# RDA INFLOWS CROSS $6BN MARK

KARACHI: Inflows arrived through Roshan Digital Account (RDA) from overseas Pakistanis crossed the $6 billion mark in the first week of April. The State Bank of Pakistan (SBP) reported Friday that cumulative inflows of RDA deposit reached $6.005 billion as of April 7, 2023. “Roshan Digital Account has reached a new milestone as the total inflows have crossed $6 billion,” the SBP said on its official Twitter handle and thanked overseas Pakistanis for their continuous trust in making the SBP’s RDA a huge success.

Inflows of foreign currency through RDA improved during the last two months as the SBP revised rates of the Naya Pakistan Certificate (NPC) to make them more competitive. Approximately, some 60-65 percent RDA deposits were received in NPC as investment.

R 8-4-2023

# PSO, SBP TEAM UP TO STREAMLINE BANKING PROCESS FOR RUSSIAN OIL IMPORTS

KARACHI: Pakistan State Oil (PSO) and State Bank of Pakistan (SBP) are working on banking channel arrangements for import of crude oil from Russia, sources told The News on Friday. The government is eyeing import of Russian crude oil by April end. State Minister for Petroleum Dr. Musadik Malik has also earlier told media that crude oil supply from Russia would start by end of the current month. The sources, however, believed that the crude oil supply from Russia might take some more time and might be possible to come by mid of May, if things went on smoothly as per the scheme.

Sources familiar with the developments on Russian crude oil supply to Pakistan said both sides could sign the contract by mid or third week of April. They were of the view that for contracting the sign, finalisation of banking channel arrangements was necessary, and both PSO and SBP had been tasked to work on the arrangements to make progress towards receiving supply from Russia. They also pointed out that banking channel arrangements were important for Russian crude oil supply to decide what currency would be used for the supply. There are three currencies in consideration including USA dollar, UAE Dirham, and Chinese Yuan, as Russian side sought the payment in one of three currencies. The decision is yet to be taken as per the sources.

The sources added that it was not clear as whether the price of Russian oil to Pakistan would be as per the cap placed by G-7 countries for buying the Russian oil, as the price is still being worked out in that regard.

The News reported last month that the government was trying to procure Russian crude oil at $50 per barrel, which is $10 dollar below the cap imposed by G-7 countries on the Russian crude oil buying. However, no decision has been taken as yet, according to the sources. They stated that if the crude oil was purchased as per the capping of G-7 countries, the freight cost and insurance premium cost would make the price of Russian crude oil almost equal to the crude oil Pakistan is buying from the other countries.

The Russian crude oil buying surfaced first time in February last year when then Prime Minister Imran Khan visited Russia. After his departure from power in April last year, the new government also announced to work on it and a high powered delegation visited Russian in November last year, followed by a Russian delegation that visited Pakistan in January 2023, to work out the modalities for the oil supply from Russia to Pakistan.

TN 8-4-2023

# NA TOLD: OIL BEING IMPORTED ON DEFERRED PAYMENT ONLY FROM KSA

ISLAMABAD: The National Assembly was Friday informed that crude oil is being imported on a deferred payment basis only from Saudi Arabia for the period from 7th February 2022 to March 2023 which has been extended for further 10 months.

In a written reply to a question, Minister of State for Energy (Petroleum Division) Musadik Malik said that the last agreement was executed between the Saudi Fund for Development (SFD) and the Ministry of Finance from 7th February 2022 to March 2023 which has been extended for further 10 months. The Speaker and Members of the National Assembly (MNAs) expressed their resentment over the non-submission of replies to their queries by the Power Division. The Speaker National Assembly, Raja Pervaiz Ashraf, and other treasury members lambasted the Power Division for its failure to answer the questions as some 10 questions had no reply.

The NA speaker directed the energy minister to submit replies to the questions asked by the lawmakers or else it would be deemed as contempt of the house. Ghous Bux Khan Mahar of Grand Democratic Alliance (GDA) also flayed the Power Division for not responding to a question which was being deferred since 47th session.

The Power Division also came under fire for no electricity bills waiver announced by Prime Minister Shehbaz Sharif for flood-affected districts' rice mills in Sindh and Balochistan. During the question hour, Mehreen Razaq Bhutto of PPP questioned the manifold increase in taxes on the bills of rice mills of Sindh and Balochistan, saying a delegation of rice mill owners from Kamber Shahdadkot met her and requested to help avail the waiver announced in electricity bills. She termed the reply to her query as unsatisfactory and sought details from the parliamentary secretary on any intention of the ministry to either waive off the hefty electricity bills sent to the rice mills owners of Sindh. Khursheed Junejo of PPPP said that the National Electric Power Regulatory Authority (NEPRA) charged extra taxes in electricity bills of the rice mills of Larkana and Jhal Magsi divisions of Sindh under an SRO. He said that 2022 floods had completely damaged the rice crop and there was no income earned by the rice mills but the delegation claimed that heavy taxes were charged to them by the NEPRA in the bills. Aftab Shaban Meerani regretted that the prime minister had announced the electricity waiver for the rice mills but was not implemented on ground.

The Speaker referred the matter to the relevant committee. The parliamentary secretary for Power Division, Rana Iradat Sharif Khan, said that the taxes on electricity bills were levied by the Federal Board of Revenue (FBR) and regulated through NEPRA, whereas, the House could pass its ruling to end the taxes. He said that Rs10 billion subsidy on tariff differential was already being disbursed to the industry in this regard, adding the MNAs had confused the quarterly adjustments made by the NEPRA with taxes on electricity in their question. Responding to a question, the parliamentary secretary for foreign affairs, Syed Hussain Tariq, said that the missions extend assistance to prisoners in accordance with local laws of the host countries.

R 8-4-2023

# SAUDIS OKAY $240M FOR MOHMAND DAM PROJECT

ISLAMABAD: Saudi Fund for Development (SFD) on Friday signed an agreement to extend a $240 million loan to Pakistan for the construction of the $1.2 billion Mohmand Multipurpose Dam project and help transition towards green energy.

The agreement was signed by the Chief Executive Officer of SFD Sultan Abdulrahman Al-Marshad, and the Federal Secretary for the Ministry of Economic Affairs Dr Kazim Niaz. Saudi Ambassador Nawaf bin Said Al-Malki also witnessed the signing ceremony.

The Ministry of Economic Affairs said the loan agreement showed a strong partnership between Saudi Arabia and Pakistan in achieving sustainable development goals (SDGs) as Mohmand Dam was a major hydropower complex that will contribute to Pakistan's energy security, increase sustainable water supply for agriculture and human consumption and improve resilience to floods.

The Mohmand Dam project started in 2019 is targeted for completion in November 2024. It is expected to enhance water and food security and improve the standard of living for people living in Khyber Pakhtunkhwa, where almost 80pc of the population resides in rural areas, boosting the region's socioeconomic development by creating employment opportunities and reducing poverty levels. The project aligns with SDG-2 (food security), SDG-6 (clean water), and SDG-7 (clean energy) and embodies SDG-17 (partnerships for the goals).

The project, which is co-financed by the SFD, OPEC, Islamic Development Bank, and the Kuwait Fund for Arab Economic Development, is expected to have a significant impact on Pakistan's energy and water sectors. By using renewable energy sources, the project will generate 800 megawatts of electricity production capacity, contributing to Pakistan's energy security.

In addition, the storage of 1.6 million cubic meters of water will support sustainable agricultural practices, enable irrigation of 6,773 hectares of new land, and increase the total cropping area from 1,517 hectares to 9,227 hectares in the province, facilitating agricultural activities. During the agreement signing ceremony, the CEO of SFD emphasised the strong developmental ties between Saudi Arabia and Pakistan. The CEO also highlighted the significance of cooperation between development funds, as evidenced by this project. He said this initiative was an extension of SFD's continued support for development projects and programmes in Pakistan since its inception. To date, SFD has financed around 41 development projects and programmes in Pakistan, amounting to approximately $1.4bn. In addition, SFD financed oil derivatives worth more than $5.4bn between

2019 and 2023 to support Pakistan's economy, this comes as a continuation of the support provided by the Government of Saudi Arabia to build a sustainable economy. Dr Kazim Niaz expressed his sincere appreciation and gratitude to the Kingdom of Saudi Arabia for its unwavering support towards the development sectors in Pakistan through the SFD. He said Saudi financing had been bringing about positive developmental impacts on Pakistan and its people. The use of renewable energy would enable sustainable energy as well as water sources, which would enhance water and food security.

Dawn 8-4-2023

## SPOT LPG CARGOES: GOVT DECIDES TO EXEMPT SLL FROM PPRA RULES

ISLAMABAD: The government has decided to exempt SSGC LPG Ltd. (SLL) from PPRA Rules for procurement of spot LPG cargoes from April 2023 to March 2024, official sources told Business Recorder.

Ministry of Energy (Petroleum Division) in its letter of April 5, 2023 requested PPRA to grant exemption to SSGC LPG Ltd. (SLL) from Rule 35 & 40 of PP Rules, 2004 for the import of LPG spot cargoes from April 2023 to March 2024 (approx.) - 20,000 MT LPG, i.e., four cargoes per month. SSGC LPG Pvt. Limited stated that in September 2022, Ministry of Energy (Petroleum Division) had given a task to both the SSGC (through its subsidiary SLL) and SNGPL to import additional LPG during winter season from November 2022 to March 2023 to overcome the severe gas shortages in Pakistan.

SLL in response imported 67,771 MT LPG during last winter season (due to exemption provided from Rules 8, 9, 13(1), 35 & 40 of PP Rules, 2004).

The regular LPG supplies to the local market not only helped avoid the artificial shortage of the product but also maintained the LPG prices well within OGRA announced limits.

The sources said, SSGC LPG Pvt. Limited further submitted that LPG prices, locally, as well as, internationally, are vulnerable and change on a daily basis. Following are the benefits of the exemptions allowed to SLL from PPRA Rules, 2004: (i) exemption from Rule-35, of PP Rules, 2004, gave SLL an opportunity to procure LPG from international suppliers at par with the private importers as it reduced the risk of price change for both SLL and the international suppliers; and (ii) exemption from Rule-40 of PP Rules, 2004, provided an opportunity for SLL to get the market competitive prices from these suppliers.

The sources further stated that SLL with the help of existing exemptions saved around $918,600 amounting to around Rs222 million in 12 consignments during last winter season. In this regard, SSGC LPG Pvt. Limited stated that in order to import LPG smoothly and cost effectively, SLL needs to remain at par with the private importers.

SLL, with the help of the exemptions of Rules 35 & 40of PP Rules, 2004, will be able to continue the uninterrupted supply to the local market to avoid product shortages and keep LPG prices well within OGRA announced prices.

Ministry of Energy (Petroleum Division) highlighted the fact that the dependence on LPG imports is/ will keep rising in future due to increasing demand coupled with reduction in local LPG production due to depleting local oil & gas fields. In this regard, Ministry supported the stance of SSGC LPG Pvt. Limited.

Petroleum Division, in its summary to the PPRA stating that in accordance with section 21 of the PPRA Ordinance, 2002, on the recommendation of the PPRA Board (66th meeting held on October 10,2022), the Federal Government on October 19, 2022, granted exemption to SSGC LPG (Pvt.) Limited (SLL) from applicability of Rules 8, 9, 13(1), 35 and 40 of the PP Rules, 2004 for import of LPG Spot Cargoes from November 2022 to March 2023 for approx. 20,000MT per month.

## IPPs' PLEA TO GOVT: 'EITHER RESOLVE LC ISSUES OR DECLARE FORCE MAJEURE'

ISLAMABAD: Independent Power Producers (IPPs) have urged the government to resolve their issues of Letters of Credit (LCs) for execution of foreign payments or declare force majeure under the Power Purchase Agreement (PPA), sources close to Chairman Nepra told *Business Recorder*. This was put forth by Independent Power Producers Advisory Council (IPPAC) in a letter to different government functionaries including Chairman Nepra, Tauseef H. Farooqi.

The IPPAC, in its letter referred to its previous letter titled "SBP approval for opening of LCs" of February 23, 2023 in which the critical situation of IPPs was highlighted and warned the Power Division of the issues that would arise from SBP's restrictions on payments for import of equipment in upcoming days.

Power Division was requested to take up immediate measures to resolve this matter with the SBP and avoid any unfortunate incident. Now the situation is worse than ever and is deteriorating with every passing day.

The maintenance of most power plants is already due but the IPPs are not able to perform it due to the unavailability of spare parts; whereas their OEM has already advised the IPPs not to operate their engines without performing the overhaul.

The IPPAC argued that IPPs may not be able to claim insurance on losses and breakdowns when the required maintenance is not being performed leaving them at significant risk.

The summer season is approaching and IPPs expect to get regular dispatch instructions from National Power Control Centre (NPCC) but complying with these instructions would be highly risky without performing due maintenance. Consequently, National Grid will have to suffer a power shortfall in the upcoming days, despite available installed capacity.

The Council further stated it may also cause clogging in the fuel supply chain eventually resulting in slowing down the flywheel of the country's economy.

The IPPAC further stated that barriers to foreign remittances also impact on other non-operational aspects of IPPs. These include barriers to payment to vendors, like foreign insurers. These barriers impact functioning of the IPPs and can lead to IPPs being unable to fulfill their obligations under their respective IAs and PPAs.

In the Implementation Agreement entered between GoP and IPPs, GoP has committed to ensuring timely availability of foreign exchange in the Implementation Agreement entered with the IPPs, therefore, IPPs once again request the Ministry to take immediate concrete steps to resolve the issue of non-opening of LCs and execution of foreign payments with SBP by amending the circular otherwise the government should announce force majeure under the Power Purchase Agreement if its remittances related to imports are not allowed to IPPs. M/s Atlas Power Limited (APL) warned the government that it would announce force majeure under the Power Purchase Agreement (PPA) if its remittances related to imports are not allowed. The company conveyed its cautionary message in a letter to Managing Director Private Power & Infrastructure Board, Shah Jahan Mirza. M/s APL wrote a letter to Managing Director PPIB on February 1, 2023 in which the former explained its precarious position that is progressing due to restrictions placed on imports by the government/SBP.

According to the letter, the company, in a meeting with MD PPIB explained its challenge with respect to keeping the plant functional and sought the latter's help in meeting obligations and responsibilities; however, things have only gone from bad to worse since then.

The power company raised the issue of non-payment by the banks to foreign suppliers against LCs duly approved by SBP. These pending payments to foreign suppliers pertain to consignments some of which were cleared as far back as October last year. Payment was to be made to supplier on receipt of shipping documents in the bank which were delivered promptly.

The power company claims that out of Euro 1.8 million, only Euro 8,921 was paid on March 21, 2023 after a lapse of almost five months, adding that if regular daily payments of this quantum are assumed, then this pending amount would take over 200 working days to be fully paid as unfortunately the bank is not committing to settle the full amount and instead is committing to only the two smaller amount invoices by the end of current financial year. M/s APL further informed PPIB that its OEM has stopped dispatch of all its orders already placed and ready for delivery till full settlement of the amount of $ 1.8 million.

R 8-4-2023

## $3 BILLION WAS GIVEN OUT AS INTEREST-FREE LOANS IN THE LAST GOVERNMENT'S TENURE, WHICH WAS ESSENTIALLY THE TEMPORARY ECONOMIC REFINANCE FACILITY: DID TERF BENEFIT ONLY THE RICH

On Thursday, the National Assembly's Standing Committee on Finance was told that $3 billion was given out as interest-free loans in the last government's tenure, which was essentially the Temporary Economic Refinance Facility. The committee has now asked the SBP for the list of the 600 people who got these loans.

TERF was launched during the worst days of the pandemic amidst economic lockdowns that stretched months, with no vaccine in sight. In the context of a largely uncertain future, **policymakers** across the world relied on both conventional, and unconventional tools to sustain, or even catalyze economic growth. TERF was born in the same environment of uncertainty, and was launched to catalyze growth in fixed investment, such that it can support jobs, and economic growth. To make it more palatable in the context of an uncertain economic environment, the scheme was highly subsidized, with the **State Bank of Pakistan** footing the bill of a potential interest rate subsidy.

The terms of the scheme were extraordinarily concessional. The **State Bank** provided liquidity (or the funds) for the scheme at a refinance rate of one per cent per annum, while commercial banks could charge a maximum of 5.0 per cent per annum on the loan. To keep things in context, at the prevailing interest rates of 21 per cent, whoever was lucky enough to get a slice of the pie at a maximum interest rate of 5.0 per cent, is getting themselves a sweet interest rate subsidy of a minimum of 16 per cent. The eligibility of this scheme was largely restricted to large industrial units, effectively restricting the benefit of the scheme to a few hundred industrialists, and capital owners. The intent may be to support jobs, but the actual benefit was to a few hundred capital owners who continue to be heavily subsidized through a concessional interest rate.

The scheme supported loans of around Rs435 billion, which is roughly $3 billion at the average exchange rate parity prevailing during the tenure of the scheme. It is also estimated that roughly 80 per cent of the loans were allocated towards textile & apparel manufacturing, a segment notorious for relying on one concession or another to support export growth. Assuming a debt and equity split of 70-30, it is safe to say that the scheme catalyzed investment of roughly $4.3 billion. Assuming an asset turnover of 1.5 times (largely in-line with textile average), it can be further extrapolated that the investment could have generated annual exports in excess of $6 billion on an annual basis once all projects were operational.

However, the world isn't linear, and nothing in Pakistan goes according to plan. A surge of investment led to an increase in demand for imported machinery, which triggered demand for US dollars, eventually leading to a current account deficit, as the central bank continued with an expansionary monetary policy for too long. As liquidity risks materialized, it became increasingly difficult to import equipment, resulting in cost overruns, and delays in commercial operations. A concessional loan regime effectively acted as a stimulus and triggered industrial investment and potential growth in exports. However, the absence of a coherent industrial policy led to a scenario where all investment was concentrated in the textile segment, while concessions were strictly restricted to a few hundred industrialists.

Even though the scheme had the best interests of economic growth at heart, its impact on the population of the country, or the most vulnerable segments, was minimal at best. It potentially triggered a current account crisis, which was further exacerbated by bad policy decisions. The social impact of the scheme was narrow, and its impact on either jobs generated or even exports generated over the last three years is minimal at best. The scheme essentially provided access to concessional, and close to free capital to those who already had sufficient access and ownership of capital, at the cost of higher inflation, which essentially acts as a tax for the population at large. Maybe the scheme would be able to generate incremental exports over the next few years, but its impact over the last three years has been detrimental, and distortionary at best, serving the interests of the rent-seeking elite, rather than the population at large.

TN 8-4-2023

## NSS: PROFIT RATES INCREASED

ISLAMABAD: The government has increased the profit rates of the National Savings Schemes (NSS). The rate of profit on Bahbood Savings Certificates (BSC) has been increased by 2.64 percent to 16.56 percent, and the profit rate on Special Savings Certificates (SSC) has been increased by 3.93 percent to 17.13 percent.

The Regular Income Certificates' (RIC) profit rate has increased by 24 basis points to 12.84 percent and the Savings Account (SA) has gone up by five percent to 18.50 percent. The rate of return on Defence Savings Certificates (DSC) has been increased by 2.61 percent to 14.87 percent.

The federal government has raised the profit rate on national savings schemes which will be taken into effect on April 10. After the revision, the federal government raised the profit rate on Shuhada Family Welfare by 16.56 percent, Saving Accounts by 18.50 percent, Pensioners Accounts by 16.56 percent, as well as for the Short-term Saving Certificates.

## FSC JUDGEMENT ON RIBA: PANEL DISCUSSES STEPS TO ADDRESS THE CHALLENGES

ISLAMABAD: The Steering Committee on Implementation of Federal Shariat Court (FSC) judgment on Riba discussed the demand and supply side challenges being faced by the task force in eliminating Riba from the financial system and deliberated upon various measures to be taken to address those challenges within the timeframe.

Federal Minister for Finance and Revenue Senator Mohammad Ishaq Dar virtually chaired the 2nd meeting of the Steering Committee on Implementation of FSC's judgment on Riba here on Friday.

Governor State Bank of Pakistan (SBP), Secretary Finance, members of the Steering Committee and senior officers from the Finance Division and the SBP attended the meeting.

Welcoming the Steering Committee members, Finance Minister Senator Ishaq Dar appreciated the significant progress that has taken place since the formation of the transformation plan developed by the SBP in terms of awareness, capacity building, legal and regulatory reforms, and adoption of international standards, for the purpose of conversion of the conventional banking system into a Shariah-compliant system.

The meeting also discussed the demand and supply side challenges being faced by the task force in eliminating Riba from the financial system and deliberated upon various measures to be taken to address those challenges within the timeframe.

The finance minister also expressed his confidence that under the chairmanship of governor State Bank of Pakistan, the Steering Committee will able to complete the task efficiently. He further instructed all the stakeholders to work with commitment, sincerity and understanding to overcome all the hurdles in the way of the implementation of interest-free system and making the system feasible and stronger that all citizens would aspire for it.

The finance minister emphasized the commitment of the government to promote Islamic finance and eliminate interest-based system in Pakistan in true spirit and assured complete support of the Finance Ministry to the committee for achieving its mandate and desired objectives.

R 8-4-2023

# IMF PLANS TO PROVIDE SEPARATE CATEGORIES FOR ISLAMIC FINANCE IN SNA/BPM

The International Monetary Fund plans to provide separate categories for Islamic finance in its next update to the System of National Accounts (SNA25) and Balance of Payments Manual (BPM7). This is a positive step in enhancing data quality, comparability and transparency, Fitch Ratings says.

Fitch does not expect an impact on headline national accounts or balance-of-payments data, as the methodological exercise's main purpose is to disaggregate Islamic finance activities.

The new SNA/BPM chapter outline on Islamic finance presents guidance on accounting for Islamic finance in national accounts and external sector statistics. This incorporates areas such as the sectoral classification of Islamic financial institutions, the treatment of insurance-like business, and the special types of financing arrangements that characterise Islamic finance – including sale-based contracts, lease-based contracts, equity-based contracts, or profit or loss sharing.

Islamic windows

Specificities for areas such as Islamic windows in conventional banks, off-balance-sheet restricted investment accounts, takaful and retakaful, Islamic funds, waqf funds, and hajj funds are also included.

It will be the first time that Islamic finance activities and associated cross-border flows are disaggregated in economic data. Benefits would include more precise measurement of economic activities and flows related to Islamic finance, and the enabling of cross-country comparisons. More broadly, it recognises the increased role of Islamic finance within the international financial system.

National accounts measure value added in the financial sector, which is a different approach to IFRS accounting. Hence, the disaggregation of Islamic finance data in the planned update will provide a way of assessing the importance of the Islamic finance industry in an economy, and its growth. On the balance-of-payments side, the disaggregation of flows of funds in Islamic investments through the financial account, and the associated investment income flows through the primary income account, could provide insights on trends in the foreign ownership of these assets.

Changes in terminologies

The chapter also ses potential changes in terminologies to ensure consistency with tenants of Islamic finance. For example, it is proposed that interest payments in the primary income account of the balance of payments will be relabelled as 'interest and similar returns'. The 'similar returns' part will be used to describe the broader interest-like returns on Islamic deposits, financing, and debt securities.

The SNA/BPM chapter on Islamic finance highlights some of the challenges in compiling the data caused by differences between Islamic finance structures and similar transactions in conventional finance – such as the concept of economic ownership of non-financial assets in Islamic finance (the commodity, real estate or lease assets that underpin various Islamic transaction contracts).

Agreement on the new methodologies is targeted to take two years, with the second round of consultation on chapter outlines concluded last month. Implementation by national statistical agencies is likely to take much longer. The global consultation is so far showing strong support for including a section on Islamic finance in the updated SNA and BPM, and for developing compilation guidelines for Islamic finance.—Trade Arabia

## FINANCIAL SERVICES AUTHORITY OJK BOLSTERS ISLAMIC FINANCIAL INSTITUTIONS TO BOOST LITERACY

The Financial Services Authority (OJK) is continuing to strengthen Islamic financial institutions to support the development and improvement of Islamic financial and economic literacy, deputy chief of OJK's board of commissioners, Mirza Adityaswara, has said. "OJK will continue to strengthen Islamic financial institutions by prioritizing products' superiority and differentiation," he underlined at the "Financially Independent with Islamic Financial Products" webinar, which was followed from here on Thursday. To boost the development of Islamic finance in Indonesia, the OJK has formulated policies under several road maps and masterplans related to the Islamic banking sector, the Islamic capital market, and Islamic people's financing banks, he noted.

One of OJK's efforts to boost the development of Islamic finance in Indonesia has been strengthening Islamic financial institutions, which has been supported by the strengthening of human resources, information technologies, and ecosystem synergies and interconnections in sharia finance.

"The Islamic financial services sector has become one of the priority targets for financial inclusion in 2023," he added.

The OJK is also actively synergizing with the relevant ministries and agencies to advance Indonesia's Islamic finance, including by becoming a member of the National Committee for Islamic Economy and Finance (KNEKS). He noted that the development of the Islamic finance sector also needs to prioritize the improvement of Islamic economic and financial literacy to maintain business continuity. He said that Islamic economic and financial literacy has been one of the big challenges in the Islamic finance sector.

Based on a national survey on financial literacy and inclusion, in 2022, Indonesia's Islamic financial literacy stood at 9.1 percent. Meanwhile, according to Bank Indonesia (BI), the Islamic economic literacy index stood at 23.3 percent in 2022. Those achievements are still far below the national financial literacy index, which has reached 49 percent.

The OJK invited people to improve their knowledge of Islamic finance as an alternative in the financial ecosystem, saying the Islamic finance sector offers a financial system that is halal, free from riba (interest), and has social values.—Antara

## ISLAM AND CRYPTO: HOW DIGITAL ASSETS CAN COMPLY WITH ISLAMIC FINANCIAL LAW

Islamic banking and finance is a system based on the principles of Shariah, or Islamic law, which, among many other things, prohibits the charging or paying of interest on loans and emphasizes ethical and equitable financial transactions.

One of the more notable traits of Islamic banking is its prohibition on charging or paying interest on loans, which is the basis of conventional banking.

Instead, Islamic finance is based on profit and loss-sharing agreements between the lender and the borrower. The lender shares the investment risk with the borrower, and both parties share the profits or losses.

Sharia law permits investment in intangible goods like stocks, bonds and digital assets like cryptocurrencies. Sharia-compliant assets do not have to be backed by physical goods as long as they have real utility. Additionally, Sharia only permits investments in businesses and projects that are not harmful to society (so no gambling, alcohol or tobacco).

Transparency is essential to Islamic finance, and all financial transactions must be disclosed to all parties involved. Islamic finance is also supervised by Shariah boards, which comprise Islamic scholars who ensure that all financial transactions comply with the principles of Shariah.

Islamic finance offers several products and services, including mudarabah, musharakah, murabaha, ijara, and sukuk.

What makes

Sharia-compliant cryptocurrency?

To develop a compliant cryptocurrency, a team of experts in Islamic finance and technology including Islamic scholars, financial experts and developers come together to determine the design and features of the cryptocurrency.

This team will ensure the coin is based on a profit-and-loss sharing system rather than interest-based lending. This means that investors share in the profits and losses of the business venture rather than receiving a fixed rate of return on their investment.

Once the cryptocurrency is ready for issuance, a Shariah supervisory board must review and certify the coin before Muslim investors can start using it. This certification process involves a detailed review of the cryptocurrency's features and design.

One example of a Sharia-compliant digital asset is Islamic Coin (ISLM), built on the Haqq Network blockchain. In June 2022, Islamic Coin gained a Fatwa (a ruling by Islamic authority) for its Sharia compliance.

Like many cryptocurrencies, it follows a deflationary model, preventing new coins from being created on a whim. In addition, whenever a new ISLM is minted on the network, 10% is sent to the Evergreen DAO, a decentralized autonomous organization that invests the proceeds into Islamic charities or online projects. The contribution of funds to charity follows zakat — one of the pillars of Islam.

Islamic cryptocurrencies need the right design

Sharia-compliant cryptocurrencies are a relatively new and evolving development in digital currencies.

While designed to comply with the principles of Islamic finance, they are not without controversy, and there is an ongoing debate among Islamic scholars about whether the cryptocurrencies are truly compatible with Shariah. Andrey Kuznetsov, a co-founder of the Haqq Network, told Cointelegraph:

"Developing a Bitcoin environment that supports Sharia law is also difficult. This involves forming alliances with financial institutions, states, and other parties to ensure that the coin is broadly recognized and can be used per Islamic ideals."

One concern from the perspective of Islamic financial scholars is the issue of crypto as a speculative investment — which is not permitted as it contains "gharar" — meaning "uncertainty, hazard or risk," or "the sale of what is not present." Mohammed AlKaff AlHashmi, a co-founder of Islamic Coin, told Cointelegraph, "Sharia prohibits and treats as void transactions that rely on chance or speculation rather than an effort to produce a return."

However, he added, "This principle does not prohibit commercial speculation in a business or trading transactions, as Sharia laws are smart and flexible enough to adopt tech changes in every era."

According to AlHashmi, a cryptocurrency can comply with Islamic law if "developed with the right intentions, for example, actual utility," rather than "purely for trading or speculation."

As such, whether a coin can be considered halal or permissible comes down to a matter of design, according to Kuznetsov. "The use and architecture of a cryptocurrency are the determining factors in whether or not it complies with Sharia law," he said. He pointed to cryptocurrency use cases, including payment or value storage, which could be more easily considered Sharia-compliant.

Stablecoins, for example, can be seen as a form of asset-based financing, which is a principle of Islamic finance. Stablecoins like USD Coin are backed by real-world asset reserves. Some cryptocurrencies have even been created specifically for Islamic finance, such as OneGram, which is backed by gold reserves.

Kuznetsov concluded, “While there are challenges to creating and adopting Sharia-compliant coins, we can overcome these challenges with the proper mix of instruction, legislation and technical ingenuity.”

Expanding access to crypto

When it comes to the benefits of Sharia-compliant cryptocurrencies, there is potential for attracting additional users from countries where Islam is the predominant religion since it would reduce any concerns religious investors may have about cryptocurrency .— Coin Telegraph

PO 7-4-2023

## TURKEY PROHIBITED RE-EXPORT OF SANCTIONED GOODS TO RUSSIA

WASHINGTON: Turkey has agreed to stop the transit of sanctioned western goods to Russia after pressure from the G7, a senior US official said, cautioning that Washington will monitor Ankara’s trade data with Moscow in anticipation of a drop. James O’Brien, head of the US State Department’s Office of Sanctions Coordination, told Reuters that Turkish officials have been “very clear” with various governments and agencies that they have put in place a ban on the re-export of sanctioned goods to Russia. But Washington was yet to see the impact of the change, he said. “It will take us some time to see it, but we will see trade data from March and April and we will expect to see this trade dropping dramatically,” O’Brien said. “It’s the numbers. That’s all I care about.”

The United States and its allies imposed extensive sanctions on Russia following its invasion of Ukraine, but supply channels have remained open from Black Sea neighbor Turkey and other trading hubs, including Hong Kong.

The Turkish government handed companies a list of banned foreign goods and instructed them not to transship those to Russia from March 1, the Istanbul Ferrous and Nonferrous Metals Exporters Association said last month.

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