscape include retail banks transforming into digital engagement platforms by leveraging customer data and collaborating with FinTechs and merchants, while governments in emerging markets are seeking to build integrated digital public infrastructure to drive financial inclusion and innovation, collectively shaping the future of the FinTech ecosystem.

b) Islamic FinTech

There is a growing interest in Islamic FinTech solutions since IFSPs see this as a unique opportunity to bridge the gap between them and the conventional financial institutions. By ensuring access to financial services for the population, Islamic FinTech providers have the potential to profoundly change the financial services landscape and play a pivotal role in improving financial inclusion.

Overall, the global Islamic FinTech market has experienced significant growth in recent years. In 2022-2023, the market size was estimated at USD 138bn and is projected to reach USD 306bn by 2027, reflecting a CAGR of 17.3%. This growth rate surpasses that of the overall global FinTech industry, which is expected to develop at a CAGR of 12.3% over the same period.

Key markets driving this expansion include Saudi Arabia, Iran, Malaysia, the UAE, Indonesia, and Kuwait, collectively accounting for a substantial share of the global Islamic FinTech transaction volume. In Indonesia, for instance, the Islamic FinTech market size reached approximately USD 6.1bn in 2022/23, an increase of about USD 2bn from the previous year.

The sector is also witnessing a surge in the number of Islamic FinTech startups including 417 Islamic FinTech firms globally as of 2024. These startups are deploying a growing array of Shariah compliant payment platforms, e-wallets, insurtech solutions, and remittance services through mobile applications, thereby enhancing financial inclusion among Muslim populations[138].

136 IMARC Group, 2024
137 Statista, 2024
138 Global Islamic Fintech Report, 2024

In Africa, the FinTech revolution is primarily fueled by the continent's three main hubs of South Africa, Kenya and Nigeria. These countries boast relatively more advanced FinTech ecosystems compared to the rest of the continent. With local and global players, the FinTech landscape in Africa has grown at an annual rate of approximately 24% over the last 10 years.

Despite its rapid growth, the Islamic FinTech industry faces challenges, including the need for standardization, regulatory frameworks, and increased awareness among consumers. While there is an increasing number of Islamic FinTech providers being established in a number of countries, the number of initiatives in the Islamic finance domain is still far less than that in the conventional sphere.

c) FinTech Sector in Ethiopia

Ethiopia's FinTech sector is undergoing significant progress, driven by a burgeoning demand for digital financial services. Until recently, both foreign and domestic companies were restricted from providing digital financial services. However, the approval of new regulations in December 2022 opened the market to foreign digital financial service providers, aiming to expand services in underserved areas and increase competition in the telecoms industry[139].

In 2022, Safaricom M-Pesa Mobile Financial Service plc became the first foreign entity to secure a mobile money license in Ethiopia, paving the way for future international investments in the industry. Within months, Safaricom amassed a customer base of 4mn and added 1.2mn users to its M-Pesa mobile money platform[140].

Mobile money platforms are also being instrumental in enhancing financial inclusion in the country, with Ethio Telecom's Telebirr leading the way. Launched in 2021, Telebirr has quickly gained traction, with more than 50mn users leveraging the platform for money transfers, bill payments, microloans and savings[141]. The growth of mobile money services is particularly impactful in rural areas, where traditional banking infrastructure is limited.

In addition to mobile money, FinTech solution providers such as Kifiya[142], an AI-enabled, alternative data-driven scoring and rating company, are gaining momentum, and others include digital lending platforms and e-commerce payment gateways. The government has also supported the development of digital ID systems, which enhance verification processes and facilitate seamless access to financial services.

Despite these advancements, cash transactions remain prevalent in Ethiopia, accounting for approximately 98% of all transactions in 2023[143]. This reliance on cash presents both a challenge and an opportunity for FinTech operators aiming to promote digital financial solutions. With 75% of the population unbanked, enhancing mobile connectivity offers a significant opportunity to expand access to financial services through FinTech providers.

The Ethiopian government's recent decision to allow foreign banks to operate within the country, as legislated in December 2024, is anticipated to enhance competition and innovation in the financial sector[144]. This move is expected to attract foreign investment and facilitate the introduction of diverse financial products and services, including FinTech solutions.

d) FinTech Policy and Strategy in Ethiopia

In addition to legislation approved in December 2022 to permit foreign companies to provide digital financial services in the country, the Ethiopian government has initiated a number of other policies and strategies to foster the development of FinTech and digitalization within the country.

Traditionally, Ethiopia's financial sector has been tightly regulated and dominated by conventional banks. However, a 2020 directive from the NBE opened the door for domestic non-bank digital financial service providers to enter the market, though initially restricted to local investors. This progress was further advanced in 2023 with the National Payment System Amendment Proclamation, which allowed foreign investors to participate in mobile money and payment services under specific conditions, including a protection fee for entering a previously domestic-only sector.

In June 2020, the Government of Ethiopia launched a national digital transformation strategy "Digital Ethiopia 2025" aiming to leverage digital technologies and enhance economic growth, create jobs, and improve service delivery[145]. Central to this initiative is the expansion of digital infrastructure and as of 2024, the strategies significantly boosted internet users to over 42mn, in addition to expanding online government services with over 800 services now accessible.

139 International Trade Administration of the USA Department of Commerce, 2023
140 African Review, 2024
141 Ethiotelecom, 2025
142 Kifiya, 2025
143 International Trade Administration of the USA Department of Commerce, 2023
144 Reuters, 2024
145 Digital Ethiopia 2025

Additionally, the NBE published the National Digital Payments Strategy 2021-2024 (NDPS), aligning with Ethiopia's broader reform agenda[146]. The NDPS aimed to transform the country's payment landscape by developing reliable, inclusive infrastructure, adopting inclusive digital payments, building robust regulatory and oversight frameworks, and creating an enabling environment for innovation.

The ECMA has also taken significant steps to promote financial innovation. In August 2024, ECMA launched the country's first regulatory sandbox, providing startups and established companies with a flexible legal framework to test innovative capital market products and services with real customers[147]. This initiative aimed to foster collaboration between regulators and participants, serving as an incubator for new ideas.

Despite these abovementioned initiatives reflecting a concerted effort by Ethiopian authorities to modernize the financial sector and enhance financial inclusion through the development and regulation of FinTech sector, special attention towards the growth of Islamic FinTech is not observed to date.

Recommendations

i. Islamic FinTech Regulatory Sandbox

To foster the development and promotion of Islamic FinTech within Ethiopia's Islamic finance industry, the ECMA is advised to incorporate the unique requirements and specifics[148] of Islamic FinTech firms into the recently launched FinTech Regulatory Sandbox. The enhanced sandbox framework should provide a streamlined process for assessing, approving, and granting permits to innovative FinTech solutions that leverage workable technology to enhance ICM activities. It should also enable firms to test their proof-of-concept in a controlled regulatory environment, allowing for real-world experimentation of Islamic FinTech solutions such as Shariah compliant crowdfunding platforms, Islamic investment robo-advisers, blockchain-based Sukuk issuance, etc.

10.11. Branding

One of the major barriers that could hinder the development of Islamic finance and the ICM in Ethiopia is the misleading branding of the sector. During the fact-finding mission, interest-free banking providers pointed out that branding Islamic finance as "interest-free finance" has created misconceptions among the public. The term "interest-free" often leads people to believe that these financial products are not only free of interest but also entirely cost-free. This is false since Islamic finance products still involve costs, fees, or profit margins, even though they are structured in a way that complies with Shariah principles.

This misunderstanding may lead to unrealistic expectations from consumers, who might expect Islamic finance products to be cheaper or more advantageous than conventional financial products, when in reality, they may involve similar costs, but structured differently.

On the other hand, NBE raised concerns that labeling the sector as "Islamic finance" could alienate non-Muslim participants, potentially limiting its broader appeal and acceptance. This highlights the necessity for an inclusive, transparent branding strategy that clarifies the principles of Islamic finance—such as ethical investing, risk-sharing, and profit-and-loss sharing, without making it seem exclusive or inaccessible to the wider population. An inclusive branding could help promote Islamic finance as a universally beneficial financial system that offers ethical, transparent, and socially responsible financial products for all Ethiopians, regardless of religious affiliation.

It is important to note that the term "Islamic banking" has precedent in the Ethiopian legislative system, as it is mentioned in the Value Added Tax Proclamation No. 1341 of 2024, in the context of granting tax exemptions. This indicates that the term Islamic banking is already recognized within the legal framework, which could ease the adoption of terms such as Islamic finance or ICM within the broader financial system.

146 National Bank of Ethiopia, 2021
147 ECMA, 2024
148 E.g. where applicable - structuring requirements, trading restrictions, Shariah governance and compliance requirements, etc.

a) Branding of Islamic Finance: Different Approaches

The issue of branding Islamic finance has been a challenge not only in countries where Muslims are minorities, but also in Muslim-majority countries. In many cases, the term "Islamic finance" or "Shariah compliant finance" has been seen as exclusive or restrictive, leading to confusion and limiting its broader acceptance.

In Turkey, a predominantly Muslim country, there was also hesitation around labeling financial products strictly as "Islamic". Instead, the government and regulators adopted the term "participation banking" to describe Islamic banking products, framing them as an alternative to conventional banking that is inclusive of all sectors of society, regardless of religious beliefs. The term is also used in another predominantly Muslim country, Morocco, where its Islamic banks are called "participative banks" to highlight the risk-sharing characteristics inherent in the business models of Islamic finance.

In Nigeria, to address branding challenges related to Islamic finance, the authorities introduced the terms "Non-Interest Banking" and "Non-Interest Capital Market" to describe financial services that comply with Islamic principles, without directly referencing religious terminology. The term "non-interest" provides a clearer and more accurate understanding compared to "interest-free finance," which can create the misconception among consumers that Islamic finance products are entirely cost-free.

Recommendations

i. Branding of Islamic Capital Market Products

ECMA is recommended to adopt industry best practices by using "Islamic Capital Market Products" as the standard terminology in all official communications, legislative texts, and regulatory documents. The use of the term "Islamic banking arrangement" in Ethiopian legislation under the VAT Proclamation sets a precedent, making it easier to adopt the term. Alternatively, "Participatory Capital Market Products" may also be considered. However, ECMA is advised to avoid using the term "Interest-Free", which is currently used in the banking sector, as it has proven to be confusing and potentially misleading in the context of commercial (non-charitable) financial products. In all cases, this matter can be further discussed and evaluated by relevant stakeholders within the IFTF, as part of the national Islamic finance policy development process.



11. SUMMARY OF STRATEGIES AND RECOMMENDATIONS FOR ICM ROADMAP

No.	Strategies and Recommendations	Key Stakeholder(s)
	Government Support and Cooperation	
1	**Islamic Finance Task Force (IFTF)** The Ethiopian Government is advised to establish the IFTF as the central orchestrator, tasked with driving the development of a cohesive and sustainable Islamic finance ecosystem in the country. The IFTF's mandate is to translate the government's vision into actionable strategies, coordinate stakeholders, and ensure the effective implementation and monitoring of initiatives aimed at fostering the growth of Islamic finance. Backed by a strong political will, the IFTF will play a pivotal role in positioning Islamic finance as a cornerstone of Ethiopia's inclusive economic development agenda. The proposed structure of the IFTF is as follows: • The chairman of the IFTF to be a Senior Government Official, underscoring the strategic importance of Islamic finance for Ethiopia's economy. • Three voting members from the MoF, the NBE, and the ECMA. • An executive director to manage all operational issues related to the IFTF (a senior official reporting to the chairman, preferably with working knowledge/experience in Islamic finance). • An advisory panel of technical experts drawn from other stakeholders, including but not limited to public and private sector entities.	The Goverment, MoF, NBE, and ECMA
2	**National Islamic Finance Policy** Having a national Islamic finance policy would provide a strategic framework to align stakeholders and drive the growth of the Islamic finance industry in Ethiopia. By integrating Islamic finance into the country's broader development agenda, the policy would help unlocking its potential to boost financial inclusion, attract foreign direct and ethical investments, and mobilize capital for key economic priorities such as poverty alleviation, building infrastructure, supporting education, and SME development. This policy should establish a consistent and robust approach to key enablers of the industry such as legislation, governance, taxation, and institutional support, fostering an enabling environment for the development of the local Islamic finance industry. With clear targets and the IFTF acting as the national champion to oversee implementation, it would build investor confidence, promote economic resilience, and position Ethiopia as a serious emerging player in Islamic finance, both regionally and globally.	IFTF
3	**Islamic Capital Market Steering Committee (ICM-SC)** For the optimal implementation of this roadmap, ECMA is advised to establish an inter-government steering committee comprising senior representatives from key stakeholders, including but not limited to NBE, MoF, ESX, and EIH. The ICM-SC will help coordinate initiatives, align efforts, and ensure a unified approach toward ICM development. While the IFTF provides strategic direction, the ICM-SC will focus on technical and operational aspects, ensuring coordinated efforts, addressing practical challenges, and aligning initiatives to develop a robust ICM.	ECMA, MoF, NBE, ESX, and EIH

No.	Strategies and Recommendations	Key Stakeholder(s)
	Government Support and Cooperation	
4	**Strategic Government Initiatives** As part of the National Islamic Finance Policy, the IFTF is advised to incorporate a number of strategic government initiatives aimed at supporting the development of Ethiopia's emerging ICM. These initiatives may include the following: • MoF, in partnership with NBE, to consider launching special Retail Sukuk Programmes linked to specific infrastructure, education, and agriculture projects with a high profile and significant impact on the economy, aimed at local retail investors[149]. This should help mobilize idle domestic savings, including potentially unbanked funds, finance critical infrastructure projects, strengthen national ownership of strategic assets, and support the emerging ICM market. • NBE, in partnership with MoF, to establish the necessary internal infrastructure and introduce the required legislative amendments to facilitate the issuance of Islamic Treasury Bills, Islamic Treasury Notes, Islamic Treasury Sukuk, and Government Sukuk. This initiative will help diversify the government's funding sources, enhance fiscal sustainability, and promote the growth of Islamic liquidity management tools in Ethiopia[150]. • DBE, EIH, CBE, and SOEs should consider, as a policy, Sukuk issuance as an additional financial tool to complement their existing capital-raising instruments, ensuring that a certain portion of all funds raised by them are through Sukuk[151]. This policy will diversify funding sources, enhance liquidity management for local Islamic financial service providers, and attract a broader investor base, including domestic and potentially international Muslim and ethically oriented investors, while supporting the growth of the emerging the ICM in Ethiopia[152]. • PSSSA and POESSA to develop the required infrastructure to offer Islamic pension schemes, providing both public and private sector employees with the option to choose a Shariah compliant pension[153]. This initiative is important for enhancing financial inclusion among Muslim employees, diversifying pension fund investments, and generating sustained demand for ICM products. • The Government of Ethiopia, along with its affiliated entities and SOEs, should consider implementing a policy that mandates a minimum proportion of their funds to be deposited in Islamic banking accounts, with a plan for an annual gradual increase. This initiative would support the growth of the Islamic banking sector, thereby enhancing its capacity to invest in the ICM. Ultimately, it would contribute to the broader development of Ethiopia's Islamic financial ecosystem.	IFTF MoF and NBE NBE and MoF DBE, EIH, CBE, and SOEs PSSSA and POESSA ICM-SC

149 Similar to the Grand Ethiopian Renaissance Dam Bond.
150 NBE management has reported that they are in the process of hiring consultants to explore launching Islamic liquidity instruments.
151 It is advised to have pre-approved standardized template documents for a number of Sukuk structures to reduce the costs and time to market by simplifying the process for these government-entities.
152 A Shariah compliant government backed guarantee scheme for the Sukuk issued by these entities could be introduced (this scheme will be aimed at giving greater confidence to local and international investors).
153 Setting up an Islamic pension scheme does not necessarily require the creation of a separate legal entity. The key consideration is ensuring that contributions to Islamic pension schemes are pooled and segregated from conventional schemes, which can be achieved through systemic, operational, and accounting measures and controls. Such pooled funds should be exclusively invested in Shariah compliant assets, including ICM instruments such as Sukuk, ensuring compliance with Shariah principles while offering sustainable retirement benefits.

No.	Strategies and Recommendations	Key Stakeholder(s)
	Legal, Regulatory, and Supervisory Frameworks	
5	**Enabling Legal, Regulatory, and Supervisory Frameworks for Islamic Capital Market** Introduce the necessary amendments and draft the relevant legal texts to implement the required legal, regulatory, and supervisory reforms for the full integration of the ICM and ensure it operates on a level playing field with the conventional capital market in Ethiopia. The focus shall be on addressing legal constraints, regulatory gaps, and necessary policy adjustments within relevant laws, regulations, and supervisory frameworks[154]. Key areas to be considered in the amendments and reforms are as follows: • Introduce legal and/or regulatory provisions to define Islamic finance related contractual arrangements along with their key features and clarify the treatment of their distinct returns[155]. • Define and legally recognize ICM products and instruments, with a primary focus on Sukuk, alongside Shariah compliant stocks/shares, Islamic mutual funds, Islamic investment schemes, etc. • Provide the legal anchoring required for CSAB of ECMA, and the legal basis for the Shariah Governance Framework Directive[156]. This will help in creating effective Shariah compliance oversight and harmonization of ICM practices in Ethiopia. • Develop the necessary legal and regulatory basis to fully integrate Sukuk into Ethiopia's capital market[157]. This should include clear definitions and requirements for the main Sukuk parties, issuance and listing procedures, application and approval processes, Sukuk structures and their main features, eligible asset types for Sukuk structuring, asset ownership and transfer rules, SPV establishment and management, utilization of proceeds, rating, depository and settlement, audit, reporting, disclosure, penalties and sanctions, risk management, redemption mechanisms, Shariah governance, etc. A well-defined framework for Sukuk will ensure regulatory clarity, investor protection, and market stability, aligning with international best practices while taking into account's Ethiopia's unique context. • Establish the required legal and regulatory provisions for integrating Sukuk into the public debt management system in Ethiopia with parity to conventional bonds, including clear definitions, roles, and governance requirements. • Achieve regulatory parity by extending and/or amending licensing, oversight, disclosure, and other relevant regulatory and supervisory requirements to cover other ICM products and instruments[158]. • Provide legal and/or regulatory provisions to establish a Shariah compliant compensation scheme under the fund[159].	ECMA and MoF

154 E.g. the Federal Government Financial Administration Proclamation No. 648/2009 and Amendment Proclamation No.970 /2016, Council of Ministers Regulation No. 190/2010 to Provide for the Financial Administration of the Federal Government, Public Debt Management and Guarantee Issuance Directive No 46/2017, Capital Market Proclamation No. 1248/2021, Capital Market Service Providers Licensing and Supervision Directive No. 980/2024, Public Offering and Trading of Securities Directive Number No. 1030/2024, Directive on Licensing, Operation, and Supervision of Securities Exchanges, Derivatives Exchanges, and the Over-The-Counter Market No.1009/2024, the Capital Market Authority's Fee Directive No. 996/2024, Directive on Recognition and Supervision of Self-Regulatory Organizations No. 1031/2024, etc.

155 In this regard, any legal and regulatory amendments should align with, and maintain consistency in terminology and approach with amendments (if any) to the Civil Code, Commercial Code, and tax legislation, ensuring consistency, and clarity across different pieces of the legislation.

156 Further details on this are provided in recommendations Nos. 10 and 11.

157 A regulatory sandbox may be considered as an interim mechanism to facilitate the accelerated issuance of Sukuk, particularly sovereign Sukuk. However, its implementation must be supported by a comprehensive legal assessment to determine whether the sandbox can override potential taxation impediments, and/or provide temporary exemptions from existing tax legislation, and other conflicting legislative provisions

158 This is related for non-Sukuk products like Shariah compliant stocks, Islamic mutual funds, etc.

159 Establishing an Islamic compensation scheme does not necessarily require a separate legal entity but must ensure segregation from conventional funds through systemic, operational, and accounting controls. Contributions should be pooled separately and exclusively invested in Shariah compliant assets, including ICM instruments like Sukuk. At present, it is understood that the Compensation Fund is not established yet.

No.	Strategies and Recommendations	Key Stakeholder(s)
	Taxation	
6	**Tax Study** Conduct a detailed study of Ethiopia's tax legislation to identify and assess necessary amendments for accommodating ICM products, particularly Sukuk. The primary objective of this review should be to establish a level playing field between ICM products and their conventional counterparts, by identifying and addressing potential tax disadvantages that may hinder their competitiveness and market adoption. This study should evaluate the tax treatment of key Islamic finance structures, such as investment agency, profit-sharing, trade and asset transfers, and lease-based arrangements, which are commonly used in Sukuk issuance and other structured products[160]. It should also examine the tax implications related to the establishment and operation of SPVs, which are integral to structuring Sukuk and ensuring compliance with Shariah requirements. Additionally, other imposed state dues or levies, such as any notarization or registration fees on transactions required for Shariah compliance during the structuring and operation of ICM products should also be examined to ensure a level-playing field in this regard. The ICM-SC may consider broadening the scope of the aforementioned tax study or, alternatively, commissioning a separate tax study to include other Islamic financial sectors, such as Islamic banking, microfinance, and Takaful (Islamic insurance). This will help ensure tax neutrality, promote consistency, and facilitate the harmonized development of the overall Islamic finance ecosystem in Ethiopia.	ICM-SC
	Institutional Capacity of ECMA	
7	**Islamic Capital Market Lead** Appoint a dedicated senior professional within ECMA to spearhead development efforts for the ICM and provide focused leadership in executing action plans and initiatives to foster the growth of the sector's ecosystem. Key responsibilities of the lead include enhancing the legal and regulatory environment, facilitating local and international stakeholder consultation and coordination, driving capacity building initiatives, and promoting public awareness. This position is envisioned to lay down the foundations for establishing a dedicated ICM division within ECMA as the market matures and reaches a reasonable level of development in the coming years.	ECMA

160 E.g. potential double taxation on asset transfers, treatment of profit generated under Sukuk versus interest under conventional bonds, tax deductibility of certain expenses incurred in Islamic financial transactions, etc.

No.	Strategies and Recommendations	Key Stakeholder(s)
	Institutional Capacity of ECMA	
8	**Structured Approach to Capacity Building** To effectively regulate, supervise, and support ICM products, ECMA is advised to adopt a structured and continuous capacity building approach rather than a one-time exercise. This will enable relevant staff to develop the necessary expertise progressively, with regular refresher training to stay aligned with international standards and best practices. The Islamic Capital Market Lead should actively participate in and oversee the implementation of the following recommendations to ensure establishing a well-coordinated and sustainable capacity building framework: • Launch a comprehensive and multi-level capacity building program starting from foundational topics in Islamic finance to advanced technical areas like Shariah governance, regulations, structuring, liquidity management, taxation, etc. • Foster international experience and knowledge sharing by organizing technical workshops and establishing cooperation programs with other regulators[161], industry bodies, and leading experts to stay updated on trends and innovations. Additionally, encourage participation in global Islamic finance conferences, certification programs, and exposure visits to enhance local expertise and strengthen regulatory and market development capabilities. • Consider becoming a member in international Islamic finance standard-setting bodies (AAOIFI, IFSB, and IIFM) to access industry standards, product templates, training, research, and best practices. • Ensure continuous learning by regularly assessing training needs, delivering refresher programs, and updating training material based on industry developments and local market demands.	ECMA
	Shariah Governance	
9	**Central Shariah Advisory Board for Ethiopia's Islamic Capital Market[162]** To have an adequate and effective Shariah governance framework within Ethiopia's ICM, it is recommended that ECMA establish a Central Shariah Advisory Board (CSAB). The CSAB is an independent, legally anchored and empowered advisory body dedicated to supporting ECMA in developing enabling legal and regulatory frameworks and appropriate Shariah governance standards for the ICM. It will oversee Shariah compliance, resolve Shariah related disputes, advise competent courts in relevant litigation cases, and align interpretations among institutional SSBs. The CSAB will also provide Shariah advisory, in coordination with ECMA, to other government bodies such as NBE, MoF, ESX, and EIH on ICM initiatives. Moreover, it will support research, innovation, and public awareness efforts of ECMA to enhance market credibility and strengthen Ethiopia's position as a promising ICM jurisdiction[163].	ECMA

161 E.g. UAE, Malaysia, Bahrain, Kenya, Nigeria, etc.
162 The title "Central Shariah Advisory Board for Ethiopia's Capital Market" is a proposed name to this board. The name may be altered by the stakeholders to suit the Ethiopian context.
163 The IFTF may also consider either expanding the mandate of the CSAB into a standalone body responsible for overseeing Shariah matters across the entire Islamic finance industry, including Islamic banking, microfinance, insurance, and others, or establishing dedicated sub-committees under the CSAB for specific sector(s) such as Islamic Banking and Microfinance Shariah Committee, ICM Shariah Committee, etc.

No.	Strategies and Recommendations	Key Stakeholder(s)
	Shariah Governance	
10	**Shariah Governance Framework** In addition to the CSAB operating at the sector level, it is essential to establish a comprehensive Shariah governance framework that defines appropriate measures, arrangements, requirements, and organs at both the institutional and product/instrument levels (where applicable). This framework should ensure effective and independent Shariah oversight across ICM activities, mitigating Shariah non-compliance risk and boosting investor confidence. Hence, ECMA is advised to issue a Shariah Governance Framework Directive that adequately covers the following key areas, among others: • Shariah governance organs and requirements for full-fledged ICM participants, Islamic windows, and ICM products. • Shariah advisory and certification requirements by an institutional SSB, Shariah adviser(s), and specialized Shariah advisory firms. • Shariah compliance, review, risk management, control, and audit requirements across all stages of the ICM products' lifecycle to ensure continuous adherence to Shariah principles. • Fit and proper criteria for the relevant Shariah governance framework advisers and personnel. • Disclosure, reporting, and transparency requirements related to Shariah governance. • Enforcement and sanctions for non-compliance with the Shariah governance framework's regulatory requirements. • Consider mandating compliance with the Shariah Standards of AAOIFI as a regulatory requirement for full-fledged ICM participants, Islamic windows, and ICM product.	ECMA
11	**Shariah Screening for Share Companies** ECMA, in partnership with ESX, is advised to establish a structured and transparent framework for identifying Shariah compliant share companies, covering both private (unlisted) and public (listed) businesses. This initiative aims to expand investment opportunities for Muslim and ethically oriented investors and support the growth of Ethiopia's ICM. Recommendations for implementation are as follows: • ECMA to issue Shariah screening guidelines aligned with AAOIFI's Shariah Screening Methodology, with necessary adjustments for the Ethiopian market context. The guidelines should clearly outline the Shariah screening criteria for both public and private share companies. As part of the guidelines, companies seeking Shariah compliant designation must undergo an annual certification and review by qualified Shariah adviser(s) and/or Shariah advisory firm[164]. • ECMA to develop an online self-assessment toolkit on its official website enabling companies to conduct an initial compliance check against the published Shariah screening criteria[165]. • ECMA and/or ESX to introduce a publicly available and periodically updated list of Shariah compliant share companies (both public and private) to enhance transparency and investor confidence. As Ethiopia's public equity market develops over the years, ECMA may consider revising the Shariah screening requirements for publicly listed companies. ESX may also partner with a specialized data provider firm to manage the Shariah screening process for public share companies and facilitate the creation of Islamic Public Equity Index(es) in Ethiopia, enhancing market transparency and investment opportunities for Muslim and ethically oriented investors.	ECMA and ESX

164 The fit and proper criteria for Shariah advisers/firms can be defined within the Shariah Screening Guidelines as an interim measure until the proposed Shariah Governance Framework Directive is issued and enacted.
165 This will help businesses to conduct an initial check to assess their eligibility for Shariah compliant designation before undergoing formal certification, improving efficiency and accessibility in the screening process.

No.	Strategies and Recommendations	Key Stakeholder(s)
	Human Capital	
12	**Capacity Building of the Key Stakeholders** The ICM-SC may consider launching, in partnership with the key stakeholders, including government bodies and market players among others, a comprehensive Islamic finance capacity building program that is designed as follows: • Macro-level: targeting policy makers and regulators particularly ECMA, NBE and MoF[166]. • Meso-level: aimed at key market participants (ESX, EIH, DBE, and CBE) and other market players that are interested in offering/using ICM products[167]. The following considerations are crucial to the successful launch of the aforementioned Islamic finance capacity building program: • The program shall focus on the economic benefits and universal ethical values of Islamic finance instead of solely relying on religious arguments. • Regular assessments, refresher trainings, and knowledge-sharing platforms should be established in the market to ensure ongoing skill development and alignment with industry's best practices. • The program should issue a professional qualification certificate that can be a regulatory requirement for those who will have leading position in the ICM.	ICM-SC
13	**Institutional Budget for Human Capital Development** The ECMA and NBE, where applicable, may mandate all ICM participants to: • Allocate a specific portion of their annual budget for human capital development to Islamic finance related programs and certifications. • Regularly report on compliance with the aforementioned requirement, with non-compliance subject to regulatory sanctions and penalties.	ECMA and NBE

166 Building the internal capacity of the policy makers and regulators is of key importance for the development of a robust Islamic finance industry ('Train-the-Trainer' model could be implemented to boost transfer of knowledge and reduce training expenses).

167 The training should be practical and aimed at equipping the relevant staff with knowledge and skills required to undertake their professional duties ('Train-the-Trainer' model could be adopted).

No.	Strategies and Recommendations	Key Stakeholder(s)
	Accounting	
14	**Accounting Standards for Islamic Capital Market Products** The financial services industry is currently in the process of adopting IFRS in Ethiopia. Given their broad application, IFRS are generally considered capable of accommodating the key requirements of ICM products, and they are widely used by Islamic financial institutions and ICM participants across dozens of jurisdictions worldwide. Despite the foregoing, to harmonize accounting practices, enhance transparency, and align Ethiopia's ICM with international standards and global best practices, ECMA, in partnership with AABE, is advised to: • Issue guidelines to define standardized terminologies for ICM products and clarify the appropriate accounting treatment for different Sukuk structures, ensuring consistency and comparability in financial reporting under the IFRS. • Evaluate the feasibility of implementing or localizing relevant AAOIFI Accounting Standards by conducting an individual assessment of the costs, benefits, and market impact of adoption within Ethiopia's ICM framework.	ECMA and AABE ECMA and AABE
	Public Awareness	
15	**Government-Sponsored Islamic Finance Sensitization Campaign** The ICM-SC to lead on launching a sensitization campaign, in association with other governmental entities, using a full mix of communication channels, including national TV, newspapers, social media etc. to deliver the following key message to the public on the national Islamic finance policy: • Islamic finance is a financial alternative to conventional finance that has a unique set of ethical values and economic benefits. The messaging shall also be aimed at demystifying Islamic finance and addressing any misconceptions among Muslims[168] and non-Muslims[169]. • Islamic finance has the potential to play a key role in the national economic development of Ethiopia.	ICM-SC
16	**Institutional Budget for Public Awareness** The ECMA and NBE, where applicable, may mandate all ICM participants to: • Allocate a specific portion of their annual marketing budget to Islamic finance awareness campaigns and initiatives. • Regularly report on compliance with the aforementioned requirement, with non-compliance subject to regulatory sanctions and penalties.	ECMA and NBE

168 E.g. worries about Shariah permissibility of Islamic financial products, Shariah concerns about the legitimacy of the window model, etc.

169 Proposed amendments to existing legislation to accommodate Islamic finance can sometimes be misunderstood and conflated with concerns about religious influence on the secular governance system. However, successful experiences from countries like the UK and Kenya (non-Muslim majority jurisdictions) demonstrate that governments should navigate such challenges by focusing on the strategic and economic benefits of Islamic finance, rather than being swayed by potential media rhetoric.

No.	Strategies and Recommendations	Key Stakeholder(s)
	Green Finance	
17	**Green Sukuk** ECMA is recommended to consider including a dedicated chapter on Green Sukuk in the planned Green Bond Issuance Guidelines[170]. This will help facilitate the integration of Shariah compliant green finance into Ethiopia's emerging ICM. Moreover, it may enhance regulatory clarity, attract Muslim and ESG-oriented investors, and support Ethiopia's commitment to the Paris Agreement goals, strengthening its position in sustainable and Islamic finance. If tax incentives are to be provided to green bond issuers, the same treatment should be extended to green Sukuk issuers to ensure a level playing field and promote equal opportunities in the market.	ECMA
	FinTech	
18	**Islamic FinTech Regulatory Sandbox** ECMA is advised to incorporate the unique requirements and specifics[171] of Islamic FinTech firms into the recently launched FinTech Regulatory Sandbox in Ethiopia. The enhanced sandbox framework should provide a streamlined process for assessing, approving, and granting permits to innovative FinTech solutions that leverage workable technology to enhance the ICM activities. It should also enable firms to test their proof of concept in a controlled regulatory environment, allowing for real-world experimentation of Islamic FinTech solutions such as Shariah compliant crowdfunding platforms, Islamic investment robo-advisers, blockchain-based Sukuk issuance, etc.	ECMA
	Branding	
19	**Branding of Islamic Capital Market Products** ECMA is recommended to either adopt industry best practices by using "Islamic Capital Market Products[172]" as the standard terminology in all official communications, legislative texts, and regulatory documents, or consider using terms such as "Participatory Capital Market Products" or "Non-Interest Capital Market Products" to ensure inclusivity and avoid any potential misunderstandings, making the market accessible to all Ethiopians, regardless of religious affiliation[173]. However, ECMA is advised to avoid using the term "Interest-Free", which is currently used in the banking sector, as it has proven to be confusing and potentially misleading[174] in the context of commercial (non-charitable) financial products. In all cases, this matter can be further discussed and evaluated by relevant stakeholders within the IFTF, as part of the national Islamic finance policy development process.	IFTF

170 The Green Bond Issuance Guidelines are mentioned in the ECMA 2024-2026 Strategy.
171 E.g. where applicable - structuring requirements, trading restrictions, Shariah governance and compliance requirements, etc.
172 The use of the term "Islamic banking arrangement" in Ethiopian legislation under the VAT Proclamation sets a precedent, making it easier to adopt the term "Islamic capital market products"
173 The term "Participatory Capital Market Products" has been used in countries like Morocco, while "Non-Interest Capital Market Products" has been used to describe ICM products in Nigeria. For further details on different branding approaches for Islamic finance, please refer to section 10.11 of this roadmap.
174 The public may sometimes perceive ICM products labelled as interest-free to be entirely cost-free.

11.1 Phased Approach

The figures below (Nos. 9 and 10) illustrate the proposed chronological implementation of the roadmap recommendations in an ideal scenario. This sequencing serves as an illustrative guide to how the strategies and recommendations could unfold under optimal conditions. However, actual implementation may vary significantly depending on national priorities, institutional arrangements, and other practical considerations.

Importantly, this does not preclude the possibility of initiating certain workstreams in parallel, particularly where such an approach may accelerate progress or align with the readiness of relevant stakeholders. While the figures provide a structured representation of potential sequencing, it is understood that multiple workstreams may be pursued concurrently to fast-track implementation. Despite this flexibility, there remain three foundational prerequisites for the establishment of the ICM in Ethiopia, without which progress on other workstreams may be impeded. These critical enablers are as follows:

- An enabling legal, regulatory, and supervisory framework for the ICM;
- A taxation framework accommodating ICM instruments and activities; and
- A Shariah Governance Framework Directive tailored to the ICM participants and instruments.

Figure 9. Recommendations in Phase – I

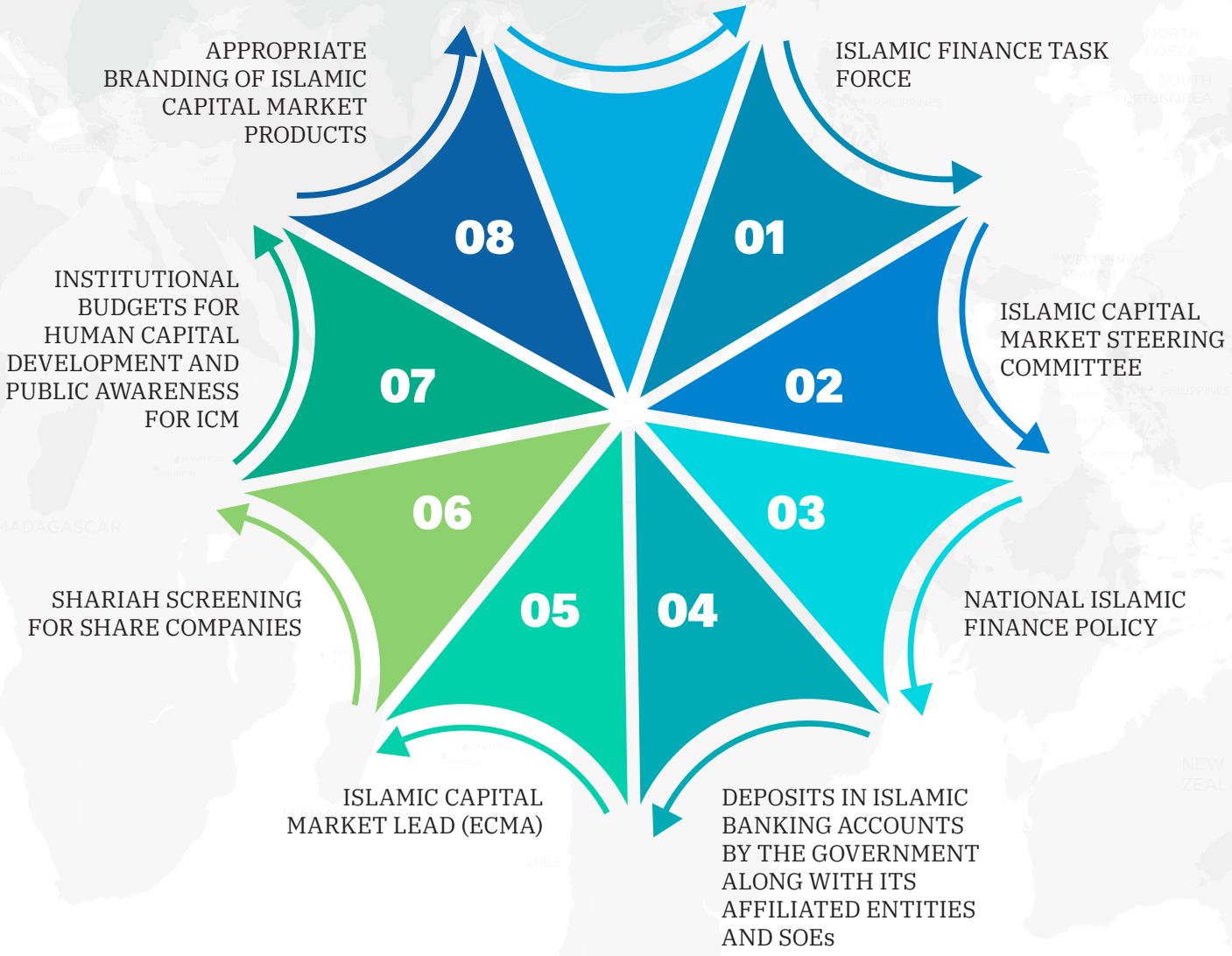
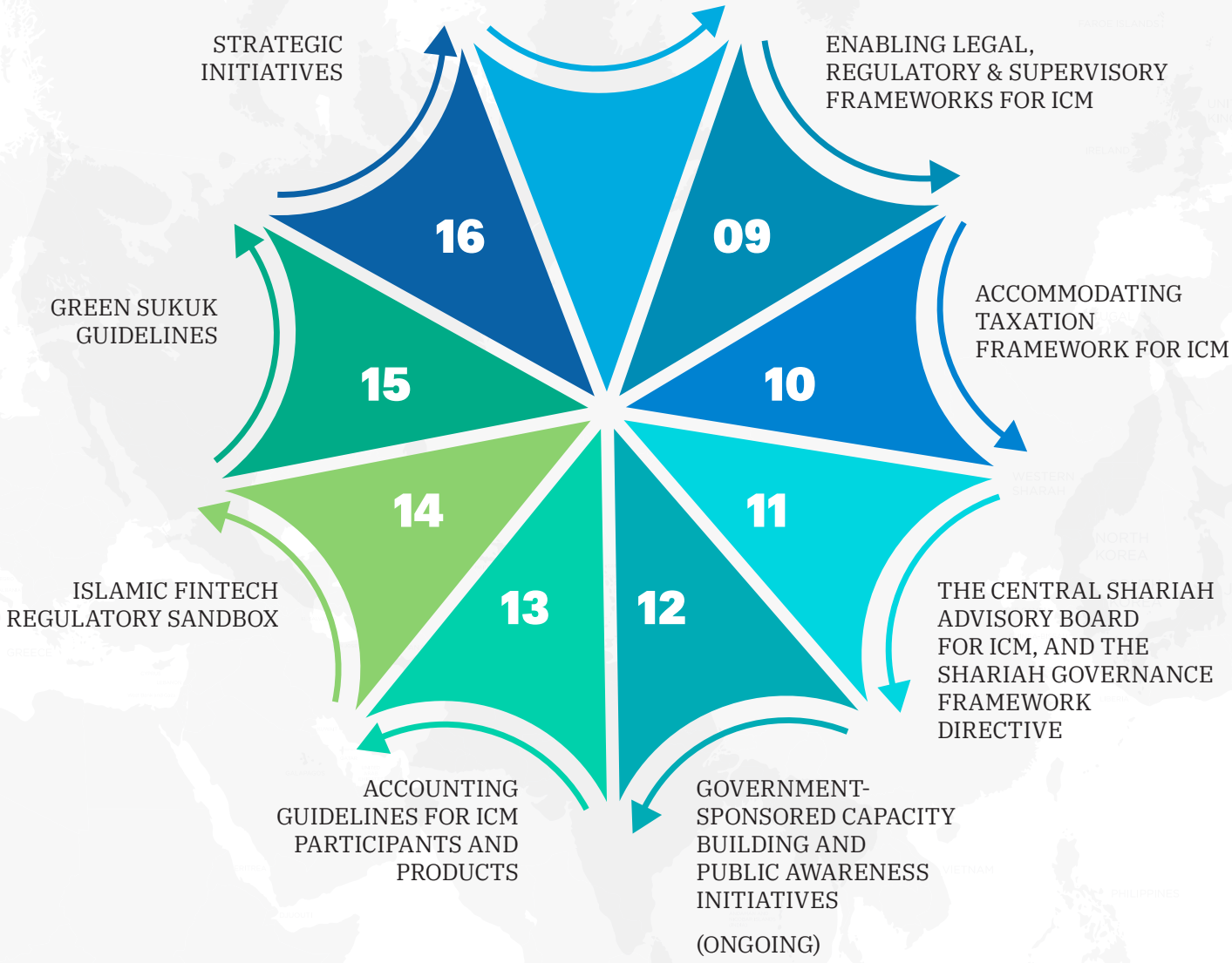


Figure 10. Recommendations in Phase – II



APPENDIX

Table 7. Full List of Islamic Banking Providers in Ethiopia

No.	Bank Name	Mode of Operation
1	Zamzam	Full-Fledged
2	Hijra Bank S.C.	Full-Fledged
3	Shebelle	Full-Fledged
4	Rammis Bank S.C.	Full-Fledged
5	Commercial Bank of Ethiopia	Window
6	Abay Bank S.C	Window
7	Bank of Abyssinia	Window
8	Amhara Bank S.C.	Window
9	Awash Bank S.C.	Window
10	Bunna Bank S.C	Window
11	Cooperative Bank of Oromia	Window
12	Dashen Bank S.C	Window
13	Global Bank S.C	Window
14	Enat Bank S.C.	Window
15	Gadaa Bank S.C.	Window
16	Hibret Bank S.C.	Window
17	NIB Int. Bank S.C.	Window
18	Oromia Bank S.C.	Window
19	Siinqee Bank S.C.	Window
20	Tsehay Bank S.C.	Window
21	Wegagen Bank S.C.	Window
22	Tseday Bank S.C.	Window
23	Siket Bank S.C.	Window



IFAAS

የኢትዮጵያ የካፒታል ገበያ ባለሥልጣን
ETHIOPIAN CAPITAL MARKET AUTHORITY