



# ENHANCING FINANCIAL INCLUSION THROUGH ISLAMIC FINANCE

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THE WORLD BANK GLOBAL CENTER FOR ISLAMIC FINANCE DEVELOPMENT

TURKEY

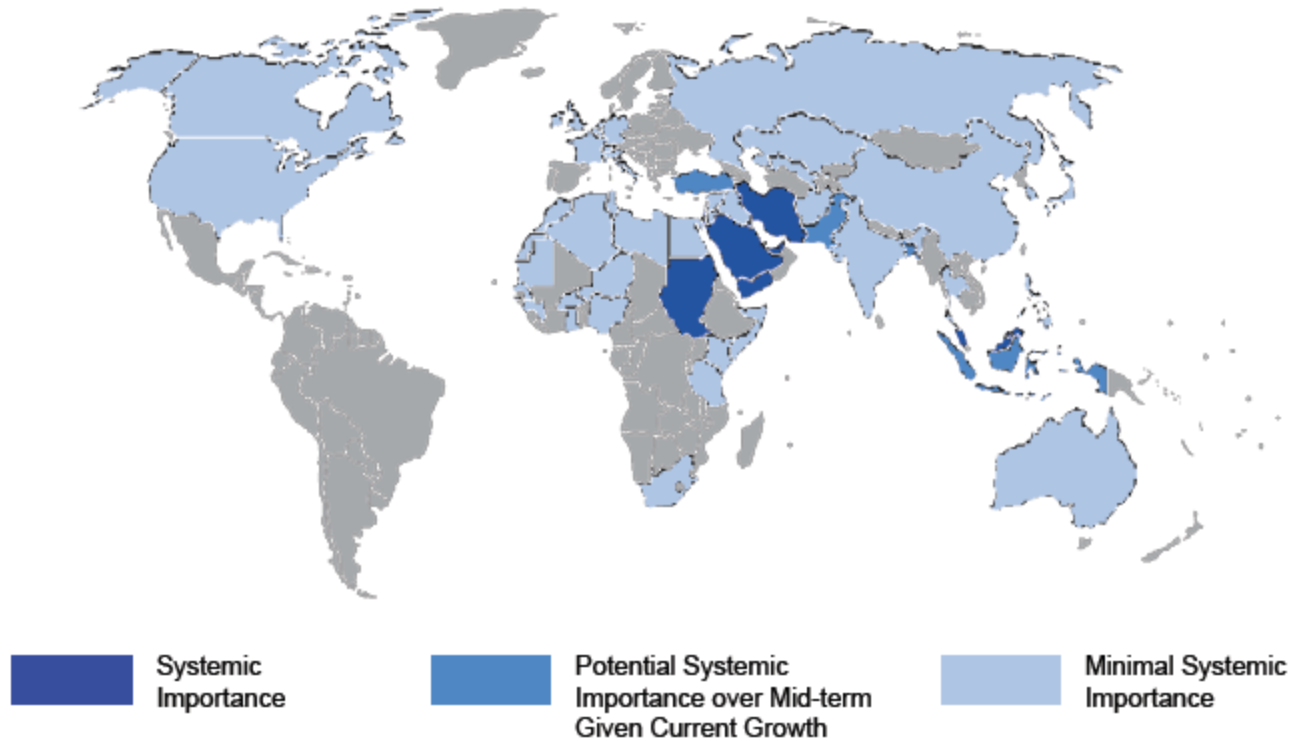
FINANCIAL INCLUSION CONFERENCE

(JUNE 3RD, 2014, ISTANBUL)

Financial Systems Global Practice

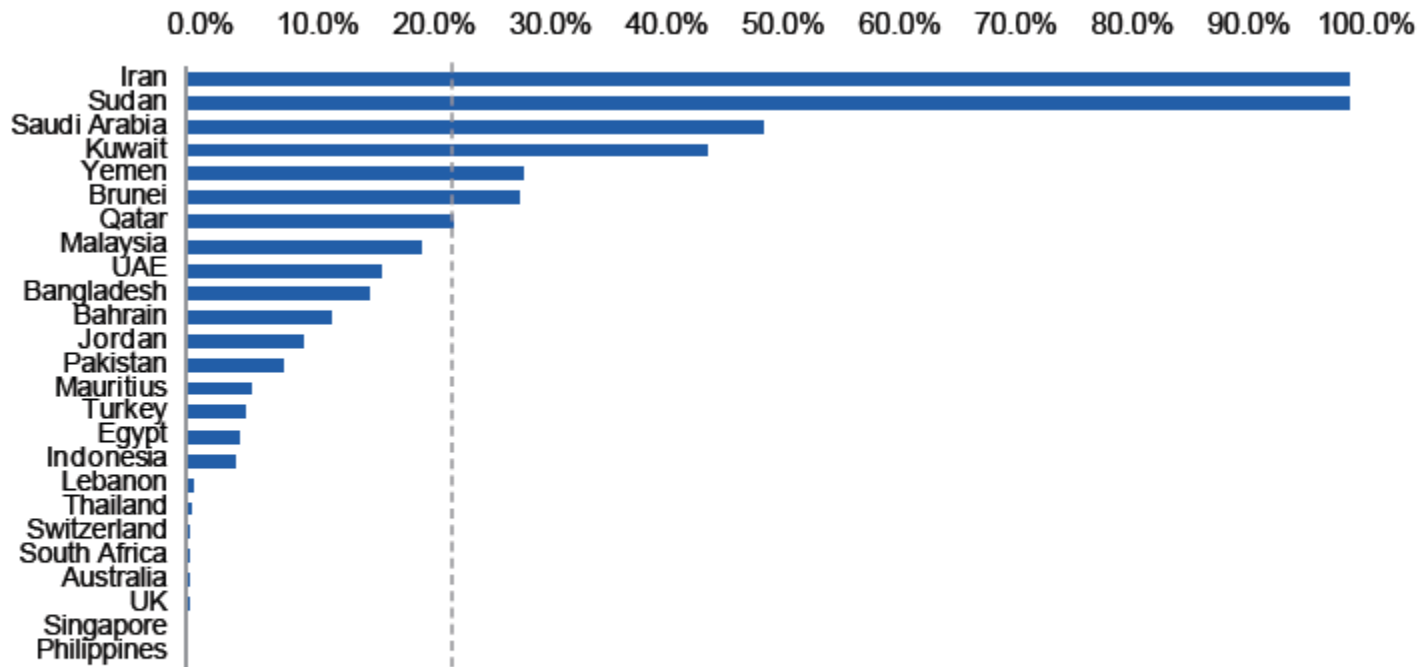
Financial and Private Sector Development (FPD) Vice Presidency

# Growing importance and Globalization of Islamic Finance



Source: KFHR

# Market Size – Islamic Banking



Source: Central banks and regulatory authorities, individual institutions, Bloomberg, Zawya, corporate communications, The Banker, KFHR

# Composition and Domicile of Islamic Assets

**Table 1.1.1: Breakdown of Islamic Financial Assets by Region (USD billion, 1H2013)**

Region	Banking Assets	<i>Sukūk</i> Outstanding	Islamic Funds Assets	<i>Takāful</i> Contributions
Asia	192.3	166.0	24.2	3.5
GCC	490.3	74.9	30.6	7.6
MENA (excl. GCC)	518.3	1.2	0.4	7.1
Sub-Saharan Africa	20.6	2.2	1.6	0.2
Others	62.2	1.0	12.1	0.01
<b>Total</b>	<b>1283.7</b>	<b>245.3</b>	<b>68.9</b>	<b>18.3</b>

*Source: Regulatory authorities, Bloomberg, Zawya, central banks, individual institutions, corporate communications, IFIS, The Banker, KFHR*

# Islamic Perspective on Financial Inclusion

- Economic development and growth, along with social justice, are the foundational elements of an Islamic economic system.
- From Islam's Property Rights view, **property is not a means of exclusion but inclusion** in which the rights of those less able in the income and wealth of the moreable are redeemed.

## Two Pillars of Financial Inclusion

### Risk-Sharing, or Asset-Linked Financing

- Small-Medium Enterprises (SME)
- Micro-Finance (MF)
- Micro-Insurance (Micro-Takaful)

### Redistribution Institutions

- *Zakah*
- *Sadaqat*
- *Qard-al-Hassan*
- *Waqf*
- *Khairat*
- *khumus*

# Structured Approach to Enhancing Financial Inclusion

## Extreme Poverty

(Below Poverty line)

### Redistributive Pillar

- *Zakah,*
- *Sadaqat*
- *Waqf,*
- *Khairat,*
- *khumus*

### Risk-Sharing Pillar

- Collective risk-sharing through collective support during crisis.

## Poverty

(Above poverty line)

### Redistributive Pillar

- *Qard-al-Hassan,*
- *Zakah,*
- *Waqf*

### Risk-Sharing Pillar

- Micro-Finance (*Murabaha,* *Musharikah*)
- Micro-Takaful

## Low-Income

### Redistributive Pillar

- Hybrid Solutions (Applications with market-based solutions)

### Risk-Sharing Pillar

- Micro-Small-Medium Enterprises (MSME)

# Can Zakat help enhance financial Inclusion?

Moheildin, Iqbal, Rostom, and Fu (2011) find supporting evidence that 20 out of 39 OIC countries can actually alleviate the poorest living with income under \$1.25 per day out of the poverty line simply with proper Zakat collection and management.

(1) Country	(2) <i>Zakah</i> (% of <i>GDP</i> )	(3) resource shortfall under \$1.25 per annum as % of <i>GDP</i>	(4) Does <i>Zakah</i> cover (3)?	(1) Country	(2) <i>Zakah</i> (%) of <i>GDP</i> )	(3) resource shortfall under \$1.25 per annum as % of <i>GDP</i>	(4) Does <i>Zakah</i> cover (3)?
Albania	1.44	0.01	y	Bangladesh	1.62	5.58	n
Algeria	1.77	0.14	y	Benin	0.44	5.78	n
Azerbaijan	1.82	0.01	y	Burkina Faso	1.06	9.83	n
Cameroon	0.32	0.26	y	Comoros	1.77	8.89	n
Djibouti	1.75	1.49	y	Cote d'Ivoire	0.66	2.05	n
Egypt	1.9	0.04	y	Gambia	1.72	5.42	n
Gabon	0.17	0.03	y	Guinea	1.52	6.71	n
Indonesia	0.89	0.39	y	Guinea-Bissau	0.76	8.21	n
Iran	1.79	0.02	y	Guyana	0.13	0.88	n
Iraq	1.78	0.09	y	Mali	1.67	8.2	n
Jordan	1.77	0.01	y	Mozambique	0.41	13.62	n
Kazakhstan	1.02	0	y	Niger	1.77	8.31	n
Kyrgyz Republic	1.55	0.02	y	Nigeria	0.91	8.26	n
Malaysia	1.09	0	y	Senegal	1.74	3.05	n
Maldives	1.77	0.02	y	Sierra Leone	1.28	16.1	n
Morocco	1.81	0.06	y	Suriname	0.29	0.61	n
Pakistan	1.55	0.91	y	Tajikistan	1.51	1.7	n
Syrian Arab	1.39	0.02	y	Togo	0.22	6.42	n
Turkey	1.86	0.04	y	Uganda	0.22	3.1	n
Yemen	1.78	0.87	y				

# Policy Consideration

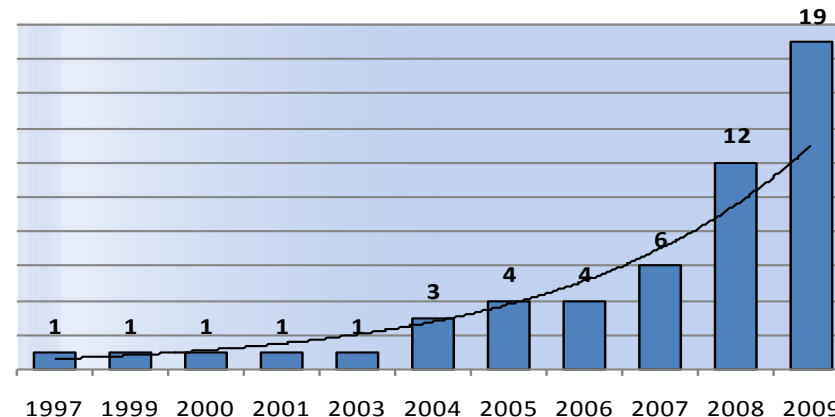
## I – Institutionalization of Islamic Redistributive Instruments

**Zakah, Waqf, and Qard-al-Hassan** could play a catalyst in enhancing access to finance. Proper institutional framework and governance is essential. Integrate these institutions with the rest of the economic and financial system.

## II – Need for Developing Supportive Regulatory and Supervisory Framework.

Public policy and strengthened institutional framework in developing countries can go a long way in enhancing financial inclusion. Development of economic institutions and improving financial infrastructure, should be the priority item in the policy agenda of Muslim countries.

**Countries with a Financial Inclusion Strategy Document**





# Policy Considerations

## **III - Ensure a Level Playing Field for Islamic Microfinance, SME, and Micro -Takaful.**

- ❑ **The lack of *Shariah*-compliant micro-finance services is constraining financial inclusion to a proportion of the population.**
- ❑ **When designing the financial inclusion reform plan, OIC governments should take three points into their consideration specifically** i) allowing banks to expand access through agents and use of technology (e.g. mobile phones), ii) providing a *Shariah*-compliant finance company model for microfinance and microinsurance, and iii) removing interest rate caps for microcredit and strengthen customer protection laws.
- ❑ **Governments should play a critical role in promoting an enabling environment in which private banks can fulfill their SME finance targets prudently and responsibly.**

## **IV -- Strengthen Financial Infrastructure for Financial Inclusion**

- ❑ Core components of the financial infrastructure such as credit information, investors' rights, insolvency regimes, etc. are essential irrespective of type of financing, i.e. conventional or Islamic

## **V - Financial Engineering**

- ❑ Consider developing hybrid solutions, through integrating different modes, i.e. Qard-al-Hassan and Waqf or Qard-al-Hassan and Zakat or other combinations.
- ❑ Apply financial engineering to develop market-based solutions such as securitization with embedded redistributive instruments.

THANK YOU!

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