We designed Line of Finance, an arrangement through which ICD extends Shariah compliant supporting Small & Medium enterprises operating in ICD’s Member Countries.

Another “Financing” Option Made For You

Shifting economies, environments & ecosystems
Contents

Foreword .........................................................................................................................................3
Executive Summary .........................................................................................................................4
Context ..........................................................................................................................................6
Summary Infographics ......................................................................................................................7
Megatrend 1: Macroeconomic Slowdown .....................................................................................13
Megatrend 2: Sharing and Platform Economy ...........................................................................17
Megatrend 3: Climate Change .......................................................................................................21
Megatrend 4: Urbanisation .............................................................................................................23
Megatrend 5: Global Supply Chains .............................................................................................29
Megatrend 6: Future of Work ........................................................................................................34
Contributors ..................................................................................................................................42

DISCLAIMER

The data in this report is believed to be correct at the time of publication but cannot be guaranteed. Please note that the findings and conclusions that the report delivers are based on information gathered in good faith from both primary and secondary sources, the accuracy of which we are not always in a position to guarantee. The findings, interpretations and conclusions expressed in this report do not necessarily reflect the views of LSEG.

As such, the information presented is intended to provide general information only and, as such, should not be considered as legal or professional advice or a substitute for advice covering any specific situation. LSEG specifically disclaims all liability arising out of any reliance placed on this material. LSEG makes no representations or warranties of any kind, express or implied, about the completeness, accuracy, reliability or suitability of this material for your purposes.
The Islamic Corporation for the Development of the Private Sector (ICD), the private sector development arm of the Islamic Development Bank Group (IsDB), and the London Stock Exchange Group (LSEG), the world’s leading provider of financial markets data and infrastructure, are pleased to present this year’s edition of the OIC Megatrends Report titled Shifting Economies, Environments & Ecosystems.

This report connects the 57 Organisation of Islamic Cooperation (OIC) member states with different global megatrends. It is a future-focused thought leadership publication that analyses the potential of the Islamic finance industry to contribute even more productively and positively to the development of OIC member states even as the industry has enjoyed much growth.

In 2022, the global Islamic finance industry expanded by 11% to US$4.5 trillion after posting growth of 163% in the decade prior, according to our findings published in the Islamic Finance Development (IFDI) Report 2023 that noted the industry’s trends, developments and changing landscapes over the years.

As with the 2022 edition of the report, we reiterate three factors that make this publication important:

1. **Demographics**: The OIC population is over 2 billion and forms a significant 25% of world population.

2. **Islamic finance industry’s systemic importance**: Islamic finance already poses a systemic risk to the stability of the financial industry in several countries, such as Malaysia and in the GCC. In other regions, Pakistan’s central bank is aiming to transform its banking sector to become fully Islamic.

3. **Asset base**: 98% of the industry’s assets are held in OIC member states, according to IFDI.

This publication is released as the world today stands at an important juncture of technological advancements, environmental shifts and demographic changes. We hope this report will contribute towards further developing the Islamic finance industry and help different stakeholders understand the contributions of the industry to help them tackle the challenges and opportunities brought on by the global megatrends that we have identified in this edition.

Eng. Hani Salem Sonbol  
Chief Executive Officer,  
International Islamic Trade Finance Corporation  
Acting Chief Executive Officer,  
Islamic Corporation for the Development of Private Sector

Mustafa Adil  
Head of Islamic Finance,  
The London Stock Exchange Group
This is the second OIC Megatrends Report after the inaugural edition was introduced in 2022. As with the previous edition, this report analyses six global megatrends, their impact on the countries that make up the Organisation of Islamic Cooperation (OIC), and the role of Islamic finance to unlock the megatrends’ potential to transform these markets. We believe these megatrends will play a more impactful role transforming different OIC societies in the coming years.

This report identifies the six inter-related megatrends to impact OIC nations as: Uneven Macroeconomic Performance, Sharing and Platform Economies, Green Economy, Urbanisation, Global Supply Chains and Future of Work. The first two look at shifting economies, which are playing out across OIC societies. The next two cover changing environments brought on by climate change and growing populations. The last two consider adapting ecosystems.

Executive Summary

The key insights, including challenges and Islamic finance solutions for each megatrend are:

Uneven Macroeconomic Performance:
Parts of the world economy proved to be more resilient in 2023 than expected. The United States, for example, ended the year with falling inflation and low unemployment against the backdrop of rising interest rates. At the same time, the outlook for the economies of developing countries has darkened due to slowing global trade and tight financial conditions. Among OIC member countries, oil-rich nations are better-positioned than others to weather the economic downturn given their ability to better service their sovereign debts. The Islamic finance industry can help these countries better manage the macroeconomic slowdown with products provided by Shariah-compliant financial institutions and instruments such as sovereign sukuk. For example, Pakistan and Egypt previously issued sovereign sukuk to support their financial needs during periods of economic slowdown and debt crisis.

Sharing and Platform Economies:
The sharing economy, characterised by its peer-to-peer modus operandi, has a huge potential to evolve to an estimated market size of US$335 billion by 2025, according to Brookings. Online or digital sharing economy platforms are becoming increasingly important as they transform the way businesses are done by helping to reduce costs while maintaining efficiency. For sharing economies to thrive, the entrepreneurship ecosystem in a country must be able to facilitate and enable the development of digital platforms. OIC countries fall behind in platform economy ranking compared to non-OIC nations in North America, Europe and Asia. However, we are seeing efforts to enable supporting ecosystems such as regulations for Islamic FinTech that serve crowdfunding purposes in some markets.
Green Economy:

In the race to net zero, the green economy is accelerating its impact on traditional economic sectors. The green economy is estimated to have a market capitalisation of US$6.5 trillion in 2023, according to FTSE Russell, an LSEG business. This makes it the fourth largest industry globally. Factors such as sustainable finance regulations and disclosures are helping its evolvement. There is a substantial potential for investing in the green economy in the OIC markets and we have already seen roadmaps for the green economy in some OIC countries. Funding is an important component that the Islamic finance industry can play a big role in. We have already seen continued growth in green sukuk issued in some OIC markets by corporates, quasi-sovereigns and sovereigns.

Urbanisation:

More than half of the world population live in urban areas. For the OIC, over 80% of inhabitants in the Middle East live in cities, stressing the need for urban infrastructure projects to accommodate growing urban populations. This has socioeconomic impacts such as job creation and attracting private investment. At the same time, environmental concerns raise the need to manage the outcome of urban growth. 58% of OIC countries have an urbanisation rate of over 50% and this proportion continues to rise. Financing can be maintained through different Islamic finance solutions such as municipal sukuk, Shariah-compliant investment that drive economic activity and the use of Islamic financial concepts that increase local share of public revenue.

Global Supply Chains:

Supply chain disruptions, such as caused by global pandemics or geopolitical instability, impact global trade and filters down to affect daily consumer demand and behaviours. While the global supply chain continuously contends with disruptions, it has to also reduce its high level of carbon emissions to meet sustainability targets in order to mitigate climate change. Amid this global picture, OIC nations need to improve on logistics and their contribution to global exports. The Gulf Cooperation Council (GCC) countries can lead the way on supply chain developments in the OIC given their investment in this area. Islamic supply chain financing solutions have been benefiting users for decades, including invoice financing, supply chain financing and management, along with sustainable Shariah-compliant supplier finance.

Future of Work:

The future of work is rapidly evolving globally, with technology changing the nature of work. OIC countries lag non-OIC countries in artificial intelligence (AI) readiness and the impact of AI on jobs in the OIC is potentially far-reaching, especially given that only eight out of 57 OIC economies are in the “high income” group. Strategically, more can be done in OIC countries and globally to address the future of work, such as creating national and regional blueprints and further building out the talent and entrepreneurship ecosystems to better respond to the future of work.
Context

Uneven Macroeconomic Performance

- What it is: The coming few years will see different levels of economic recovery across countries
- Why it matters: 2024’s impact will differ across the OIC–hydrocarbon-rich states will weather the storm better due to their ability to better service debts
- The role of Islamic finance: Sukuk and multilateral Islamic debts can alleviate economic hardships. Recent years saw sovereigns tapping sukuk markets to support financial needs

Sharing and Platform Economies

- What it is: New economic paradigms emerge due to digitalisation
- Why it matters: OIC countries show promise of enabling platform economies, with the right infrastructure in place
- The role of Islamic finance: A supporting environment is essential for the development of Islamic sharing economy platforms. Different uses of Islamic sharing economy platforms are seen across OIC countries

Green Economy

- What it is: The green economy cuts across sectors and is fairly diversified across different industry categories
- Why it matters: There is substantial potential for investing in the green economy in OIC markets
- The role of Islamic finance: The Islamic finance industry can support in achieving green economy objectives. Islamic finance solutions to help build the green economy are already seen in some markets

Urbanisation

- What it is: Growing urbanisation increases the need for sustainable urban development
- Why it matters: OIC markets need to be better equipped to handle growing urbanisation
- The role of Islamic finance: Islamic finance can plug the financing gap to sustain rapid growth of urbanisation. Specific sustainable urbanisation Islamic finance policies and tools being introduced

Global Supply Chains

- What it is: Supply chains are critical for global economic success and crucial for global sustainability as well
- Why it matters: OIC markets are an important part of the logistics system in emerging markets, with GCC well-positioned to lead the way
- The role of Islamic finance: Several Islamic finance and FinTech solutions now in place for Shariah-sensitive market participants but more are needed

Future of Work

- What it is: The future of work is rapidly evolving globally, with technology changing the nature of work; regional variations exist
- Why it matters: OIC countries lag non-OIC countries in AI readiness and the impact of AI on jobs in the OIC is potentially far-reaching
- The role of Islamic finance: More can be done in OIC countries and globally to address the future of work, such as creating national and regional strategies and building out the talent and entrepreneurship ecosystems to create more success stories
Summary Infographics: OIC Megatrends Framework

An integrated visual to help understand the effects of global megatrends on the provision of Islamic financial products and services, which in turn can help transform OIC markets over this decade.

<table>
<thead>
<tr>
<th>Six megatrends playing out...</th>
<th>... disrupting the provision of Islamic financial products and services globally...</th>
<th>... potentially transforming OIC markets and Muslim consumers over the next decade</th>
</tr>
</thead>
</table>
| 1. Uneven Macroeconomic Performance | Islamic finance instruments:  
- Sukuk  
- Multilateral Islamic debt | OIC in 2030:  
OIC nations should set ambitious targets that action on megatrends to move the needle for their economies, such as ’20:30:40’ |
| 2. Sharing and Platform Economies | Islamic FinTech:  
- Crowdfunding |  |
| 3. Green Economy | Islamic finance instruments:  
- ESG sukuk  
- ESG Islamic financing |  |
| 4. Urbanisation | Different Islamic finance solutions:  
- Participative land financing  
- Municipal sukuk  
- Shariah-compliant investments  
- Islamic public finance tools |  |
| 5. Global Supply Chains | Islamic FinTech:  
- Islamic invoice financing  
- Islamic supply chain financing and management |  |
| 6. Future of Work | National strategies to build out talent |  |

| Society: | 20% of income distribution to bottom 50% |
| Economy: | 30% of global GDP (by purchasing power parity, PPP) |
| Technology: | 40 unicorns |
Uneven Macroeconomic Performance

The coming few years will see different levels of economic recovery across countries. Sukuk can play a role in addressing financing needs for OIC nations.

Green Economy

Green Economy is deepening across different industries globally and Islamic finance solutions will help build the green economy as already seen in some OIC markets.

Global Supply Chains

Global Supply Chains are becoming increasingly important as they underpin a large proportion of international trade. Some examples of Islamic supply chain solutions seen in OIC markets.

Sharing and Platform Economies

Sharing economy platforms are becoming more important and have a huge potential to evolve. Different uses for Islamic crowdfunding platforms seen across OIC markets.

Urbanisation

Urbanisation requires investment and financing for sustainable urban development. Several Islamic finance instruments and solutions can support financing needs for this in OIC.

Future of Work

The future of work is rapidly changing with the involvement of technological advances such as artificial intelligence (AI). OIC countries lag non-OIC countries on governments’ AI readiness.

Average Urbanisation Rate in OIC Countries by Region (2021)

Average Scores on the Government AI Readiness Index - OIC & Non-OIC Countries (2020–2023)
MEGATREND 1: UNEVEN MACROECONOMIC PERFORMANCE
The coming few years to see different levels of economic recovery across countries

The situation
During 2022 and early 2023, forecasts for the global economy were mostly negative, due to factors such as weakening economic activity, rising inflation, supply chain issues and rising interest rates. Each of these four factors are difficult enough to mitigate against individually. Yet, the world economy proved to be more resilient than what was mostly expected. Global inflation rates have fallen without severely impacting unemployment in markets such as the US, but policymakers still have a lot of work to do in order to engineer a soft landing. With high interest rates, global economic output and activity are expected to slow in 2024 with the World Bank’s Global Economic Prospects report forecasting growth of the global economy to be 2.4% compared to 2.6% in 2023. Moreover, two of three major engines of global growth – the US and the EU – are forecast to experience slowing growth in 2024. The EU saw a significant economic stagnation in 2023 but proved its resilience. Meanwhile, China will see slowed recovery due to a more accommodative policy.1

Why it matters
While the 2020s is supposed to be a transformative decade in terms of development, its first half is considered the slowest growth in GDP, according to the World Bank that cited wasted opportunities. As major central banks are expected to loosen monetary policies mid-2024, the outlook for developing economies has darkened due to slow global trade and very tight financial conditions. In addition, the impact of higher interest rates creeping in will hit debt servicing activities more heavily even as some economies are still experiencing inflationary pressures.
2024 impact will differ across the hydrocarbon-rich OIC states will weather the storm better due to their better ability to service debts

**Impact on OIC markets**

Economic growth will vary across the OIC. For the GCC’s hydrocarbon-rich states, growth is projected at 3.6% for 2024\(^2\), which is higher than average global growth, due to strong oil revenues driven by a projected expansion in oil output. Faster growth is also expected in Algeria and Iraq.

In the Middle East, the Gaza conflict is impacting the region’s growth forecasts and prospects as tourism-related activities are hit, such as in Jordan and Egypt. Egypt is already experiencing inflationary pressures and seeing constraints in private sector activity. Egypt’s sovereign dollar bonds were already tumbling before October 7 when ratings agency Moody’s downgraded the country’s credit rating on October 6 due to its economic crisis and other agencies followed suit thereafter.

Some OIC nations remain vulnerable to sovereign debt risk, owing to their low credit ratings. As the cost of borrowing will remain high for such nations for the foreseeable future due to pronounced default risk, the chances of more economic hardship in 2024 for these countries remains high. Tighter financial conditions will weaken the growth prospects for oil importers specifically due to external financing needs.

Based on LSEG’s analysis of credit ratings data from Trading Economics, which covers 156 countries globally, 29 out of 38 OIC countries covered have a score of less than 50, i.e. non-investment grade credit rating. Interestingly, only two-thirds of OIC countries are covered, with several OIC countries having no credit rating at all from major credit rating agencies, suggesting the absence of credible data to make assessments of creditworthiness. Another insight from the data is that OIC countries are less favourably rated by major credit rating agencies than non-OIC countries – 36.9 OIC average credit rating score (sub-investment grade), compared with a 54.6 non-OIC average (investment grade or higher).

Some examples of major OIC countries with low credit ratings include Pakistan, Nigeria, Türkiye, Egypt and Bangladesh (all sub-investment grade scores at 40 or lower).
Sukuk and multilateral Islamic debts can alleviate economic hardships

**Islamic finance solutions**

The Islamic finance industry can help alleviate macroeconomic slowdowns. Products provided by Islamic financial institutions and Shariah-compliant financial instruments such as sovereign sukuk can be tapped by issuers with high financing needs, such as Türkiye and Egypt. The latter already established a US$5 billion sukuk programme and issued its first sukuk in 2023 for US$1.5 billion. Among the options for some countries to manage external debt is to issue new debt to avert sovereign default. Amid slowing inflation and expectations of rate cuts in 2024 to combat decelerating growth, this option is becoming increasingly priced-in for many countries, which render lucrative opportunities for sukuk.

Multilateral Islamic debts can also allow countries to manage longer-term risks as these financings can have up to 30-year timelines with small transactions.

**Recent years saw sovereigns tapping sukuk markets to support financial needs**

**Pakistan 2023 and Early 2024 Sovereign Sukuk Issues**

Pakistan faced difficult years following the Covid pandemic and severe flood in 2022. The sovereign was hit by credit rating downgrades in 2022 and 2023 due to sharp drops in external liquidity and increasingly challenging funding conditions; Pakistan’s foreign exchange reserves were plunging, weakening the local currency and pushing up inflation.

As the government of the Islamic Republic of Pakistan faced growing pressure to meet its fiscal targets for 2024, it conducted sukuk auctions in December 2023 and January 2024. These helped the government plug its deficit. The December issue was the first-ever auction of listed government bonds and allowed the retail bond market to participate. Islamabad Metro was the underlying asset and the sukuk used the Ijarah structure. The January sukuk was oversubscribed seven times its target offering size and allowed the sovereign to contribute towards lower funding costs.

**Egypt Debut Sovereign Sukuk Issue**

Egypt also faced financial difficulties given the outflow of foreign investments from its financial markets following Russia’s invasion of Ukraine in February 2022. This reduced the country’s external liquidity buffers and capacity to absorb shocks, which in turn prompted rating agencies to slash the sovereign’s rating.

The sovereign’s debut sukuk, a three-year US$1.5 billion in February 2023, came at a time of turbulent global economic and political conditions. The sukuk allowed the Egyptian government to tap into MENA demand given the region’s active Islamic finance industries. Investors also came from Asia, Europe and the US. The sukuk was four times oversubscribed, which narrowed its final yield.

Türkiye had a similar experience in 2022 when it did not have access to the conventional bond market but could meet Islamic investors’ demand. This covered 50% of Türkiye’s funding target.
MEGATREND 2: SHARING AND PLATFORM ECONOMIES
New economic paradigms emerge from digitalisation

The situation

The digital or platform economy is becoming hard to overlook. It is the tendency for businesses to move towards digital platform business models. Today’s consumers are more comfortable seeking services online while operators offer better value to their consumers through digital platforms. It is a business model that connects different users such as developers and consumers to interact and transact quickly across borders with fewer physical limitations. Almost every aspect is connected through a platform.

The sharing economy is a peer-to-peer (P2P) economic model that gives users shared access to assets and services. P2P platforms come in many different forms, for example co-working platforms that allow freelancers and entrepreneurs to share a workspace or a service like Airbnb that allows users to access short-term rentals. In the finance industry, P2P lending platforms are disrupting traditional financial services.

The sharing economy is also seen as a part of the gig economy, a system that relies on independent contractors and freelancers to provide services to others. This is where entities such as Uber profit as their online platforms connect clients and customers.

Why it matters

The sharing economy has a huge potential to grow and evolve. According to Brookings, the market size of the sharing economy is estimated to reach US$335 billion by 2025. For the financial industry, crowdfunding, which is community-based funding or financing, has become a popular method to start or finance businesses. Overall, sharing economies allow businesses to reduce costs by sharing resources and services and also outsource certain functions to others. For instance, office space can be shared instead of leasing offices. Sharing economies are also fuelled by users.

Source: DinarStandard
**OIC markets show promise of enabling platform economies with the right infrastructure in place**

**Impact on OIC markets**

Digital platforms based in countries in North America, Europe and Asia are the most powerful, according to the Global Digital Platform Power Index 2023 report produced by DinarStandard. Some OIC nations are covered in this Index but none of them was categorised among the top countries. However, the GCC (except Oman), Türkiye, Malaysia, Indonesia and Kazakhstan are among the promising countries to enable the platform economy. Meanwhile, North African nations, Iran, Oman, Azerbaijan, Lebanon, Bangladesh, Uzbekistan and Iraq are among the lagging nations.

According to DinarStandard, for the platform economy to be successful in a country, governments need to enable a proper infrastructure, provide ease of setting up platform businesses, and take venture capital and talent into consideration, among other recommendations. These can be considered by OIC nations.

**Digital Platform Power Index: Global vs OIC Countries**

(Average Overall Score, out of 10)

<table>
<thead>
<tr>
<th>Country</th>
<th>Global Average</th>
<th>OIC Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turkey</td>
<td>4.6</td>
<td>3.5</td>
</tr>
</tbody>
</table>

Source: Global Digital Platform Power Index 2023, DinarStandard

**Platform Power Index Top Countries (Index Values)**

<table>
<thead>
<tr>
<th>Country</th>
<th>Economic Influence</th>
<th>Enabling Environment</th>
<th>2.0 Platform Readiness</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>7.0</td>
<td>8.7</td>
<td>9.1</td>
</tr>
<tr>
<td>China</td>
<td>5.0</td>
<td>6.9</td>
<td>6.4</td>
</tr>
<tr>
<td>Japan</td>
<td>3.0</td>
<td>9.0</td>
<td>7.7</td>
</tr>
<tr>
<td>Netherlands</td>
<td>2.0</td>
<td>8.9</td>
<td>7.7</td>
</tr>
<tr>
<td>S. Korea</td>
<td>2.5</td>
<td>8.6</td>
<td>7.7</td>
</tr>
<tr>
<td>Singapore</td>
<td>2.0</td>
<td>8.8</td>
<td>8.3</td>
</tr>
<tr>
<td>Germany</td>
<td>1.5</td>
<td>9.5</td>
<td>8.3</td>
</tr>
<tr>
<td>Russia</td>
<td>3.5</td>
<td>7.9</td>
<td>8.1</td>
</tr>
<tr>
<td>Canada</td>
<td>2.0</td>
<td>8.4</td>
<td>8.7</td>
</tr>
<tr>
<td>UK</td>
<td>1.5</td>
<td>8.9</td>
<td>8.3</td>
</tr>
</tbody>
</table>

**Promising Countries**

<table>
<thead>
<tr>
<th>Country</th>
<th>Economic Influence</th>
<th>Enabling Environment</th>
<th>2.0 Platform Readiness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turkey</td>
<td>6.6</td>
<td>5.3</td>
<td>5.3</td>
</tr>
<tr>
<td>Slovakia</td>
<td>7.6</td>
<td>6.3</td>
<td>6.3</td>
</tr>
<tr>
<td>Malaysia</td>
<td>7.6</td>
<td>6.3</td>
<td>6.3</td>
</tr>
<tr>
<td>Hungary</td>
<td>7.3</td>
<td>6.3</td>
<td>6.3</td>
</tr>
<tr>
<td>UAE</td>
<td>7.0</td>
<td>5.4</td>
<td>5.4</td>
</tr>
<tr>
<td>India</td>
<td>5.1</td>
<td>5.2</td>
<td>5.2</td>
</tr>
<tr>
<td>Latvia</td>
<td>7.1</td>
<td>5.2</td>
<td>5.2</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>7.2</td>
<td>5.6</td>
<td>5.6</td>
</tr>
<tr>
<td>Granada</td>
<td>7.4</td>
<td>5.7</td>
<td>5.7</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>7.6</td>
<td>5.4</td>
<td>5.4</td>
</tr>
</tbody>
</table>

**Lagging Countries**

<table>
<thead>
<tr>
<th>Country</th>
<th>Economic Influence</th>
<th>Enabling Environment</th>
<th>2.0 Platform Readiness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Georgia</td>
<td>6.4</td>
<td>4.5</td>
<td>4.5</td>
</tr>
<tr>
<td>Mexico</td>
<td>5.8</td>
<td>5.0</td>
<td>5.0</td>
</tr>
<tr>
<td>Belarus</td>
<td>5.8</td>
<td>4.5</td>
<td>4.5</td>
</tr>
<tr>
<td>Iran</td>
<td>5.8</td>
<td>4.8</td>
<td>4.8</td>
</tr>
<tr>
<td>Morocco</td>
<td>5.7</td>
<td>2.4</td>
<td>2.4</td>
</tr>
<tr>
<td>Peru</td>
<td>6.1</td>
<td>4.6</td>
<td>4.6</td>
</tr>
<tr>
<td>Venezuela</td>
<td>5.4</td>
<td>2.5</td>
<td>2.5</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>4.6</td>
<td>3.3</td>
<td>3.3</td>
</tr>
<tr>
<td>Tunisia</td>
<td>5.5</td>
<td>4.3</td>
<td>4.3</td>
</tr>
<tr>
<td>Oman</td>
<td>4.5</td>
<td>5.2</td>
<td>5.2</td>
</tr>
</tbody>
</table>

Source: Global Digital Platform Power Index 2023, DinarStandard
Supportive and enabling environment essential for development of Islamic sharing economy platforms

Islamic finance solutions

The Islamic FinTech sector has some examples of sharing economy platforms. The sector is estimated to be US$138 billion, or 1.2% of the global FinTech market 2022/23, according to DinarStandard. While most FinTech entities focus on payments, crowdfunding stands out as a sharing economy platform. The utilisation of crowdfunding varies and includes equity-based, debt-based, open service or managed service platforms. In particular, SMEs have been using crowdfunding platforms to raise capital and financing, especially the platforms that de-risk market segments with minimal data. Crowdfunding also serves investment and Islamic social finance.

The growth of crowdfunding in the OIC will rely on more and more consumers accepting alternatives to traditional finance and investment pathways, such as via banking. It will also grow with strong online presence as well as supportive and enabling entrepreneurship ecosystems. Many OIC governments, including Bahrain, Saudi Arabia and Malaysia, have already introduced regulations for debt and equity crowdfunding, which are essential to ensure protection for all parties.

According to FinTech Regulation in the Middle East and North Africa report produced by Cambridge Centre for Alternative Finance, 67% of sampled jurisdictions in MENA have P2P lending frameworks while 69% of the same have equity crowdfunding frameworks. The rest are either planning to introduce P2P lending frameworks, treat them as self-regulated or prohibited. Crowdfunding frameworks could be regulated by the securities or capital market regulator, central bank, multiple regulatory authorities or others. Other regulatory aspects considered are limitations on the amount or percentage of a retail investor’s portfolio on equity crowdfunding activities, requirement for professional credentials to invest in this, maximum lending requirement for P2P lending and limit of type of consumers.

Islamic sharing economy platforms are further developed with initiatives such as innovation offices and regulatory sandboxes.

Islamic sharing economy platforms operate in different markets and serve different uses

**Islamic Social Finance**

There are instances of the use of crowdfunding platforms for Waqf management, Zakat and CSR aspects. This can be enabled through collaboration with other relevant entities such as Islamic financial institutions, foundations and religious bodies.

Malaysia-based Islamic FinTech Global Sadaqah, for instance, allows users to donate charity, Sadaqah and Zakat online. It facilitates payments through different channels including Bitcoin.

**Crowdlending**

FinTechs can act as a financing solution for businesses. Using crowdfunding platforms, small businesses can access affordable financing through innovative technology while lenders can receive attractive returns as businesses grow.

Countries with high proportion of SMEs to other businesses, such as Saudi Arabia, can benefit from this. This is where Islamic FinTech platforms such as Raqamyah provide their services. The platform combines technology and financial analysis to select qualified SMEs to receive investments. Aspects that are covered include invoice, inventory and supply chain financing.
MEGATREND 3: GREEN ECONOMY
Green economy cuts across sectors and is fairly diversified across different industry categories

The situation
Several new themes are affecting traditional economic sectors in significant ways and these disruptions are already transforming economies. In particular, the green economy has been expanding as governments, the private sector and individuals set a path towards net zero. Over 90% of the global GDP is covered by net zero targets.5,6

Why it matters
Governments are increasingly focusing on the green economy in their efforts to adapt to and mitigate climate change. According to FTSE Russell, an LSEG business, the green economy has a market capitalisation of US$6.5 trillion in 2023, which is roughly 10% of the market capitalisation of listed equities. This makes it the fourth largest industry, surpassing banks and energy sectors.7

Given the 14% CAGR of the green economy over the past 12 years, according to FTSE Russell, and the strong political and regulatory tailwinds, the green industry market capitalisation could touch 20% of equity capital markets by 2030. Other factors contributing towards this growth is the pace of sustainable finance regulation across taxonomies, disclosures, climate risk management and sustainable bond frameworks.

FTSE Russell also estimates that US$109–US$275 trillion of investment is required by 2050 to achieve net zero.8 It is also estimated that 20% of revenue from listed equities globally are green.

Almost all sectors have green economy exposures, with automobiles and parts having the highest green exposure (48%) given the pace of the development and production of electric cars.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Green Exposure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automobiles and Art</td>
<td>48%</td>
</tr>
<tr>
<td>Utilities</td>
<td>34%</td>
</tr>
<tr>
<td>Construction and Materials</td>
<td>23%</td>
</tr>
<tr>
<td>Chemicals</td>
<td>17%</td>
</tr>
<tr>
<td>Industrial Goods and Services</td>
<td>14%</td>
</tr>
</tbody>
</table>

*Green exposure % is calculated by dividing green revenue weighted market capitalisation by total market capitalisation of companies.

Source: FTSE Russell
Investing in the green economy is a big opportunity for OIC markets

Impact on OIC markets

There is a long way to go for OIC countries with regards the green economy. As it stands, none of the OIC economies falls within the top ten green economy markets or markets with green economy exposure as per data compiled by FTSE Russell. Out of the 57 OIC markets, only nine countries have green economy exposure. Among them, Pakistan has the highest country market exposure in the green economy as well as the highest market capitalisation. Yet, it is Malaysia, Indonesia and Saudi Arabia that have the highest number of companies with green economy exposure. Given this gap in the number of countries and low market capitalisation, OIC countries can work towards investing in developing their green economies. Malaysia for instance, developed its National Energy Transition Roadmap while the UAE and Indonesia have ‘Green Growth’ programmes.

In another multi-country study, the UAE was the highest ranking OIC member state (36th) with a score of 4.78 out of 10 on the Green Future Index 2023 that was developed by MIT Technology Review. The Index assessed 76 countries on their abilities to create a sustainable future and included 16 out of 57 OIC member states. Iceland topped the ranking with a score of 6.69. The average score of the 16 OIC countries was 3.87 compared to the global average of 4.76.
Islamic finance industry can help achieve green economy objectives

Islamic finance solutions

Governments are mobilising higher levels of funding to enable the growth of green industries and supply chains as sustainability and the reduction of carbon emissions increasingly inform industrial policy. Governments across the world have introduced many different initiatives and incentives such as subsidies, grants, tax breaks and more accommodating strategies to boost green economic activity and trade.

The Islamic finance industry can play a large role in achieving green economy objectives in some of the OIC countries. One of the clearest indicators of the Islamic finance industry’s growing role in the green economy is the increase in green sukuk issues. Green sukuk is one of the instruments under the ESG sukuk classification (the others are social sukuk that fund projects with positive social impact, sustainability sukuk that channel proceeds to a combination of green and social projects, transition sukuk that aim to reduce carbon emission, and blue sukuk that fund marine-related projects). The highest issuance amount was recorded in 2023, when green sukuk issues reached US$13.4 billion. For developing OIC countries, capital markets can provide a more suitable source for longer-term finance as opposed to local bank financing. There have been cases of OIC governments encouraging ESG sukuk issues. For instance, the UAE’s Securities and Commodities Authority exempted registration fees for companies that wish to list their green or sustainability-linked bonds or sukuk in a local market for 2023. This in turn boosted ESG sukuk issues for the country that year.
Islamic finance solutions to help build green economy already seen in some markets

**Green Sukuk Issues in Malaysia**

Malaysia is the world's largest ESG sukuk market, accounting for US$11.6 billion, or one-third of all ESG sukuk issued between 2017 and 2023, according to LSEG data. In 2014, Malaysia's Securities Commission issued the Socially Responsible Sukuk (SRI) Guidelines to support the country's aim of becoming a hub for green and sustainable finance. The Malaysian government has also been supporting investment in renewables through its 2021–2025 roadmap to promote the green economy.

Malaysia marked a new milestone in July 2017 when one of its solar energy operators, Tadau Energy, issued the world's first green sukuk amounting to MYR250 million (US$59 million).

Since then, other solar energy operators started using green sukuk, such as Quantum Solar Park Sdn Bhd, Sinar Kamini Sdn Bhd, Leader Solar Energy Sdn Bhd and UiTM Solar Power Sdn Bhd. These issues, among others, have helped the Malaysian government meet its green infrastructure objectives.

Beyond solar, sukuk has also been used to finance hydropower operators such as Telekosang Hydro One Sdn Bhd and RP Hydro (Kelantan) Sdn Bhd.

**Green Islamic Fund**

Although ESG-focused Islamic funds are gaining traction in the past few years, few specialise in green projects. In 2022, Premium Alziraea Fund was launched by Prestige Funds, a direct lending fund manager in the UK. The fund is Shariah-compliant and has a portfolio of real assets and project financing. It focuses on renewables as well as agricultural sectors in the UK, many of which are backed by the UK government. Examples of projects include financing landowners that turn food, farm and animal waste into biogas and electricity.

Premium Alziraea Fund was also considered to be the first Shariah-compliant impact fund provided by a private finance manager. The fund targets institutional investors and also has a Middle East distributor, which has opened opportunities to some OIC nations.

The realisation of this investment opportunity came as the UK aims to be carbon neutral by 2050 and announced that it will ban new diesel and petrol car sales from 2030, among other initiatives.
<table>
<thead>
<tr>
<th>The situation</th>
<th>Why it matters</th>
<th>Impact on OIC markets</th>
<th>Role of Islamic finance</th>
</tr>
</thead>
</table>

**Leading Together**

We offer a variety of different products, to effectively serve your business’ needs. We provide both term financing and equity contribution to private sector Greenfield projects, or to businesses undergoing expansion or modernization.

[www.icd-ps.org](http://www.icd-ps.org)
MEGATREND 4: URBANISATION
Growing urbanisation increases the need for sustainable urban development

The situation

According to the United Nations, more than 4.3 billion people, or more than half of the world's population, live in urban areas. In high-income countries such as in the GCC and in the Americas, over 80% of inhabitants live in urban areas. This is unlike in low-to-middle income countries where the majority of inhabitants live in rural areas.

Why it matters

Urbanisation has been growing globally – where in 1800 less than 10% of the world's population lived in urban areas, in 1960 this number jumped to 33.6% and in 2021 to 56.5%. Urbanisation is expected to increase as incomes rise and employment shifts away from sectors typically set up in rural areas, such as agriculture. These facts and figures indicate that urbanisation as a megatrend is increasing in magnitude.

Urbanisation is also a factor that is contributing to changing environments. With increasing urbanisation, there is growth in urban infrastructure projects that can have socioeconomic impacts on an area, such as rising real estate values, improved quality of life, creation of jobs, and more private investment. The rate of growth and spread of urbanisation impacts the distribution of resources, such as transport and education.

On the flip side, climate, fresh water and biodiversity, among others, are all impacted negatively by urban growth. As such, sustainable urban development is becoming more crucial to manage and mitigate the negative outcomes of growing urbanisation. This concept gained momentum at the UN Conference on Housing and Sustainable Urban Development, Habitat III in 2016. In late 2023, during the United Nations Climate Change Conference (COP28) in Dubai, over 40 nations presented their strategies on sustainable urban development and a number of initiatives were announced to drive climate action in cities.
OIC markets need to be better equipped to handle growing urbanisation

Impact on OIC markets

The OIC as a whole has a high level of urbanisation. The average urbanisation rate of the 57 member states was 57% in 2021, just a nudge higher than the global average of 56%. 58% of OIC countries have an urbanisation rate of over 50%, according to the latest data from the UN Population Division. The GCC has the highest average rate of urbanisation in the OIC, with over 50% of the region’s population living in urban areas. The compound annual growth rate of urbanisation for OIC countries was 3% between 2011 and 2021 as opposed to 2% for non-OIC countries. In addition, the growth of the total urban population in the OIC countries for the same period is 32%, which is much higher than 21% for non-OIC countries.

According to UN projections, more than 68% of the OIC population will live in urban areas by 2050 and many OIC nations will transform to become megacities. As urbanisation is a multidimensional process, it will contribute to national income generation, increase in capital, technology and employment opportunities. At the same time, rapid urbanisation brings with it a plethora of challenges such as social inequalities, financial constraints and higher levels of carbon emissions. OIC countries must be well-prepared to manage and absorb rapid urbanisation, which can be achieved by sustainable urban development.
Islamic finance can plug the financing gap to design and manage sustainable urban development

### Islamic finance solutions

The financing gap for sustainable urban development is widening, and it is hindering economic growth and living standards in developing countries, according to UN Habitat. Cities fight the biggest battles against climate change and inequality, which is a substantial concern for the OIC considering the grouping’s high level of urbanisation. For OIC cities and megacities to meet their full growth potential, stakeholders need to focus on financing urban infrastructure as a ‘productive investment’. For instance, cities can invest in urbanisation with the help of capital markets to avoid future costs related to growing urban populations that are not being met by sustainable development.

The key actions recommended by UN Habitat can be met through different Islamic finance mechanisms as explained below:

<table>
<thead>
<tr>
<th>Action Recommended by UN Habitat</th>
<th>Islamic Finance Solution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diversify revenue source through land-based finance that aims to enhance the availability of instruments for local development.</td>
<td>Islamic finance can use the participative land financing model. For instance, Musharaka and Mudharaba financing mechanisms use profit-sharing financing models that convert labour into partnership in land and a share of profits. Wage payments and profit shares for land developers can be combined. This sets up a co-operative land management model through stakeholding and helps in improving land governance.</td>
</tr>
<tr>
<td>Allowance of access to capital markets for cities. Aspects to be considered are creditworthiness, ability to develop bankable projects and public-private partnerships</td>
<td>Municipal sukuk issuance could be an alternative to financing for local cities and governments. This can fund crucial sustainable development projects at subnational level, such as waste management and education. Countries that have maximised the potential of thematic sukuk can replicate this at subnational level.</td>
</tr>
<tr>
<td>Investment in locally-driven economic activities</td>
<td>Investments that are permissible and in accordance with Shariah can be financed through different Islamic finance mechanisms. This can be through local Islamic banking financing or sukuk, among others.</td>
</tr>
<tr>
<td>Measures to increase local share of public revenue and expenditure</td>
<td>There are Islamic financial concepts that can be replicated for public finance. For instance, taxes that levy company income can be applied through Zakat. Other charges can be met through Ushur, Kharaj and Jizyah.</td>
</tr>
</tbody>
</table>
Specific Islamic finance policies and tools being introduced to support sustainable urbanisation

**Indonesia’s Planned Municipal Sukuk**

Local governments need to leverage innovative financing sources in order to finance their development priorities such as infrastructure and other development expenditures. This is what the Indonesian government had in mind when it issued regulations on municipal bonds in 2004 through Law no 33 of 2004. This follows the introduction of its regional autonomy in 1999 where it granted subnational governments their own authority.

Despite the introduction of this law, no municipal sukuk has been introduced yet in the country, while the government issued US$18.4 billion in sovereign sukuk in 2023, accounting for 13% of global sovereign sukuk issues. Challenges that stand in the way of issuing municipal sukuk include economic uncertainties and the state of government debt.

Examples of municipal bond issues that Indonesia can draw from can be found in neighbouring countries such as the Philippines, Vietnam and further afield in India. While municipal bonds were used to tackle development needs that could arise from rapid urbanisation in these countries, such as infrastructure projects and public facilities, they also faced challenges. For instance, Vietnam had underdeveloped capital markets in most of its provinces while the Philippines’ subnational governments rely on transfers from the central government, among other challenges.

Subnational governments in Indonesia vary in their readiness to issue municipal bonds, according to a 2023 study conducted by the United Nations Development Programme (UNDP) Indonesia and the United Nations Children’s Fund (UNICEF) Indonesia, in partnership with the Ministry of Finance of Indonesia. For instance, West Java and DKI Jakarta are highly recommended to issue such bonds while others are either encouraged or not recommended to do so. This will allow Indonesia to meet the SDG targets by 2030.

**Urban Sector Policy by Islamic Development Bank**

Recognising the demographic shift in the world, especially in Sub-Saharan Africa, South Asia and the Middle East where the Islamic Development Bank (IsDB) member banks are concentrated, the IsDB issued its Urban Sector Policy to guide its urban operations. These follow the UN’s SDG 11 towards “leaving no one behind”. For this, member countries look to IsDB to mobilise funding for urgently-needed urban infrastructure. It is underpinned by five pillars as per the graph below.

IsDB also has its Urban Sector Operational Strategy (2021–2025). According to IsDB’s latest annual report, in 2022, US$17 million was approved for urbanisation projects by the Bank. This includes a US$15 million in urban development project in Djibouti and US$2 million on the identification of Priority Urban Development Interventions to promote investment in a local government in Egypt.
Another "Financing" Option
Made For You

We designed Line of Finance, an arrangement through which ICD extends Shariah compliant medium-long term financing Facilities to eligible beneficiary Financial institutions with the purpose of supporting Small & Medium enterprises operating in ICD’s Member Countries.
MEGATREND 5:
GLOBAL SUPPLY CHAINS
Supply chains are critical for global economic success and they figure prominently for sustainability as well

The situation
Global supply chains are critical to international trade:
63% of executives at 275 companies surveyed in September 2022 by Bain & Company ranked supply chain resiliency as very important compared with other business objectives. The survey findings were published in an article in December 2022 and it covered five different industries – advanced manufacturing and services, tech, retail, energy and natural resources, and consumer products. The findings also found that many industries that affect consumers’ daily routines are heavily focused on supply chain issues. For instance, based on a study by the European semiconductor company Avnet Silica, the sectors most concerned with supply chain issues in 2022 included recreational vehicles, computer hardware, solar, fashion and groceries.

But companies’ capabilities lag, with more long-term investment needed:
Yet despite the importance of supply chains, most companies across industries are lagging in supply chain capabilities. Only 4% of companies in a 2022 BCG survey that was published in July 2023 were in the leading category of “future-built”. The survey covered 724 companies across 11 industries and the study sought to address how the supply chain of the future can be built. Moreover, survey data from the World Economic Forum (WEF) and Kearney conducted between October and November 2023 with over 300 senior global operations executives shows that organisational inertia and short-term economic focus are powerful forces tempering the speed and ambition needed to make long-term value chain-related structural investments. The WEF and Kearney survey was conducted with executives from over eight industries, with 34% of them representing companies with US$50 billion or more in revenue. It was conducted to explore the effects of disruption on value chains and identify trends in the future development of value chains. It is unsurprising then, that 83% of executives in a PwC survey conducted in November 2022 and published in 2023 said their supply chain technology investments have not fully delivered expected results. This survey was with 305 executives and leaders in the US to identify digital trends in supply chains. Put simply, more work is needed to improve global supply chains, especially in an interdependent, globalised world with increasing levels of connectivity.

Why it matters
Global supply chains matter:
There are at least two reasons why the global supply chain matters. First, they facilitate global trade. Second, the rise of sustainability and ESG-related concerns has also highlighted the issue of global supply chains. According to a 2021 study co-authored by the WEF with BCG, eight supply chains account for more than 50% of global emissions: food, construction, fashion, fast-moving consumer goods, electronics, automotive, professional services and freight are responsible for over half of all global greenhouse gas emissions. Additionally, a significant share is indirectly controlled by only a few companies. The study was conducted to provide insights on how to achieve a net zero supply chain with very limited additional costs.

Several evolving themes on the horizon:
In terms of outlook, there are several themes that should keep global supply chains on top of CEOs’ agendas for some time. Some of the near-term themes include ESG, advanced robotics and automation, and the workforce of the future, while emerging trends in the medium term to 2028 include distributed ledger technologies (DLT) and digital money, sectoral transformations and the metaverse.

In an 2022 HSBC survey of senior management across 14 markets, digitisation and sustainability were key themes

- 46% of respondents seek bank support to better visualise transactions across their supply
- 84% of respondents currently or plan to invest in supply chain sustainability
- 40% of respondents have implemented environmental policies across their supply chains

Source: HSBC survey in 2022, with data from 787 respondents across 14 markets
OIC markets are an important part of the logistics system in emerging markets, with GCC well-positioned to lead the way

**Impact on OIC markets**

OIC countries lag globally but are still an important part of logistics in emerging markets:

OIC markets’ performance on key trade barometers, such as logistics and exports, suggest more work needs to be done to improve their performance. For example, the average score on the World Bank’s Logistics Performance Index 2023 for OIC markets (2.67) is lower than the average for non-OIC countries (3.13). Moreover, OIC markets’ contribution to global exports during 2014–2022 was between just 8.8% and 11.3%, despite the OIC accounting for almost a quarter of the world’s population. Nonetheless, global OIC markets are still an important part of the logistics system in emerging markets. For example, nine out of the Top 20 countries on Agility’s Emerging Markets Logistics Index 2024 are from the OIC. The charts on this page illustrate these points visually.

**Average Scores on 2023 Logistics Performance Index**

- **OIC and Non-OIC markets**
  - **Non-OIC**: 3.13
  - **OIC**: 2.67

**OIC Markets’ Share of Global Exports**

(2014-2022)

- 12%
- 11.5%
- 11%
- 10.5%
- 10%
- 9.5%
- 9%
- 8.5%
- 8%

Source: World Bank, ICD-LSEG Analysis

Source: IMF, ICD-LSEG Analysis – line chart is based on monthly data from 2014-2022
GCC is well-positioned to lead the way on supply chain developments in OIC:

GCC countries such as Saudi Arabia and the UAE are well-positioned to lead on supply chain development in the wider OIC, given their investments and initiatives in this area. These include local content policies, investment promotion reforms to boost foreign direct investment (FDI), and improvements to their logistics and technology infrastructure. For example, Saudi Arabia has set its sights on becoming a key contributor to global supply chains, having launched its Global Supply Chain Resilience Initiative in October 2022 to attract investments in supply chains to and from the kingdom, with an aim of raising an initial SAR40 billion (US$10.64 billion). Moreover, in 2021, the UAE launched “Operation 300bn”, a broad strategy to make the country an industrial hub by 2031. The 10-year plan focuses on raising the industrial sector’s contribution to national GDP to Dh300 billion (US$81.68 billion) in 2031 from Dh133 billion in 2021. Regionally, global strategy consulting firm Strategy& estimated in 2023 that the GCC can gain US$300 billion in FDI by transforming into a global supply chain centre, while localised manufacturing can generate up to 150,000 jobs and US$25 billion in non-oil exports yearly. Some of the regional sectors that are ripe for localisation in their supply chains include food and agriculture, next-generation manufacturing, and energy.

### Emerging Markets Logistics Index 2024

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Country</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>China</td>
<td>8.61</td>
</tr>
<tr>
<td>2</td>
<td>India</td>
<td>7.21</td>
</tr>
<tr>
<td>3</td>
<td>UAE</td>
<td>6.49</td>
</tr>
<tr>
<td>4</td>
<td>Malaysia</td>
<td>6.17</td>
</tr>
<tr>
<td>5</td>
<td>Indonesia</td>
<td>6.16</td>
</tr>
<tr>
<td>6</td>
<td>Saudi Arabia</td>
<td>6.05</td>
</tr>
<tr>
<td>7</td>
<td>Qatar</td>
<td>5.85</td>
</tr>
<tr>
<td>8</td>
<td>Vietnam</td>
<td>5.73</td>
</tr>
<tr>
<td>9</td>
<td>Mexico</td>
<td>5.6</td>
</tr>
<tr>
<td>10</td>
<td>Thailand</td>
<td>5.59</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Country</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>Turkey</td>
<td>5.45</td>
</tr>
<tr>
<td>12</td>
<td>Chile</td>
<td>5.39</td>
</tr>
<tr>
<td>13</td>
<td>Russia</td>
<td>5.34</td>
</tr>
<tr>
<td>14</td>
<td>Brazil</td>
<td>5.29</td>
</tr>
<tr>
<td>15</td>
<td>Oman</td>
<td>5.27</td>
</tr>
<tr>
<td>16</td>
<td>Bahrain</td>
<td>5.22</td>
</tr>
<tr>
<td>17</td>
<td>Jordan</td>
<td>5.19</td>
</tr>
<tr>
<td>18</td>
<td>Philippines</td>
<td>5.06</td>
</tr>
<tr>
<td>19</td>
<td>Uruguay</td>
<td>5.04</td>
</tr>
<tr>
<td>20</td>
<td>Egypt</td>
<td>5.04</td>
</tr>
</tbody>
</table>

Source: Agility’s Emerging Markets Logistics Index 2024, Legend: OIC Countries
Several Islamic finance and FinTech solutions exist for Shariah-sensitive market participants but more are needed

**Islamic finance solutions**

Some of the prominent examples of solutions offered for Shariah-compliant supply chain finance (SCF) fall under three broad categories: invoice financing, supply chain financing and management, and sustainable Shariah-compliant supplier finance. The case studies below illustrate these examples. The size of the Islamic trade finance market globally is at least US$186 billion. Although this is a substantial figure, it comprises less than 5% of total estimated trade finance activities taking place in OIC countries, indicating there is still ample room for more solutions to enter and address participants’ pain points.

### Invoice Financing

- **Agel**
  - Based in Egypt and established in 2021, Agel offers Shariah-compliant invoice financing for small businesses.

- **Finja**
  - Finja is a Pakistani FinTech that offers Islamic credit for invoice financing. Finja is an established player in the Pakistani Islamic FinTech landscape, having raised US$34.6 million in total funding since it was established in 2015.

### Supply Chain Financing and Management

- **iFarmer**
  - This is a Dhaka-based Shariah-compliant FinTech that has raised US$3.5 million in funding since it started in 2017. It focuses on the agricultural sector and offers supply chain financing on its platform that connects farmers and buyers.

- **Arabian Chain**
  - This Bahrain-based FinTech provides a supply chain management service, deploying blockchain technology to do so.

### Sustainable Shariah-compliant supplier finance

- **Standard Chartered Saadiq**
  - Saadiq provided a bespoke Shariah-compliant supplier finance solution for Malaysia Airport Holdings (MAHB).

- **Saudi Awwal Bank (SAB)**
  - This bank (known before as SABB) introduced a new Shariah-compliant supply chain finance (SCF) product in 2021.

- **CapBay**
  - This is a Malaysia-based FinTech that also provides Shariah-compliant financing solutions.
MEGATREND 6: FUTURE OF WORK
The future of work is rapidly evolving globally, with technology changing the nature of work; regional variations exist

The situation

The future of work is rapidly evolving: Most of the focus on the changes taking place in the future of work are understandably around the role of tools based on artificial intelligence (AI). Technological advances are expected to create considerable disruption in job markets across the world, with initial signs pointing to a pronounced effect on both job creation and destruction. For instance, a 2023 WEF study suggests 4 million digitally-enabled roles will arise in digital commerce and trade. The study was based on data from a survey conducted between November 2022 and February 2023 that covered 46 economies and 27 industry clusters. At the same time, surveyed organisations in the same WEF study also predict there could be 26 million fewer jobs by 2027 in record-keeping and administrative roles. Conversely, other trends such as the rise of remote working are impacting the future of work by intensifying competition for talent across the world, suggesting that from employees’ perspective, technology may bring benefits as well as challenges.

Why it matters

Technological developments are changing the nature of work: Currently, technologies such as ChatGPT and Microsoft’s Co-Pilot, which rely on foundational large-language models (LLMs), are in a nascent stage. Early studies are uncovering that less experienced workers, such as those who are new or low-skilled, are the primary beneficiaries of LLMs. However, as these tools become more sophisticated, the nature of knowledge work for humans may shift away from search and creation capabilities and move more towards analysis and integration. Consequently, tools and techniques to prevent over-reliance by humans on AI tools may become increasingly important, such as uncertainty visualisation and co-auditing tools.

Regional variations exist, necessitating tailored strategies: Regional variations in the strengths of different regions and the economic and development challenges they face mean that different countries and regions within the OIC may need to form highly customised strategies and solutions to the challenges from the future of work. For example, in Southeast Asia, Malaysia and Indonesia ranked high out of 45 surveyed economies in the same WEF Future of Jobs 2023 report cited above: Malaysia ranked third globally on the trend “supply chains becoming more localised”, while Indonesia ranked fourth on the trend “supply shortages and/or rising cost of inputs for your business”. These results were based on the share of organisations surveyed that expected that trend to drive business transformation.

Moreover, contrasting South Asia with East Asia, the World Bank suggests that for South Asia, services industries like organised retail, tourism, logistics and digital health services are more promising for job creation efforts than manufacturing, while also indicating that East Asia displays a competitive advantage in multiple manufacturing value chains. This factor, along with automation of manufacturing processes and shifting patterns of demand globally, help create an environment where services industries are more promising for job creation efforts in South Asia.

In the GCC, a 2023 survey-based study by the World Government Summit found that factors such as interesting work and inspiring companies rank much lower for GCC workers than globally, while GCC workers are more likely to be motivated by factors such as jobs with better pay or job security than workers elsewhere.

Globally, employees are concerned by AI’s potential & upskilling is viewed as crucial

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>31%</td>
<td>31% of respondents believe new technologies, like AI, will render their jobs obsolete</td>
</tr>
<tr>
<td>72%</td>
<td>72% of respondents agree that continuous learning and upskilling will be crucial for them to stay relevant in their field</td>
</tr>
<tr>
<td>62%</td>
<td>62% of respondents say investment in upskilling influences whether they join, leave, or stay with an organisation</td>
</tr>
</tbody>
</table>

Source: KPMG (2024), based on a survey of over 4,000 workers in large companies (5,000+ employees) globally.
OIC countries lag non-OIC countries in AI readiness and the impact on AI on jobs in the OIC is potentially far-reaching

Impact on OIC markets

OIC countries lag non-OIC countries in governments’ AI readiness:
OIC countries lag non-OIC countries on governments’ AI readiness, according to data from Oxford Insights’ Global AI Readiness Index over 2020–2023. The study found a gap of at least 10 points in the OIC and non-OIC average scores in any given year during that four-year period. Moreover, there is a high concentration of countries in both the non-OIC Top 10 and the OIC Top 10, suggesting digital divides exist both in the non-OIC and OIC sets of countries. For example, all of the non-OIC Top 10 are advanced economies, suggesting high concentration by economic development stage in the non-OIC group, while six out of 10 OIC Top 10 countries (UAE, Qatar, Saudi Arabia, Oman, Bahrain and Brunei) are “high income” nations as of 2024, according to the World Bank’s classification, suggesting high concentration by economic development stage in the OIC group as well. Additionally, eight out of 10 OIC Top 10 countries are based in the GCC or Southeast Asia, indicating high geographical concentration in the OIC group, too. These digital divides indicate that more needs to be done by governments both within the OIC and globally to reduce the potential income and wealth inequality that may subsequently arise if these digital divides are left unchecked.

Average Scores on the Government AI Readiness Index – OIC & Non-OIC Countries (2020-2023)

The impact on jobs in OIC countries could be far-reaching:
Although non-OIC advanced economies will probably experience the challenges and opportunities arising from generative AI tools sooner than other countries due to their labour market structures, the impact on OIC markets is likely to be highly significant as well. As of 2024, most OIC economies are not advanced economies, with only eight of the 57 countries being advanced economies, i.e. those which fall into the “high income” bracket according to the World Bank’s classification. According to an IMF Staff Discussion Note, overall employment
exposure is 40% in emerging market economies and 26% in low-income countries – many of these will likely be OIC-based economies. Moreover, failure to build capabilities in OIC countries to harness the generative AI wave could further exacerbate the digital divide between them and advanced economies, as well as increase cross-country inequality and wealth gaps both within the OIC and compared with non-OIC countries.

Middle East workers express positive, but also negative and neutral views on AI’s impact

- 46% AI will help me increase my productivity/efficiency at work
- 42% AI will create opportunities for me to learn new skills
- 29% AI will require me to learn new skills that I’m not confident I have the capacity to learn
- 21% AI will change the nature of my work in a negative way
- 10% I don’t think AI will impact my job

Source: PwC’s ME Workforce Hopes and Fears Survey 2023 of 1,563 workers across 4 countries
More can be done in OIC countries and globally to address the future of work, such as creating national and regional strategies and building out the talent and entrepreneurship ecosystems to create more success stories.

**Islamic finance solutions**

**More future of work specific strategies are needed:**

While there are a couple of macro studies on the future of work that cover the OIC – the OIC Labour Market Strategy 2025\(^5\) (whose target date is fast approaching) and the UN has had a system strategy on the future of work in place since 2019\(^6\) – many OIC countries do not have dedicated strategies to address the implications of the future of work. Our previous Megatrends Report highlighted that several national AI strategies exist in the OIC\(^7\) but addressing the future of work necessitates a focused and also holistic approach to the disruption that will likely affect workforces across the 57 OIC member states and globally. Hence, it is crucial for OIC countries to put national strategies and blueprints in place to address the various interrelated themes coming under the future of work umbrella, as well as build out their talent and entrepreneurship ecosystems to create more success stories.

**Few OIC-specific examples of success stories but the digital economy holds much promise:**

Given the fast-evolving and global nature of the future of work megatrend, there are few OIC-specific examples of success stories addressing future of work themes specifically. There is also not an overt link between the future of work and Islamic finance that Islamic FinTechs or banks are specifically exploring either. However, we anticipate that more success stories in this space may appear over the near future as efforts pick up in various OIC economies to better leverage the digital economy at national levels and talent-focused startups and other stakeholders address talent concerns and gaps within OIC markets specifically. However, some countries in the OIC have been leveraging areas such as the digital economy to help improve job creation efforts – Indonesia’s overall digital economy grew from US$63 billion in 2021 to US$82 billion in 2023, and is projected to reach US$210–US$360 billion by 2030, while Malaysia’s overall digital economy grew from US$19 billion in 2021 to US$23 billion in 2023 and is projected to reach US$45–US$70 billion by 2030.\(^8\)
Your gateway to the Islamic finance industry

📈 Access market data
💡 Gain knowledge and insights
🔄 Leverage trading solutions
🗣️ Advance thought leadership

Visit lseg.com/en/data-analytics/islamic-finance

@IFGateway  LSEG Data & Analytics
@IFGateway
Sources

8. MIT Technology Review: https://www.technologyreview.com/2023/04/05/1070581/the-green-future-index-2023/
16. WEF: https://www.weforum.org/agenda/2024/01/trends-global-value-chains/
22. World Bank: https://lpi.worldbank.org/international/global
24. World Bank: https://lpi.worldbank.org/international/global
Contributors

Report Authors

Shereen Mohamed
Senior Research Analyst
Lead Author

Tayyab Ahmed
Senior Research Analyst

Report Consultants

Mustafa Adil
Head of Islamic Finance
We designed Line of Finance, an arrangement through which ICD extends Shariah compliant supporting Small & Medium enterprises operating in ICD's Member Countries.

Another “Financing” Option Made For You