

ISLAMIC BANKING AND FINANCE IN SOUTH AFRICA

■ Abdu Seid Ali

COUNTRY REPORTS 14

Islamic Banking and Finance in South Africa

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ABSTRACT

This country of report deals with an overview of Islamic banking and finance in South Africa. Despite the fact that it has a comparatively small Muslim population, South Africa turns out to be a forerunner Sub-Saharan African country to establish itself as a prospective epicenter for Shari'ah-compliant finance in the region. With one full-fledged Islamic bank and five conventional banks offering Islamic windows, the stake of South Africa's Islamic banking assets in the global arena became around 0.1%. As of June 2020, Islamic banking sector mobilized deposits amounting R37 billion and finances reaching to R14.6 billion. Albeit Takaful was initiated in 2003, the sector hasn't developed a lot and there are few Takaful operators providing services nowadays. South Africa became one of the top ten destinations for Islamic fund assets with a global share of 1.2% in 2020 which gives the country an important position in Africa. The country was also involved in the global sukuk issuance first in 2014 through its sovereign sukuk and later in 2016 in the form of private sukuk to raise finance to broaden investor base that was in response to highly intensifying local and global demand for investment in order to stimulate growth. The government has confirmed its interest to sukuk and incorporated it in its 2022 budget review. Though there are regulatory challenges, lack of awareness and Shari'ah-compliance issues, Islamic finance is thriving in South Africa owing to enormous potential, accommodative policies and developed financial system.

Keywords: Islamic finance, Islamic banking, Takaful, Sukuk, Islamic fund, South Africa

ÖZET

Bu ülke raporu, Güney Afrika'daki İslami bankacılığa ve finansa genel bir bakış sunmaktadır. Nispeten küçük bir Müslüman nüfusa sahip olmasına rağmen, bir Sahra Altı Afrika ülkesi olarak Güney Afrika, kendi bölgesinde bir İslami finans merkezi hâline gelmiştir. Halihazırda bir katılım bankası ve İslami pencere hizmeti sunan beş geleneksel banka ile Güney Afrika'nın İslami bankacılık varlıklarının payı global olarak %0,1 civarında görünmektedir. Haziran 2020 itibarıyla, İslami bankacılık sektörü R37 milyar tutarında mevduatı harekete geçirerek R14,6 milyara ulaşan finansman sağlamıştır. Tekafül, 2003 yılından beri uygulanmaya başlamasına rağmen çok gelişmemiştir ve günümüzde hizmet veren çok az tekafül şirketi vardır. Güney Afrika, 2020 yılında %1,2'lik küresel ihraç oranıyla İslami fon varlıkları için ilk on destinasyondan biri hâline geldi ve bu da ülkeye Afrika'da önemli bir konum kazandırdı. Aynı zamanda bu ülke, yatırımcı tabanını genişletmek ve son derece yoğunlaşan yerel ve küresel taleplere yanıt vererek büyümeyi teşvik etmek için 2014 yılında devlet sukuku ve 2016 yılında özel sukuk ile küresel sukuk ihracına dâhil olmuştur. Hükümet sukuğa olan ilgisini belirtti ve 2022 yılı bütçe incelemesine dâhil edilmesini onayladı. Güney Afrikada hukuki sorunlar, farklılık eksikliği ve İslami finansa uygunluk sorunları olmasına rağmen İslami finans muazzam potansiyeli, uyumlu politikaları ve gelişmiş finansal sistemi sayesinde Güney hızla gelişiyor.

Anahtar Kelimeler: İslami Finans, İslami Bankacılık, Tekafül, Sukuk, İslami Fon, Güney Afrika

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List of Abbreviations

AuM	: Assets under management
CISs	: Collective investment schemes
COVID-19	: Coronavirus disease 2019
EIBOR	: The Emirates Interbank Offered Rate
ETF	: Exchange traded funds
FEC	: Forward exchange contracts
FNB	: First National Bank
GDP	: Growth Domestic Product
IFSB	: Islamic Financial Service Board
IFSI	: Islamic Financial Services Industry
IMF	: International Monetary Fund
ISDA	: International Swaps and Derivatives Association
LIBOR	: London Interbank Offering Rate
NBFIs	: Non-bank financial institutions
OECD	: Organization for Economic Co-operation and Development
ROA	: Return on asset
ROE	: Return on equity
SARB	: South African Reserve Bank
SARS	: South African Revenue Services
ZAR	: The code of Rand, the official currency of South Africa
SAG	: South African Government
RBS	: Regent Business School
IOL	: Independent Online

Overview of the Country

South Africa, the southernmost country on the African continent is prominent for its wide-ranging topography, abundant natural beauty and cultural diversity. South Africa is bordered by Namibia to the northwest, by Botswana and Zimbabwe to the north, by Mozambique and Swaziland to the northeast and east. Lesotho, an independent country is an enclave in the eastern part of the republic, completely encircled by South African territory. South Africa's coastlines border the Indian Ocean to the southeast and the Atlantic Ocean to the southwest.

It has a population of 60 million people (official estimate 2021). The country's administrative capital is Pretoria (Tshwane), legislative capital is Cape Town and judicial capital is Bloemfontein (Mangaung); Johannesburg the largest urban area in the country and a hotbed of business, lies at the core of the populous Gauteng province. South Africa has 11 official languages with geographical variations in each. The most widely spoken languages are Zulu, Xhosa, Afrikaans (a derivative of Dutch) and English.

South Africa is a constitutional democracy with a three-tier system of government and an independent judiciary. The national, provincial and local levels of government all have legislative and executive authority in their own domains and are demarcated in the Constitution as distinctive, inter-reliant and interconnected. The executive and legislative partitions of the state enact and implement laws and policies for the entire country. The South African government is led by the executive branch, the President and the cabinet.

The democratic system in South Africa is comparatively new and stems from the country's multifaceted history of colonialism, apartheid and a long battle for freedom. Even though democracy in South Africa remains imperfect it was hard-won. Following centuries of tyranny through colonialism and apartheid the South African people's struggle for democratic freedom lastly ceased in majority rule in 1994.

Macroeconomic Environment

The macroeconomic variables such as economic growth, inflation, investment, employment and balance of payments are discussed below taking into consideration the relevant data from International Monetary Fund (IMF), Organization for Economic Co-operation and Development (OECD), National Treasury of South Africa and South African Reserve Bank (SARB) reports.

Economic Growth

South Africa is anticipated to grow by 5.0 percent in 2021, shimmering a better-than- projected progress in the first half of the year and level effects from the fresh update to its national accounts, which supplemented the robust base effects from 2020. GDP growth is driven by exports and household consumption. Household consumption is backed by government social transfers and a drawdown of savings.

Nevertheless, the outlook has been hampered by the collective influences of the third wave of COVID-19 and domestic social strife in July. With the pace of structural transformations projected to remain restricted and the faster-than-expected rebound in 2021, South Africa will be constrained in its ability to sustain the 2021 growth pace, so growth is expected to slow to 2.2 percent in 2022.

Inflation

Inflation is estimated to reach 4.5 per cent in 2021, reflecting pressure mounting from non-core inflation – explicitly food and energy prices while core inflation remains restrained. After 2021, inflation is projected to persist well controlled within the target boundary, coming close to 4.5 per cent in the outer years. Risks to the inflation outlook are predominantly in the nearby term and measured to the upside, primarily emanating from non-core inflation.

Investment

The overall fixed-capital formation has enhanced slightly in the recent year but remains well below pre-pandemic levels. In the second quarter of 2021, investment was equivalent to about 14 per cent of GDP (compared with the National Development Plan's 30 per cent target), subsequent to a 13-year deterioration since 2008. Private investment, the prevalent constituent of fixed capital formation, has been sluggish to bounce back from the slumps of 2020. This is an outcome of weak confidence and demand, and tenacious structural limitations such as insufficient electricity supply. Government investment has weakened too.

Employment

Even though post-pandemic economic activity is disclosing signs of recovery, the official labor market is not. Bourgeoning COVID-19 contagions and resultant lockdown limitations throughout the first half of 2021 messed up the restoration in labor demand. The total number of employed people declined for two successive quarters over the period. By June 2021, the total number of jobs 14.9 million – remained 1.5 million below pre-pandemic levels. The authorized unemployment rate upsurge to 34.4 per cent, the highest documented since publication of the Quarterly Labor Force Survey started in 2008.

Balance of Payment

South Africa's financial account deficit broadened from 4.4% to 7.2% of GDP between the first and second quarters of 2021 as portfolio and other investments disclosed net outflows. The financial account has been in discrepancy since the first quarter of 2020, counterbalanced by a vigorous surplus on the current account. In the first half of 2021, higher worldwide commodity prices boosted South Africa's terms of trade as the value of exports raised faster than that of imports. This resulted in the trade surplus making up 10 per cent of GDP in the second quarter, pushing the current account surplus to 5.6 per cent of GDP. As commodity prices and global demand stabilize over the medium term, the terms of trade gains are anticipated to disintegrate and import demand is projected to return. The current account is estimated to return to a deficit in 2023, consistent with a reasonable recovery in local demand.

The Financial System in South Africa

South Africa's developed financial system is essentially robust. The system is heterogeneous and spans a far-reaching range of accomplishments that are backed by sophisticated legal and financial infrastructure and a largely competent regulatory framework. Financial institutions have taken advantage of a persistent economic growth, promoted by vigilant macroeconomic management and

growing commodity prices. The system withstood the global financial market crisis without significant burdens. Banks and insurance companies have registered worthy performance and disclosed decent profitability, capitalization levels, and reserves (Ferhani and Sayeh, 2008)

Nevertheless, the system is confronted with added macro-financial risks and financial institutions are stimulating towards a favorable environment. Banks are encountering higher credit risk, particularly in their loan portfolios of household, given high household indebtedness and rising and laden debt service. Banks are also facing some deficiency of asset quality and earnings while remaining dependant profoundly on local wholesale deposits. Stress tests, nonetheless, unveil that capital and reserve buffers at banks and insurance companies are satisfactory to engross enormous but reasonable shocks.

There are two stages of official financial segment in South Africa, the institutional and market levels. At the institutional level are the banking and non-banking financial intermediaries while the stock market, the bond market, the money market and the foreign exchange market are characterized at the market levels (Akinboade and Makina, 2006).

At the heart of the banking system is the South African Reserve Bank (SARB) which is the central bank of South Africa. The principal aim of the SARB is to preserve price stability of the country's currency, Rand. It's essential for a stable and maintainable economic progress. In addition to handling the monetary policy and keeping inflation under control, it shores up banks with liquidity constraints, holds the cash reserves that banks are officially compelled to hold, and is at the helm of the regulation and supervision of banks in South Africa.

As stated by the SARB, banking sector of South Africa is overshadowed by the five leading commercial banks, which jointly seized 89.4% of the assets of total banking sector as on 31 March 2020. Domestic branches of international banks covered around 7.0% of banking sector assets at the end of March 2020 while the remaining banks made up 3.6%. Total banking sector assets thrived by 16.36% year on year, to R6.6 trillion at the end of March 2020. This was stimulated by an upsurge in aggregate loans and advances, derivative financial instruments, investment, and trading securities (mainly government securities and other dated securities).

Non-bank financial institutions (NBFIs) comprise institutions that deliver insurance, securities, pension and provident funds. NBFIs in South Africa encompass approximately two-thirds of financial assets, which is considered enormous for emerging economies. Insurance companies are prominent actors in the South African financial sector. Out of 166 insurance companies enlisted with the Reserve Bank in September 2020, 86 are non-life insurers, 75 are life insurers and five are diversified. Motor insurance is the prevalent short-term insurance section followed by property and liability. The top 10 short-term insurers have outshined the industry for years representing nearly 77% of overall written premiums in 2018. Santam has a market share double the size of its closest rival. Pension fund assets cover 110% of GDP. Unit trusts or collective investment schemes (CISs), the rapidly thriving division in the financial sector preserve assets worth 42% of GDP.

A Brief Overview of Global Islamic Finance Industry and Africa

According to Islamic financial services board's (IFSB) stability report (2021), the global Islamic Financial Services Industry (IFSI) preserved its growth momentum in 2020 notwithstanding the

global pandemic and is projected to have a value of USD 2.70 trillion in 2020. It marks a growth of 10.7% year-on-year in assets in USD terms.

The contribution of the Islamic banking and Islamic capital markets sectors to the overall surge in total worth of the global IFSI is essentially enormous, while Takaful contributions are somewhat trivial. Astonishingly, the IFSI registered an overall progress in 2020 regardless of numerous jurisdictions undergoing economic recessions because of lockdowns and intensified uncertainty owing to the COVID-19 pandemic.

Regionally, the Gulf Cooperation Council countries maintained its place as the leading region for Islamic finance assets in 2020. This area constituted about 48.9% of worldwide market share of Islamic finance, showing an upward trend from 45.9% in 2019. The Middle East and South Asia region turned out to be the second-largest segment, comprising 24.9% of global IFSI assets remaining in accordance with the preceding year. The share of South-East Asia region fell to 20.3% in 2020 from 23.8% in 2019 while the share of the Africa region remained insignificant with a share of 1.7%. The “Others” region, encompassing Turkey, the UK and countries from the Commonwealth of Independent States region made up 4.3% of total assets of global IFSI.

Even though there is improvement, the share of Islamic banking assets in Africa is comparatively insignificant. The region has observed enormous progress that is rooted in its noteworthy potential for the Islamic banking industry. While new full-fledged Islamic banks are being authorized to instigate operation a handful of prominent conventional banks have also established Islamic banking windows and branches. At present, there are over 80 institutions providing Islamic financial services in Africa. Precisely, the share of Djibouti’s Islamic banking sector’s asset revamped to 25.0%, retaining its position as the second African country after Sudan to have accomplished systemic importance.

Islamic banking sector in Egypt also augmented its market share by 2 percentage points to 4.03% and was worth USD 16.4 billion at the end of 2020. Nigeria also improved its Islamic banking stake to 0.7% from the 0.3% registered a year before, as a result of the initiation of operation of an additional full-fledged Islamic bank, Taj Bank along with the existing Jaiz Bank. The operation of Islamic banking windows is also building momentum in the country. Islamic banking in other African countries preserved its earlier year’s share of overall domestic banking assets. Those countries comprise Algeria (2.4%), Tunisia (5.1%), Tanzania (0.8%) and South Africa (0.1%).

In Africa, the overall Takaful data are outdone by Sudan, Egypt, Tunisia and Kenya. In countries like Nigeria, Senegal, South Africa, Gambia, Mauritania, Zambia and Algeria there are some Takaful activities. However, inadequate data with respect to these countries makes the data compilation difficult. Takaful is anticipated to embark in Morocco subsequent to the authorization of legislation in 2019 but this has lengthened than was expected.

The total assets under management (AuM) of Islamic funds raised by 31.9% in 2020 in spite of the pandemic. Despite the fact, that total AuM elevated considerably the aggregate number of funds improved at a stagnant rate which is an encouraging sign of growth in the average size of funds. When we look at the Islamic Fund Assets by regions Saudi Arabia, Malaysia and Iran took hold of the first three ranks by the total number of Islamic fund assets whereas South Africa came to be among the top ten destinations of Islamic fund assets.

Islamic Banking in South Africa

Regardless of its comparatively small Muslim population (estimated about 3% out of 60 million population) South Africa was a pioneer Sub-Saharan African country to establish itself as a prospective epicenter for Shari'ah-compliant banking in the region (Gelbard et.al, 2014, AA news, 2021). Subsequent to international Islamic finance developments, South African Muslims started to set up interest-free commercial institutions in the 1980s. Two primary initiatives were Jaame Limited backed by the Muslim Youth Movement and the Islamic Corporation supported by Ebrahim Karsani who enlisted the Islamic Bank with the South African Reserve Bank in 1988 (Vahed and Vawda, 2008). Following the establishment of Islamic bank of South Africa, Albaraka Bank received license to provide Islamic banking services in 1989. Soon after five conventional banks with Islamic banking windows namely First National Bank, Absa Bank, Wes Bank and Standard Bank and HBZ Bank Limited have started offering financial services to individuals and businesses. Currently, according to the banking association of South Africa the total worth of Islamic financial services and products upsurge robustly with deposits amounting R37 billion (2019: R35 billion) and finances reaching to R14.6 billion (2019: R12.4 billion) in the year to the end of June 2020 (Independent Online, 2021).

Full-fledged Islamic Banks in South Africa

The Islamic Bank of South Africa

The Islamic Bank of South Africa was commenced with capital size of R200, 000 in 1988 and accomplished outstanding progress in the course of its decisive period with assets amounting R12 million by 1989 and gross revenue over and above R1 million in the fiscal year ended 1989/90. The bank allocated massive investments in property, principally a multi-million Rand investment in a property, nevertheless, that was not the proper time for it. Easing of the Group Area Act and an amendment headed for a political settlement in South Africa brought about in property prices crumbling. The Islamic Bank consequently imploded by the mid-1990s owing to incompetent management. Specifically, inappropriate accounting system and huge unsecured loan adversely affected the balance sheet of the bank (Ata, 2019).

According to Buksh (2010) the Islamic Bank of South Africa bankrupted on account of accusations of irresponsible trading which left many Muslim clienteles disheartened pertaining to the opportunity of Islamic banking in South Africa. The SARB linked the insolvency to the absence of proper corporate governance, and this resulted in changes made to the Banks Act to safeguard that appropriate corporate governance was functional inside the banking industry.

Albaraka Bank

Being the second licensed bank in South Africa in 1989 and the only full-fledged Islamic bank now, Albaraka Bank was mutually possessed by South African investors, DCD London and Mutual Plc and the Saudi based Dallah Albaraka Bank. The bank was founded with the intention of facilitating Muslims in carrying out their financial transactions in compliance with the Shari'ah.

As of 31 December 2020, Al Baraka Bank's principal shareholders comprised the Bahrain-based Al Baraka Banking Group B.S.C. (64,51%), Dominion (SA) (Pty) Ltd. (6,01%), DCD London

and Mutual plc (6,60%), Johannesburg-based Timewest Investments (Pty) Ltd. (7,67%), Sedfin (Pty) Ltd. (3,33%) and Esanjo Capital Ltd (2,0%). Foreign and domestic shareholders signify the balance (Albaraka, 2020).

Al Baraka Bank's main office is in Durban and the financial institution benefits from a national business access, comprising seven retail branches, three corporate banking offices, a professional office and a regional office. The bank, besides has in place both an internal Shari'ah Department and an autonomous Shari'ah Supervisory Board.

The Dallah Albaraka Group has established one of the prevalent global Islamic banking groups in the world through the Albaraka Banking Group. When it first began in South Africa, the banks' structure replicated its tentative origins providing straightforward Islamic banking services like Murabaha (trade finance) and fixed deposits. Through time, the bank's products and services have flourished in response to this mounting niche for alternatives to interest-based banking products and services.

Regardless of the devastating economic consequence of the COVID-19 pandemic all over the globe the bank preserved its growth path, posting financial outcomes for the 2020 financial year which saw total assets go above R8.6 billion in 2020 from R7.3 billion in 2019 as shown in figure 1. The shareholders' interest which is composed of ordinary share capital, share premium, non-distributable reserves and distributable reserves rose from R771 million in 2019 to R807 million in 2020.

The bank's ROE i.e., return on average shareholders' interest is calculated as follows. After-tax income pertaining to ordinary shareholders for the year stated as a percentage of the weighted average shareholders' interest modified proportionate to the scheduling of the introduction of any extra capital in a specific year. By the same token, the return on average total assets is calculated in the form of after-tax income attributable to ordinary shareholders for the year, expressed as a percentage of the weighted average total assets in a particular year.

The occurrence of the COVID-19 pandemic at the end of 2019 and all the way through 2020 has inflicted turmoil on the economies of nations across the globe and South Africa was not exceptional in

Figure 1. Total assets in million rands

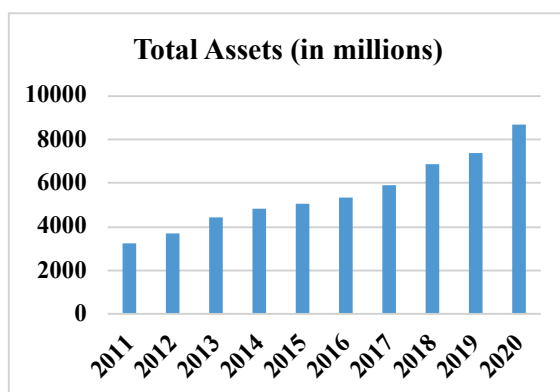
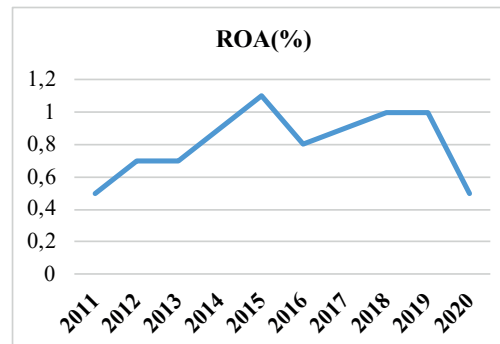
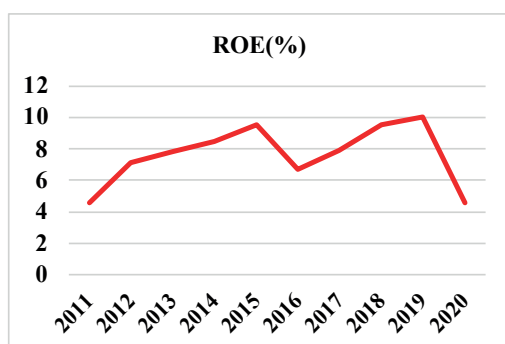


Figure 2. Shareholder's interest in million rands



Source: Albaraka annual report (2020)

Figure 3. Return on equity (ROE) in percentage **Figure 4.** Return on asset (ROA) in percentage



Source: Albaraka annual report (2020)

this respect. Though there was recovery from the second quarter of 2021 the South African economy was experiencing signs of long-lasting weakening succeeding years of mishandling and the prolonged extremely restraining lockdown - predominantly regarding a significantly discouraged labor market and unceasingly depressed business buoyancy (Davids, 2021).

The year 2020 will most definitely commemorated as the most challenging period in the world's contemporary history. It comes as no astonishment that Al Baraka Bank's financial performance throughout this period reflects the universal economic despair. Hence, the bank's ROE dropped from 10% in 2019 to 4.6% in 2020 and similarly the ROA plummeted from 1% in 2019 to 0.5% in 2020.

Islamic Banking Windows in South Africa

First National Bank (FNB)

First National Bank, one of the big five notable banks in the country started an Islamic vehicle finance product afterwards an Islamic cheque account in 2002. Most recently, they began offering their Islamic products through their branch in Botswana. Currently, FNB is providing an assortment of products and services in the form of deposit, saving, financing, investment, Takaful, foreign exchanges and wealth management arrangements for both private individuals and businesses as discussed below.

FBN offers Shari'ah-compliant current account in several banking platforms

- FBN Islamic (for youth younger than 18 years)
- Islamic easy account (with no minimum income)
- Islamic aspire (income per year R120000-R449999)
- Islamic premier (income per year R240000-R849999)
- Islamic Private Clients (income per year R750000-R1799999)
- Islamic private wealth (income per year R 1.8 million or more)

Islamic savings account, this product is entirely accessible to individual cheque account customers. It permits users to have access to savings in the event of emergencies or unanticipated outlays.

Islamic investment account, it is a type of an investment account with a fixed term, typically rewarding customers a higher profit rate than investments available overnight. It has a maximum nominal profit rate over 60 months.

The bank also provides core banking products in the form of Islamic business banking such as

- Islamic gold business account
- Islamic platinum business account
- Islamic enterprise business account

Islamic property account, this product is based on a Diminishing Musharaka contract between the bank and the customer. This agreement lets customers to purchase the bank's share up to a period of 20 years. The profits are fixed for 1 year and revised annually with re-financing alternatives on paid up property.

Islamic foreign exchange, this service permits customers who want to travel abroad and need foreign notes and multi-currency cash passport. In addition, the arrangement lets them to send money abroad.

Islamic wealth management, under this arrangement FNB offers Shari'ah-compliant full discretionary managed personal portfolios. The personal portfolio allows customers to view share prices, market depth, portfolio in real time and download statements and tax schedules.

Islamic vehicle and asset finance - FNB provides for all types of customers, private individuals as well as businesses. The type of financing offered to customers has the following features

- Buy a vehicle from a dealership
- Buy a vehicle privately
- Ijarah finance period of 12-72 months
- Shari'ah compliant Vehicle and Asset Ijarah (lease) financing solution

Absa Bank

In 2006, Absa the leading retail banking group in South Africa introduced the first wide-ranging Islamic banking offering. This included a cheque account, vehicle finance, transactional savings account, contractual savings account and Islamic wills. This service was backed by the full range of access support from the prevalent ATM and branch network in the country as well as cell phone and Internet banking. For the first time in South Africa Muslims were provided a comprehensive range of Islamic banking products that are equivalent to those of a conventional bank offered at the similar cost and with the same level of suitability.

The acceptance of these products and services were instantaneous and Absa Islamic Banking thrived in the time of three years to a highly regarded number of customers. Merely around 5–10% of the total Muslim population in South Africa make use of Islamic finance products leaving a momentous potential growth prospect for Islamic banking in the jurisdiction. Furthermore, this opportunity is augmented by the budding number of Muslim foreign inhabitants coming into South Africa as businesspeople and asylum seekers (Edbiz Consulting, 2010).

Absa Bank provides several Shari'ah-compliant products and services in the form of deposits, financings and international banking offerings.

Table 1. Shari'ah-compliant banking products and services provided by Absa bank

General Type of product/ service	Specific types of product/ service	Contract	Features
Deposit accounts	Islamic savings account	Mudarabah	- Immediate access to capital with no minimum or maximum investment period - Electronic payments, transfer transactions and third party payments.
	Islamic target save account	Mudarabah	- Restricted and managed independently from other funds - Four withdrawals per year - 32 days' notice required before each withdrawal
	Islamic youth account		- For youngsters under 20 - Combination of a transactional and savings account
	Islamic term deposits	Mudarabah	- Offers return that will vary according to the investment period - Renders a profit share on a minimum opening deposit of R1 000 - Additional profit share offered for large investments
	Islamic premium banking	Qardh	- Recommended for income of R25 000 or more per month
	Islamic gold value bundle account	Qardh	- Offering a full banking Gold transactional account with a Value Bundle pricing option - Debit card can be used to withdraw money worldwide, transfer cash and make payments
Financing	Islami vehicle finance	Ijarah	- Variable and fixed rental fees for the duration of the lease - Insurance cover for your commercial assets and vehicles
Islamic international banking	Islamic international banking	Hawalah	- Send money abroad, pay subscriptions and exchange foreign currency - Utilization of the worldwide foreign banknotes and cash passport.

Source: Absa Bank (n.d.)

Standard Bank

Standard Bank is the other conventional bank which provides Shari'ah-complaint banking services in South Africa. The services target both individuals and businesses. The following services are offered by the bank.

1. Shari'ah-Complaint Personal Banking

Diners club Shari'ah charge card - Standard Bank in partnership with Diners Club has presented the first Shari'ah-compliant Diners Club product in the world. This is South Africa's first Shari'ah-compliant charge card and provides access to numerous travel and lifestyle benefits.

Shari'ah savings and investments- Under this scheme, Standard Bank offers Shari'ah-complaint saving and investment facilities in the form of fixed deposit call account and endowment policy as stated below.

Shari'ah complaint fixed deposit- This is an investment account that is based on the Mudarabah principle. Customers can save a lump sum for a fixed term to earn competitive profit share. A Shari'ah compliant term investment account allows customers to invest from 33 days to 5 years. The longer they invest the higher their possible proceed and the profit is calculated using the average daily balance. Profit is remunerated monthly, quarterly, half-yearly, annually or at maturity.

Since Shari'ah-complaint banking disregards earning interest, customers will be able to earn money by engaging into a profit-sharing arrangement with Standard Bank. This means the money they deposit into their account is invested in Shari'ah-compliant financing and investments, and the resultant profits engendered are distributed between parties.

Shari'ah compliant call account- In this scheme customers open a Shari'ah-complaint call account today and receive a share of profit on their positive balance. The bank allocates the profit generated with its customers based on their account balance. The profit is calculated and paid monthly on the customers' average daily balance.

Shari'ah compliant endowment policy- This arrangement recompenses users a return provided by a five-year Shari'ah-compliant fixed deposit. It permits them full liquidity to make withdrawals from the policy after five years. A single withdrawal option is available for policies older than one year but within the five-year constrained period. This policy is for investors who desire to invest for at least five years.

2. Shari'ah-complaint savings and investments for business

Business fixed deposit, It is a Shari'ah-compliant business savings product for businesses. It works with weightage system that means the longer the business invests the higher their return. Profit can be remunerated throughout the term of the investment or at maturity. There is a possibility to invest from 33 days to 5 years without monthly fees, but early withdrawal fees are applied.

Business call deposit, In this structure, customers have immediate access to their money with unrestricted number of deposits. There is no fixed savings term and monthly fees. Nevertheless, the bank practices pay-as-you transact fees on certain transactions.

Shari'ah-complaint merchant capital cash advance- Merchant capital is a leading provider of alternative working capital solutions to SMEs in South Africa, having supported thousands of retail

businesses with millions in funding. In this working capital solution specifically for retail businesses the retailer can be eligible for up to 100% of their average monthly debit and card turnover. A merchant in this arrangement can get funding within 48 hours. The funding is paid back as a percentage of every card swipe through the retailers' card terminal.

Shari'ah-complaint fleet card, Under this arrangement businesses can preload funds onto their fleet account and control fuel and maintenance expenditure per vehicle and all purchases are limited to fuel and pre-approved maintenance outlets. All transactions are dependent on the normal transaction authorization procedures. The purchases that the client perform are restricted to fuel, oil, maintenance, repairs, tyres and the cards cannot be utilized to pay toll fees.

Shari'ah-complaint operating rental and car maintenance packages, It is a fully inclusive finance and maintenance package without the additional responsibilities of ownership. Customers can rent a car for a specified period (months) and distance (kilometers) and will be able to pay a single amount which includes car rental and maintenance. However, the ownership of the car remains under the bank. Customers are able to claim back the full VAT amount on the monthly rental of light delivery and commercial vehicles and on the maintenance portion of passenger vehicle contracts.

Shari'ah complaint forward exchange contracts (FEC), It is the first Shari'ah-compliant FEC in South Africa to be contracted under the ISDA (International Swaps and Derivatives Association) Tahawwut Framework. This product allows users to hedge out their real foreign exchange (FX) risks in a Shari'ah-compliant manner.

- A conventional ISDA can be applied for speculative purposes. The Tahawwut ISDA encompasses a phrase where the counter parties to the contract admit that this arrangement will not be used for speculative purposes.
- In a Shari'ah FEC, the actual purchase and sale of the foreign exchange carries out at the maturity date. On the booking date, it is only a promise to enter into a purchase agreement on the maturity date.

Wes Bank

The bank provides an assortment of products and services to its customers with aim of satisfying different types of deposits, investments and financial needs. The table below shows Wes bank's deposit, retail and other products and services.

Table 2. Shari'ah-compliant banking products and services offered by Wes bank		
Deposit services	Retail services	Other products and services
Business cheque accounts	Vehicle and asset finance	RMB Islamic Equity Fund
Personal cheque accounts	Residential property finance	Home loan
Youth saving accounts	Commercial property finance	Estate planning and wills
Adult savings account	The bank private vehicle and asset finance	
Smart account	Petro cards	
	Debit cards	

Source: Cheteni (2014)

HBZ Bank Limited

HBZ Bank Limited characterized as the first main investment in South Africa by a Swiss based Banking Group. HBZ Bank was commenced in South Africa in 1995 with a preliminary capital investment of R 50 million. It presently functions branches in Kwa-Zulu Natal and Gauteng and has a segment that dedicates itself to Islamic Banking services. HBZ Bank Limited is a wholly owned subsidiary of Habib Bank AG Zurich. The bank under the designation “*Sirat*” that means “the path” offers Islamic banking products and services in the form of current account, savings account, financings, investments certificates and forward exchange contracts as mentioned in detail below.

SIRAT Savings Account, This type of account intended for savings and earn profit. It is opened on the basis of Mudarabah arrangement where the Bank acts as “Mudarib” (i.e fund manager) and the depositors are considered as “Rab-ul-Maal” (i.e. fund contributor). In this Shari’ah -complaint product there is no restriction or limits on transactions and customers can have online access for real-time payment and use debit cards.

SIRAT Current Account, This account is opened on the basis of “*Qard*” (i.e. debt) whereby the customer is a lender and the bank is the borrower. The Bank does not offer any profit share and there is no overdraft facility. In this current account type, there is no restrictions or limits on transactions and customers can have online access for real-time payment and use debit cards.

SIRAT Murabaha, It is a financing scheme of sales transactions whereby the Bank acquires a commodity on behalf of the customer and sells it to the customer on cost-plus-agreed profit basis. The cost and profit margin are explicitly revealed to the customer. The Bank buys the commodity from a third party and sells it to the customer at an agreed price. This arrangement is suitable for local purchase and import of raw materials and finished goods and the maximum period is up to 120 days.

Sirat Premium Call Account, In this arrangement, customers can earn a competitive profit on call account in a Shari’ah compliant manner. They can deposit funds at any time and there is no minimum balance required. However, notice is required to withdraw as per product type and multiple notices are allowed. Partial and full amount may be withdrawn. Profit is earned on balance and is calculated on daily basis and paid out on monthly basis.

Sirat Islamic Investment Certificates (SIIC), They are issued based on Mudarabah. The Bank is Mudarib (i.e fund manager) and depositors are Rab-ul-Maal (i.e., fund contributors). SIIC is available with numerous terms to conform investment requirements. They have various alternatives based on fixed Investment for 1, 3, 6, 12 months and above, with profit on maturity. Customers are entitled with profit payable monthly if they have 1year fixed investment.

Diminishing Musharakah, This instrument is utilized for the purpose of financing assets i.e. property, vehicle and machinery etc. In diminishing musharakah, the bank and the customer participate in joint ownership of the subject property/equipment or a commercial enterprise. The customer as a lessee uses the share of the Bank and pays rentals and as a partner redeems the share of the Bank. In this scheme the repayment terms runs from one to five years.

SIRAT Shari’ah forward Exchange Contract (FEC), SIRAT FEC is a Shari’ah-compliant trade instrument for businesses that are involved in international trade to hedge their foreign exchange

risk. It is composed of fixed forward exchange contract and fully and partially optional forward exchange contract.

A Brief Overview of Takaful Industry in Africa

The Takaful product as the name implies enable mutual guarantee in which each participant contributes to a fund to cover any losses while also conceivably benefiting in the case of a claim or a share of any surplus declared. Clients' contribution for involvement is combined under one fund namely the participants Takaful fund and will be used to pay for any unforeseen event should any of the members who take part in the arrangement undergo any disastrous loss. In other words, each member of the scheme principally cares for others by offering reparation from the Takaful fund for the well-defined losses sustained by any members of the arrangement.

Takaful in South Africa

In Africa according to IFSB (2021) the general Takaful data are overshadowed by Sudan, Egypt, Tunisia, and Kenya. There are trivial occurrences in Nigeria, Senegal, South Africa, Gambia, Mauritania, Zambia, and Algeria. Takaful is anticipated to start in Morocco following the issuance of legislation in 2019. In Egypt there are 11 Takaful endeavors with an overall robust presence in the non-life segment of the market. These establishments consist of the Misr group's Takaful subsidiary, Misr Takaful. In 2020 Misr was in the course of launching a new family Takaful company with external partners. This will provide a strong foundation for the progress of the family Takaful sector in a country where life insurance business covered nearly half the market. There are four Takaful companies all with composite licenses, but these make up less than 1% of the insurance sector. This is to some extent a lower percentage than in Kenya where there is solely one Takaful company but an enormous insurance market in general.

The pioneer in Takaful market in south Africa was established in 2003 to satisfy South Africa's emerging Islamic insurance market which now registered a projected R 3 billion (US\$419 million) in annual premiums. The company found achievement in being South Africa's the only company delivering short-term Takaful insurance for business, vehicle, personal and household cover. In 2008, Takaful SA agreed with AIC as their underwriting partner and this connection put Takaful SA at a strategic position for further development, with personal lines and commercial business mounting by more than 66 percent over the subsequent two years. As a result of their fruitful partnership, Absa Group, parent company of AIC approved to buy Takaful SA and amalgamate their operations into Absa's own emerging Islamic financial services sector. After the takeover is accomplished, Takaful SA became part of Absa Islamic Banking and function as the new brand Absa Takaful.

In South Africa, unlike the Islamic banking sector that has enormous growth the Takaful sector hasn't developed a lot. To make the matter worse, it is challenging to get organized numerical data regarding the performances of Takaful firms and operators in the country. There are few Takaful operators providing personal, commercial and other services as discussed below.

FNB Takaful

FNB Insurance broker's Takaful product offers wide-ranging cover to fulfil the requirements of individuals and businesses as illustrated in the table below.

Table 3. Takaful products offered by FNB

Personal lines	Commercial	Engineering	Specialized Motor	Body Corporate
Buildings	Property	Machinery Breakdown	Transporter	Buildings and Common Property
Household contents	Goods in transit	Deterioration of Stock	Classics and Collectibles	Legal Liability
Specifies items	Accounts receivable	Computer/ Electronic Data – Processing Equipment	Motorcycles	Trustees Indemnity
Personal computer equipment	Motor	Medical Practice Equipment	Short and Medium Haul	Fidelity Guarantee
motor	Electronic equipment			Public Supply Connections
Personal legal liability	Businesses all risk			Loss of Rent
Pleasure craft	theft			
	Liability			
	Fidelity guarantee			
	Business interruption			

Source: FNB Bank (n.d.)

Capital Legacy-Takaful Fund Operator

Tazkiya - a Shari'ah-compliant will, Family Takaful and estate administration offering in South Africa by capital legacy-takaful fund operator. The word 'Tazkiya' is originated from an Arabic word that means 'to purify'. Capital Legacy has launched a Family Takaful arrangement, which will guarantee that all the contributions clients make to the fund, to safeguard their families from the costs related with their death, will persist undamaged by interest and insecurity, keeping it clean (Capital Legacy, 2021).

The Tazkiya wills and estates product and services offering comprises four elements

1. The Tazkiya Will Service, It delivers clients with the chance to set down a will consistent with their preferred Islamic School of Thought that abide by Islamic values-offering for your Islamic Heirs, religious liabilities and obligations and any *Wasiyyah* (bequests) they desire to make. All components of the *Tazkiya* Legacy Protection Plan, the Family Takaful and the trust as well as the Takaful Fund Operator are appraised frequently by an autonomous Shari'ah Supervisory Board to make sure that they are meeting the requirements of the tenets of Shari'ah.

2. Cover For Legal Fees-Tazkiya Legacy Protection Plan, This is a comprehensive Shari'ah-compliant arrangement that accompanies clients' Islamic Will, honoring their faith by providing for their Islamic Heirs and providing protection from the unavoidable legal fees connected to death. These fees are composed of Shari'ah will and estate administration services, executor, testamentary trust and conveyance fees, immediate expenses, monthly living expenses, life cover and taxes.

3. Legal and disability cover, It allows clients to enjoy several financial planning set-ups comprising the reimbursement of debts. Under My legacy cover clients can take actions throughout their lifetime to offer a gift to their Islamic heirs. Their gift is extended in the course of their lifetime (but only receivable upon their death). Therefore, such gifts do not form part of the Estate and the Estate is hence still disseminated in line with the Islamic requirements.

4. Estate administration, Estate administration and trust offering includes inter alia payment of burial and shrouding expenses, settlement of religious liabilities and obligations, payment of all debts, payment of *wasiyyah* (bequests), creation of specified trusts, residue distributed amongst Islamic heirs, facilitate payment of any retirement annuity and group life cover.

Takaful South Africa

Established in 2003, Takaful South Africa offers various takaful products and services to meet the requirements of individuals and businesses based on principle of mutual guarantee. These takaful products and services are deemed to be Shari'ah-complaint. In order to ensure that the new product offerings are in line with Shari'ah principles, the company has established an independent Shari'ah advisory board which evaluates and supervises all prospective new takaful products and services to familiarize the company to industry developments and customer anticipations as shown below.

Table 4. Takaful products offered by Takaful South Africa

Personal	Commercial	Engineering	Assist	Body Corporate
Buildings	Property	Machinery Breakdown	Road Patrols	Buildings and Common Property
Household contents	Goods in transit	Deterioration of Stock	Fuel assistance	Legal Liability
Specifies items	Accounts receivable	Computer/Electronic Data-Processing Equipment	Tyre changing service	Trustees Indemnity
Personal computer equipment	Motor	Medical Practice Equipment	Jump start service	Fidelity Guarantee
motor	Electronic equipment	Contractors Plant and Machinery	Locksmith services	Public Supply Connections
Personal legal liability	Businesses all risk	Contractors All Risks	Minor road-running repairs	Loss of Rent
Extended Personal Legal Responsibility	Theft	Works Damage	Mechanical and electrical breakdowns	
	Accident and health			
	Liability	Transit and Erection	Accident tow	
	Fidelity guarantee			
	Business interruption			

Source: Takaful South Africa (n.d.)

In addition to the above takaful products, Takaful South Africa provides services like takaful BnB such as bed & breakfasts, guesthouses, self-catering, holiday homes, and backpackers. Moreover, Takaful Cuisine arrangement provides cover for wedding venues, restaurants (franchise and privately-owned), including takeaway facilities and cafes, convention centers, golf clubs, wellness centers, spas & banquet halls, delis, and caterers.

The development of Sukuk in South Africa

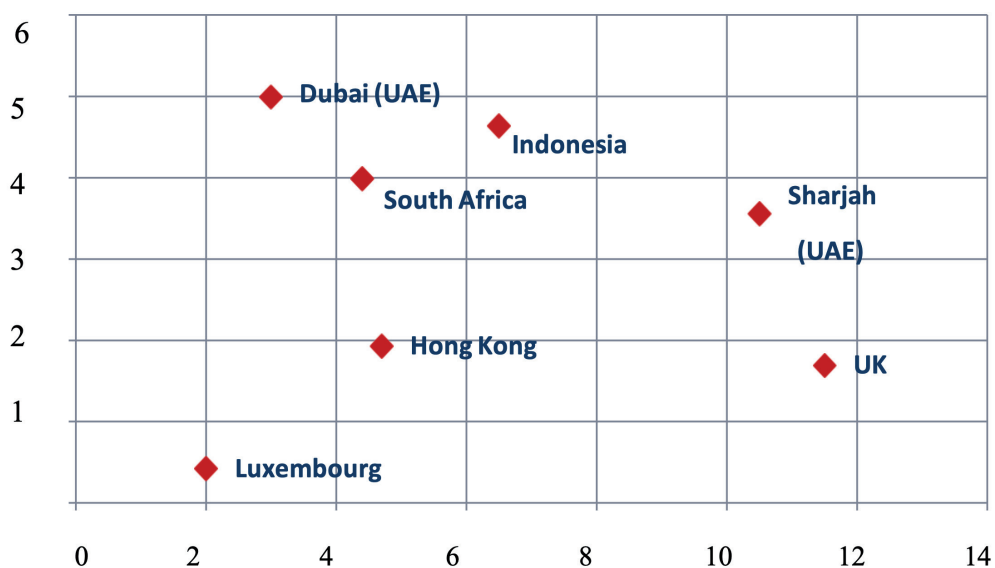
South Africa got itself involved in the global sukuk issuance first in 2014 through its sovereign sukuk and later in 2016 in the form of private sukuk to raise finance and broaden investor base. It was in response to highly intensifying local and global demand for investment and to stimulate growth. As the giant economy in the continent, South Africa has the most developed capital market and bond issuance infrastructure on the continent that greatly benefits the issuance of sukuk in the near future. Both the country's sovereign and private sukuk are explained below.

Sovereign Sukuk

In 2014, South Afrika joined the global sukuk market issuing the first international dollar-denominated and the prevalent sovereign Sukuk in Sub-Saharan Afrika. This sovereign sukuk that had a total worth of \$500 million was going to mature in June 2020 with a payment of fixed return rate of 3.90 percent per annum. The sukuk was oversubscribed four times, which demonstrated that there is a robust demand for sukuk in the country. In addition, the yield to maturity which is the promised sukuk return rate is among the highest next to UAE and Indonesia between January and September 2014. The type of sukuk issued was based on sukuk Al-Ijarah arrangement with cash flows taken from infrastructural possessions of the country with these assets to be reacquired by the nation by the time of the redemption of the sukuk.

Yield to maturity

Figure 5. Oversubscriptions vs. yields to maturity January-September 2014



Source: Bloomberg (2014)

Note: No. of times oversubscribed

Sukuk al-ijara comprises the handover of ownership or benefit/usufruct of tangible assets such as real estate, aircraft or ships from an originator to an SPV, which then issues to investors sukuk certificates demonstrating undivided possession interests in such assets. The asset is then leased back to the originator by the SPV for a stated duration which naturally corresponds to the tenure of the certificates. Every sukuk holder is eligible to collect the rentals engendered under the lease proportionate to its ownership interest in the underlying asset. The amount of these rentals is equal to and used by the SPV to pay the periodic distribution amount payable under the sukuk at that time. This amount thus can be calculated in reference to a fixed rate or variable rate (e.g., LIBOR or EIBOR) contingent on the kind of sukuk issued.

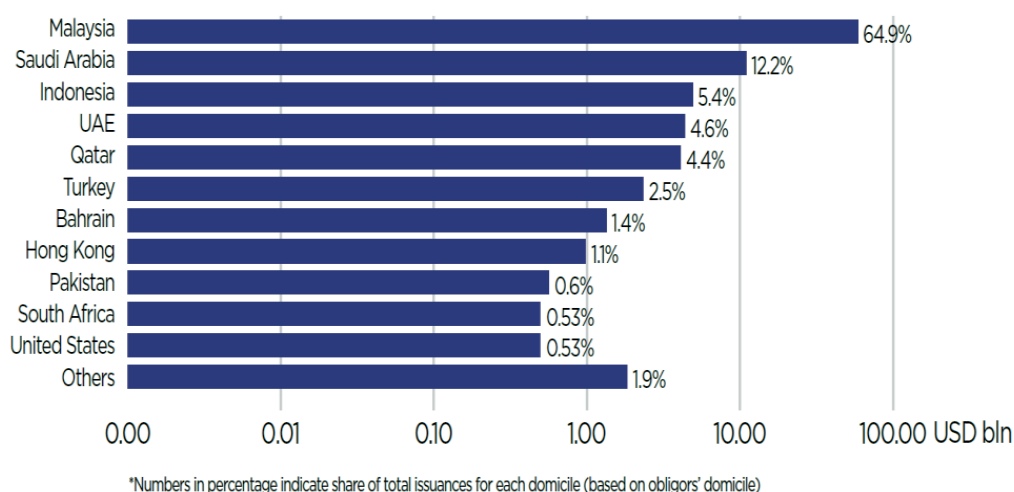
As it is shown in figure 6 below, South Africa's share and volume in the global issuance of sukuk was around 0.53% next to Pakistan around the end of 2014.

The main motivations following the issuance of this sukuk for South Africa comprises broadening the investor base and espousing into high savings and the intensifying prosperity in the Middle East and Asia as potential source of funds among others. The South African sovereign sukuk corresponds to an important breakthrough for the progress of Islamic finance in African markets.

Figure 6. Sukuk issuances by domicile

Sukuk issuances by domicile in 9M14 YTD - Volumes and Market Share

Source: KFH Research Limited



Source: MIFC (2014)

Sukuk turn out to be an alternative mechanism for some African nations in general and South Africa in particular to appear in the international markets and raise funds to stimulate their economies which suffered from the COVID-19 pandemic that adversely affected the global economy. The South African government want to utilize sukuk to overcome the broadening budget deficit and reiterated their commitment to accelerate issuance of Sukuk in 2020-21 for innumerable infrastructure ventures (Fan news, 2020). Consequently, according to Bloomberg news channel though South Africa's Treasury plans to sell a domestic rand-denominated sukuk in 2021 fiscal year which ends in February, the nation weren't able to do it rather the government has confirmed its enthusiasm to

sukuk and included it in its 2022 budget review. The budget review states: “a floating rate note and domestic rand-denominated sukuk remain part of the funding strategy” (IFN, 2022).

Al baraka Bank’s Tier 2 Capital Sukuk

Durban-based Al Baraka Bank is South African domestic wing of the leading Bahrain-based Dallah Al Baraka holding company, which has a total net worth of about \$25bn. It is also the only fully fledged Islamic bank offering the country’s projected 1.5 million to 2 million Muslims an array of Sharia-compliant banking products and services (see Islamic banking part above for more information).

In 2016, Al Baraka Bank became a prominent financial institution in South African to issue a Tier 2 Capital Sukuk, a Sharia-compliant investment scheme and eye-catching substitute to conventional bonds. The bank raised R200m from 94 individual investors and institutions through issuance of the sukuk. The product has a duration of 10 years and will count towards the bank’s tier-two capital. The bank’s issuance of the sukuk is in response to highly intensifying local and global demand investment and to stimulate growth.

The proceeds collected by the sukuk are variable and are currently recompensing a return of 10% per annum. As per the requirements of Sharia-complaint sukuk, the proceeds must be collected and distributed from the profit of the underlying asset. In addition to that, the returns are remunerated monthly over the term of the sukuk, so investors are able to collect monthly cash flows on the first working day of each month. A total of 94 individuals and institutional investors have participated in the bank’s Tier 2 Capital Sukuk. With the issuance circumscribed to this country, domestic investors consisted predominantly of personalities in the professional and business segments with innumerable organizations joining the investor base as well.

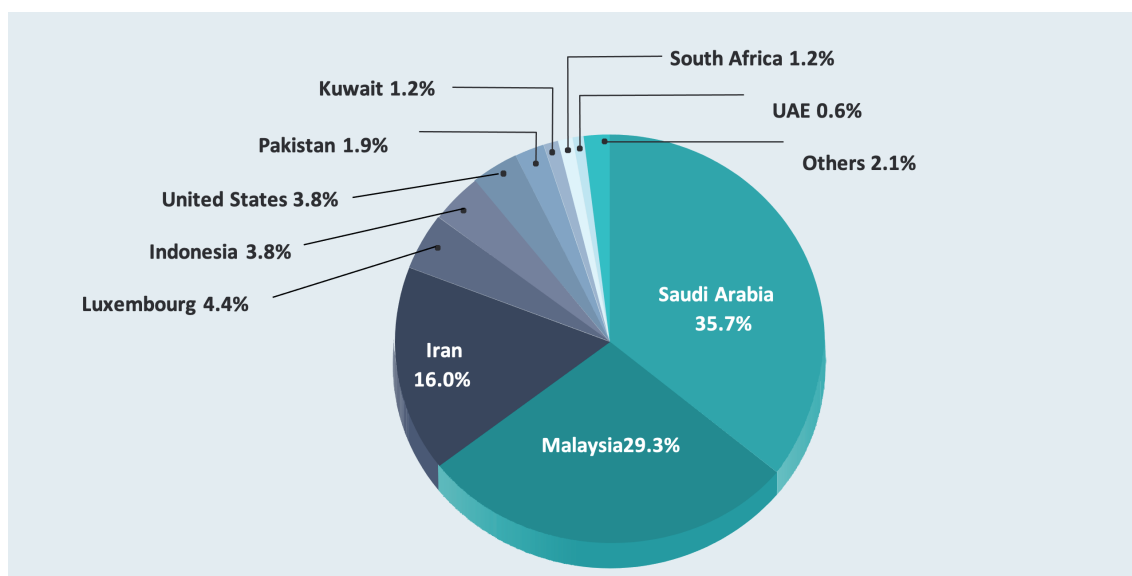
The bank has got authorization from the Shari’a board members to make sure that the sukuk follows Shari’a-complaint structure. Furthermore, the bank has gained legal and regulatory approval from the country’s central bank, the South African Reserve Bank for the issuance of the sukuk. Al Baraka Bank has set up a special purpose vehicle (SPV), named Al Baraka Sukuk Trust, to administer and facilitate the course of investments from Sukuk holders to the bank (Albaraka, n.d.).

Islamic Fund Management in South Africa

In spite of the global pandemic, the total assets under management of Islamic funds surged by 31.9 % in 2020. When we look at the Islamic Fund Assets by regions, Saudi Arabia, Malaysia and Iran took hold of the first three ranks by the total number of Islamic fund assets whereas South Africa came among the top ten destinations of Islamic fund assets registering around 1.2% from the global Islamic fund coverage (see figure 6).

The Financial Sector Conduct Authority under the Collective Investment Schemes Control Act (CISCA), 2002 supervises the country’s funds. The assets of a Collective Investment Schemes (CIS) are administered by a manager registered with the Financial Services Board (FSB). CIS comprises foreign CIS, which has to be accredited by and registered with the Registrar of CIS at the FSB and conform to the CISCA (Act 45 of 2002). In South Africa, there are five categories of CIS that an investor can pick out:

Figure 6. Islamic Fund Assets by Domicile (2020)



Source: IFSB (2021)

1. CIS in securities: the portfolio mainly consists of securities and includes local funds registered with the FSB. Most CIS fall in this category.
2. CIS in properties: the portfolio commonly encompasses property shares or direct property ownership
3. CIS in participatory bonds: this arrangement primarily includes participatory bonds.
4. Declared CIS: this is a structure confirmed by the Minister of Finance as a CIS.
5. Foreign CIS: these are foreign arrangements which solicit investments from South Africans.

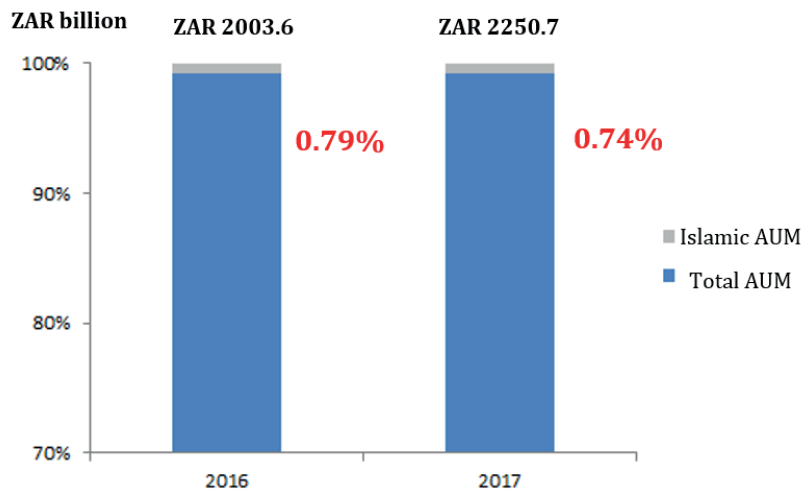
The Islamic fund management market in South Africa at this time incorporates seven Asset Management Companies delivering six types of Islamic products including equity, balanced, global, property, income and exchange traded funds (ETF). By the end of 2017, Islamic AuM accounted for only 0.7% of total AuM in South Africa (COMCEC, 2018).

The Share of Domestic Islamic Funds Against Total Funds Managed

By the end of 2017, South Africa made up 2.4% of global AuM (IFSB, 2018) under 22 Islamic funds, comprising 1 ETF. The dominance of South Africa in this sector is not startling given the enormous level of financial sector growth and the favorable environment it provides to investors.

The AuM of Islamic funds has shown a remarkable growth, reaching around R18.3 billion as at end April 2018. Figure 7 illustrates Islamic AuM as a percentage of total AuM. Notwithstanding a marginal decline in market share for Islamic AuM from 0.79% in 2016 to 0.74% in 2017, the nominal value of Islamic AuM had improved to R16.7 billion in 2017 (2016: R15.9 billion). This points out a high likelihood or prospect for South Africa to become the center of Islamic finance in the African region, exclusively in Islamic funds.

Figure 7: South Africa's Islamic AuM as a Percentage of Total AuM



Source: COMCEC (2018)

Note: Based on data from Kagiso Asset Management

When we make a closer look at the asset allocation of total CIS, local equity constitutes the largest proportion of assets that is above half of the amount apportioned under Islamic AuM, followed by foreign equity, local cash and sukuk, and others as presented in figure 8.

Figure 8: Allocation of Islamic Funds' Assets (April-2018)



Source: COMCEC (2018)

Note: Based on data from Kagiso Asset Management

Islamic Finance Education in South Africa

Islamic finance education is not that much developed in South Africa. Although one of the oldest and most reputable universities in the country, University of Cape Town used to offer courses like Islamic Law and Finance, Islamic finance and banking within the South African context courses at master's level under faculty of law, these courses are not being offered these days as depicted on the website of the university.

However, Regent Business School a private institution focused on postgraduate management education in South Africa, is offering higher certificate in Islamic finance, banking and law. The course is designed for students who are pursuing to have more than a straightforward understanding of the concepts and operating principles that apply to Islamic banking in comparison to conventional banking (Regent Business School, n.d.).

The higher certificate in Islamic finance, banking and law is a one year program that intends to provide students with knowledge on a wide range of Islamic finance, banking and applicable legal issues with the purpose of creating an enhanced understanding of the application of Islamic finance, banking and law in a secular state. The program addresses South African Law as compared to Islamic law.

It is open to those with and without Islamic (Shari'ah) knowledge and to both Muslim and non-Muslim students. Practicing Islamic banking tenets in a non-Islamic environment results in arduous impediments for Islamic banks and the course delves into the phases that the South African government has taken to promote Islamic Banking in South Africa.

The course delivers a general idea of Islamic insurance (Takaful) and Islamic bonds (Sukuk) and compares them to conventional insurance and bonds. The course also looks at Islamic Risk Management and Governance and the exceptional responsibility of the Shari'ah Board in the prudent supervision of Islamic banks. The components of accounting within a Shari'ah-compliant economic framework is also taken into consideration. The course is intended for students targeting to achieve a career in Islamic banking and finance and for those in the industry seeking for career development. The course also targets those who wish to learn the fundamentals of Islamic law in general and Islamic banking and finance in particular.

The following modules are included in the program:

- Introduction to Principles of Islamic Law
- Islamic Finance
- Islamic Contracts and Charitable Endowments (*Waqf*)
- Islamic Banking
- Islamic Risk Management and Governance
- Islamic Family Law

Legal and Regulatory Issues in Islamic Finance in South Africa

South Africa adopts the Islamic banking model that resembles countries with low Muslim population like United Kingdom. Islamic banks and other financial institutions haven't been regulated separately from their conventional counterparts. Albeit there are some endeavors to stipulate and delineate

some of the Islamic financial transactions, but the regulatory framework is still very much engrossed on the regulation of conventional banks (Morapi, 2015).

Banking Regulations

The principal regulation for banks in South Africa is the Banks Act which is functional in compliance with various other acts and provisions corresponding with particular establishments. SARB is the most important regulator which is accredited to do so by the SARB Act. Any interested party who desire to establish a bank or any institution carrying out a banking business has to apply to the Registrar of Banks for approval. The institution can apply for registration if the authorization is granted to the institution (SARB, 1989).

Islamic banking institutions follow similar procedures that fall within the business of a bank and should conform accordingly to the process stated above. There are no particular or explicit requirements for banks that perform Islamic banking business, the banks are not obliged to reveal or have any statement in their articles of incorporation affirming this as an object of the bank. Nevertheless, nothing precludes them from doing so. There is an absence of provisions regulating the Islamic windows in South Africa, nevertheless; banks such as ABSA, FNB etc. which cater Islamic banking windows do not have to bring about any particular responsibilities pertaining to their own Islamic business (Morapi, 2015).

The prudential requirements which all banks in the country must comply with are similar to recommendations of the Basel Committee with some modifications. The country has also taken measures to implement the major part of the latest revision of the Basel Committee recommendations (Basel III) in spite of having some obstacles to surmount. There are no explicit prudential requirements that Islamic banks must abide by (Colgrave, 2012).

Shari'ah Compliance Regulations

Regarding Shari'ah compliance, there is no regulation necessitating compliance of banking products with Shari'ah law. There is no Shari'ah advisory board at the central level to safeguard acquiescence of Islamic banks to Shari'ah principles. Conversely, each Islamic bank depends on internal Shari'ah boards or autonomous advisory committees to confirm Shari'ah compliance in their banking operations. The South African banking regulation is silent about this issue.

Tax Regulations

The introduction of division 24JA of the Income Tax Act set out the planned regulation for Islamic financial products. This proposal was declared in the draft Taxation Laws Amendment Law 2010. The explanatory memorandum of the Taxation Law Amendment Act 2010 expounded Islamic finance in this manner:

"Islamic finance is based on certain principles that impact transaction form which includes a) the prohibition of interest (Riba). b) The prohibition of uncertainty (Gharar). c) Risk sharing (the removal of asymmetrical information from contracts and encouragement of full disclosure). d) Materiality (financial transactions must be linked to a real economic transaction)" (SARS, 2010).

In 2010, some modifications were made to the Taxation Laws Amendment Act to be aware of Murabaha, Diminishing Musharaka and Mudharaba as products of Islamic finance equivalent to

conventional financial products. In 2011, supplementary modifications were made to the act to acquaint with sukuk as an arrangement of Islamic finance restricted to the government, opening the way for the issuance of a sovereign sukuk (SARB, 1989).

Consequently, with respect to this bill, the Islamic products Mudaraba, Murabaha, sukuk and diminishing Musharaka are acknowledged. The year 2011 marked the upsurge of Shari'ah compliant instruments, domestically and globally, which was contained within the Income Tax Act such as the Islamic collective Investment arrangement and the delivery of advisory services for the organizing and issuance of an inauguration government (sovereign) sukuk.

In reference to sukuk, this definition ruled out other parties from engaging into sukuk structure. Shari'ah compliant financing is the point of departure to a potential source of reasonable financing which will support the economy and the state. It is recommended that "public entities should be included in the Islamic finance arrangement" and the definition and deeming provisions of a sukuk should be amended to also include other entities.

On the 16th January 2017 a ruling was made by the South African Revenue Services (SARS) to define the income tax results of an Islamic financing scheme, termed a "Mudaraba" scheme, for the parties. The ruling made with regard to the planned transaction is in this fashion:

- a) Section 24JA, in so far as it applies to a "sukuk" as defined, will not apply to the sukuk certificates to be issued by the trust.
- b) The proceeds from the issue of the sukuk certificates will not form part of the trust's "gross income" as defined in section 1.
- c) The proceeds from the issue of the tier 2 certificates will not form part of the Applicant's "gross income" as defined in section 1.
- d) Section 24JA will apply to the Mudaraba agreement to be entered into between the Applicant and the Trust. Accordingly, the periodic distribution amounts received by or accruing in favor of the Trust will constitute "interest", as defined in section 24J.

Dispute Resolution

South Africa's legal system has an enormous common-law influence. Though the frequency of the occurrence of litigation is probably trivial, the legal system has not specifically dealt with disputes vis-à-vis Islamic banking and finance transactions. There is no distinctive court or tribunal to handle issues arising from Shari'ah law or a national board of authorities to assist the courts in this respect (Morapi, 2015).

Challenges and Prospects of Islamic Finance in South Africa

The current laws of most African nations were not premeditated to accommodate interest free financings based on the partaking of economic risks and rewards, and attaining returns in reference to the performance of Shari'ah-compliant assets (Dey and Jin, 2018). Similar to other countries in the world, legal and regulatory challenges are the main stumbling blocks for the development of Islamic finance in South Africa. There are various impediments with respect to descriptions of some of the commonly utilized Islamic finance instruments harmonizing them with comparable products catered by mainstream banks in the country. Without modifications to prevailing tax codes, the asset

based nature of Islamic finance may initiate numerous tax payment requirements from country to country that do not exist in conventional financial system. These could consist of registration tax/stamp duty land tax, VAT, capital gains tax and withholding tax. Regulatory consideration is necessary to synchronize these concerns.

The other is the issue of Shari'ah- compliance nature of some of the products provided by banks in South Africa. This might be due to the absence of central Shari'ah supervisory board that oversees and reviews the overall of activities of the banks and promotes consistency and uniformity in the adoption of Islamic banking products and services (Morapi, 2014). Islamic banks in the country generally depend on internal Shari'ah boards or independent advisory committees to make sure Shari'ah compliance in their banking operations.

Islamic finance remains poorly comprehended across many jurisdictions, not only in South Africa. The domination of conventional commercial banking and capital markets practices and the newness of Islamic banking and finance makes users prefer the former ones as they are familiar with the services for ages. Lack of awareness and negative attitude among the public is the other challenges prevalent in South Africa (Cheteni, 2014; Vahed and Hoque, 2016). Although the Islamic banking literacy level is improving in the country, some empirical studies show that even some Muslims are not familiar with the Islamic banking practices (Saini et al, 2011).

Though South Africa is comparatively better in terms of financial inclusion in the continent, there are still some obstacles in providing Islamic financial services to people living in rural areas due to low penetration of formal banking services across the country. Despite the fact that the financial inclusion is better among the more educated and older individuals residing in urban areas, commonly black population with low real per capita income and fewer employed members were associated with financial exclusion (Matsebula and Yu, 2020). The study stressed that the gap in financial inclusion not only results in systemic inequalities in the country but also broadens inter group disparities in the country.

In spite of all challenges mentioned above, Islamic finance in South Africa has progressed from time to time. The demand for Islamic financial products and services is growing as alternative financial services. This is spurred by the country's accommodative regulatory and government policy and developed financial system and capital market. According to the Banking Association of South Africa, Islamic banking, which is based on the doctrines of fairness, transparency, risk sharing and socio-economic responsibility is demanded to support the country overcome its economic problems. Islamic financial services are progressively more implemented as a reliable supplement to conventional banking for both Muslims and non-Muslims alike.

Conclusion

South Africa has developed financial system which is backed by sophisticated legal and financial infrastructure and a largely competent regulatory framework. Financial institutions have taken advantage of a persistent economic growth, promoted by vigilant macroeconomic management and growing commodity prices. Regardless of its comparatively small Muslim population (estimated about 3% out of 60 million population), South Africa was a pioneer sub-Saharan African country to establish itself as a prospective epicenter for Shari'ah-compliant banking in the region. Al baraka bank is the first and the only full-fledged Islamic bank while there are five conventional banks which are

offering Islamic finance products and services in the country. Takaful operations are carried out by few companies though they are not developed like the Islamic banks. South Africa got itself involved in the global sukuk issuance first in 2014 through its sovereign sukuk and in 2016 in the form of private sukuk to raise finance to broaden its investor base and in response to highly intensifying local and global demand to investment and stimulate growth.

South Africa has dominance regarding Islamic fund management due to its high level of financial sector growth and the favorable infrastructure it provides to investors. However, there are still legal and regulatory impediments, Shari'ah-compliance issues, lack of knowledge and awareness about Islamic finance and its operations and lack of financial inclusion to mention some. In spite of all challenges mentioned above, Islamic finance in South Africa is thriving from time to time. The demand for Islamic financial products and services is growing as alternative financial services. This is spurred by the country's accommodative regulatory framework and government policy, developed financial system and capital market.

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