INTERIM REPORT

OIC-STATCOM TECHNICAL COMMITTEE OF EXPERTS (TCE) ON

"ISLAMIC BANKING AND FINANCE STATISTICS"

COUNTRY MEMBERS: Afghanistan, Azerbaijan, Bangladesh, Comoros, Egypt, Gambia, Iran, Jordan, Kazakhstan, Malaysia, Maldives, Mali, Palestine, Qatar, Sudan, Tajikistan, Togo and Turkey

PERMANENT MEMBERS: SESRIC and IDB

BACKGROUND

Owing to the increasing importance of the role of statistics in all stages of human life, the Istanbul Declaration of "The Meeting of NSOs of OIC Member States" held in Istanbul on 22-23 March 2010 called for an Experts' Group Meeting (EGM) on Islamic Statistics. The EGM, which was co-organized by Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRIC) and the Department of Statistics (DOS), Jordan on 21-22 December 2010 in Amman, Jordan to discuss the needs and requirements for new indicators specific to OIC Member Countries, could be considered as a first step towards defining the scope of Islamic Statistics and highlighting the need for the launch of a comprehensive database on the subject that will be built in a scientific structure through extensive discussions by the OIC member countries. Participants[1] of that meeting identified a framework for Islamic Statistics and decided to present it during the First Session of OIC Statistical Commission (OIC-StatCom) for comments and endorsement by OIC Member Countries.

The framework for Islamic Statistics was presented by DOS of Jordan during the First Session of OIC-StatCom held in Istanbul, Turkey, on 11-12 April 2011. As a way forward, OIC-StatCom set up a Working Group on Statistical Indicators Specific to OIC Member Countries in accordance with the Decision No.4 of the aforementioned session. The Working Group includes Azerbaijan, Bangladesh, Comoros, Egypt, Iran, Kazakhstan, Turkey, IDB and SESRIC. Jordan undertook the responsibility to direct the activities of the Working Group as the Lead Country.

The Second Session of the Organisation of Islamic Cooperation Statistical Commission (OIC-StatCom), co-organised by the SESRIC and the Islamic Development Bank (IDB) on 13-15 May 2012 in Izmir, Turkey, profoundly considered the report and the presentation of the Working Group on "Statistical Indicators Specific to OIC Member Countries". Depending on the comprehensive analysis of the report, the Commission took the extensive scope of the issue into consideration and decided to follow a theme-based priority approach to identify a roadmap for depicting the relevant indicators specific to OIC Member States. Three themes, namely "Islamic Banking and Finance Statistics", "Halal Food and Products Industry Statistics" and "Waqf Statistics" are considered to be high priority. Accordingly, it was decided to establish Technical Committee of Experts (TCE) on the aforementioned three themes in this order.

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1 Experts from NSOs of Bahrain, Egypt, Jordan, Malaysia, Palestine, Saudi Arabia, Syria, Tunisia, UAE, Yemen and Islamic Development Bank (IDB) participated in the meeting.

INTRODUCTION

Islamic finance, also referred as participation finance or equity-based finance or profit and loss sharing finance, is a financial system where the financial institutions offer financial services based on the principle of shared risk and reward. A growing body of literature argues that, implemented fully, Islamic finance is more stable, equitable, inclusive and growth-friendly, and therefore, can better serve sustainable development. Hence, Islamic finance is emerging as an alternative source of finance in addressing the major development challenges faced by many Organization of Islamic Cooperation (OIC) member countries. The global market for Islamic financial services, as measured by the total volume of Shariah compliant assets, is estimated to have reached $1.1 trillion at end-2011 representing a significant jump of 33% from their 2010 level of US$826 billion. Although the share of Islamic finance in global financial assets is currently estimated only at around 1%, the importance of Islamic finance will continue to increase within the global financial system.

OIC countries, with a collective share of 98% in these assets, continue to be the main actors in the industry. OIC countries in the Middle East and North Africa (MENA) region, with a total share of 79% in 2011, are home to the majority of the global Islamic finance assets. The six Gulf Cooperation Council (GCC) countries in the region account for 40% of the $1.1 trillion global Islamic finance industry. In Asia, where the majority of the Muslim population live, the industry is largely underrepresented with a relatively small share of 15%, which, in turn, implies a great potential in the region. Large non-Muslim regions such as Australia, Europe and America hold a collective share of 5% in the global Islamic finance market. On the other hand, the countries in Sub-Saharan Africa (SSA), which face large funding gaps particularly in the area of infrastructure, are missing to tap into the Islamic finance market which is emerging as a new source of funding for large infrastructure development projects.

The global financial and economic crisis of 2008-09 has brought to the forefront a wide range of issues concerning the stability and soundness of the conventional financial system. This has prompted an extensive global re-examination by the international community on the adequacy of the existing international economic and financial architecture and the search for a more enduring solution. The growing emphasis on ethics and morality in economic and financial transactions highlights the structural problems undermining the confidence in the current system and, in turn, the pressing need for more durable alternatives. In the search for a new architecture, there was a general consensus on the need to restore the financial transactions to their basic function – to provide services that add value to the real economy. This, in fact, represents the very essence of Islamic finance, which can be traced back to the Shariah principles.

OBJECTIVE

Muslims make up roughly one-fourth of the world’s population and OIC countries are spread over four continents. However, the penetration level of Islamic finance in OIC countries is limited to 4-5%

of total banking assets except for a few countries[2]. Apparently, the low penetration rates vis-à-vis high Muslim concentrations in many OIC countries indicate that there is plenty of room to sustain the recent rapid growth of the Islamic finance industry by reaching more Muslim customers who either remain unbanked due to their religious sensitivities or have no choice but to use conventional financial services to meet their financing needs.

Building a well-functioning Islamic finance infrastructure is imperative for providing the industry with a level playing field. Moreover, regulators and standard-setters in OIC countries should ensure that the supervisory and legal infrastructure for Islamic finance remain relevant to the rapidly changing Islamic financial landscape and global developments. Infrastructure development efforts should also interface with the global financial reform agenda.

However, to produce adequate, sound and effective structural policies regarding infrastructure, the decision makers need data. Accordingly, first and foremost, the Islamic finance industry should be based on relevant statistics which are:

a) reliable, accurate and timely (i.e. the decision makers should be provided with data from the original sources based on scientific methodology).
b) comparable and consistent (i.e. the basis for conducting international comparisons within generally accepted standards should be established).
c) comprehensive and policy oriented. (i.e. the statistics should help to diagnose the problems facing the financial system and to work on the required remedies.)
d) interactive (i.e. the concerned statistical agencies should be encouraged to produce and enhance the related statistics).
e) referenced. (i.e. the source of data should be scientifically outlined and managed.)

In order to fulfil these criteria, Islamic banking and finance statistics should be incorporated into national statistical systems (NSS) of OIC member countries. Hence, there exists an urgent need to initiate a general framework for Islamic banking and finance statistics that any member country can utilize if and when they need to produce this kind of statistics within official statistics. The responsibility for its production shall be borne together by the National Statistical Offices (NSOs), Central Banks and other relevant agents of NSS of OIC member countries. Deployment of Islamic banking and finance statistics shall be on voluntary basis for countries to suit their priorities, resources, and needs.

In this regard, the main objective of the TCE on Islamic Banking and Finance Statistics is *improving the statistical base of Islamic Banking and Finance infrastructure.*

Additionally, the following three objectives should also been considered in order to make the OIC-StatCom to achieve its **Strategic Vision for 2020**:

- promoting harmonisation of concepts, classifications and methodologies used in performing statistical activities in OIC member countries to promote consistency in statistical systems;

2 The financial systems of Iran and Sudan are acclaimed to be fully Islamic. In Bangladesh, where the penetration of Islamic finance is highest, the industry accounts for 65% of total banking assets; in Bahrain, for 46%; and, in Saudi Arabia, for 35%.

- identifying priority areas specific to the OIC member countries and develop conceptual and methodological background for the suggested indicators of the selected themes; and

- developing a quality assurance framework for the NSOs of OIC member countries describing the tools and procedures put in place to ensure that the statistics produced by the NSOs are of high quality with a focus on statistical processes and outputs.

TASKS

In light of the objectives mentioned above, the tasks of the TCE shall include the following:

1. to examine the contemporary trends in the Islamic banking and finance industry and assess the current situation of Islamic banking and finance statistics in both OIC member countries and the world;
2. to develop background documents for Islamic banking and finance statistics facilitating greater convergence and harmonization of concepts and definitions among OIC member countries
3. to prepare methodologies that any member country can utilize if and when they need to produce this kind of statistics
4. to define categories under Islamic banking and finance statistics and to identify the priority set of indicators consistent with the international standards (reliability, comparability, consistency, etc);
5. to promote the development of a database including Islamic banking and finance statistics of OIC member countries
6. to recommend actions to assist OIC member countries in collecting and disseminating specific indicators;
7. to join potential cooperation and collaborations mechanisms which include training and education; undertaking the development of joint research, and publications; and conducting joint conferences, capacity building programs such as seminars and workshops among NSOs, Central Banks of OIC member countries and other stakeholders regarding Islamic banking and finance statistics;
8. to promote national and international efforts for increasing human capital and broaden the skills base of the Islamic banking and finance industry in terms of statistics;
9. to point out all stakeholders to put more emphasis on quality than quantity of growth of industry through demonstrating the inherent potential of Islamic banking and finance for supporting the real sector activity and therefore sustainable development, etc.;
10. to raise awareness on Islamic banking and finance statistics at both OIC and international level for developing the Islamic finance to become a mainstream financing alternative to the conventional interest-based system.

CONCLUSION and THE WAY FORWARD

The last decade in the history of Islamic banking and finance is remarkable for its many significant milestones and for the rapid growth that has been sustained. An important development during the last decade has been the growing significance of the international dimension of Islamic finance and its increased role in the global financial system with OIC countries being the main suppliers of Islamic financial services.

The Islamic banking and finance industry serves a good purpose by mobilizing financial resources of many devout Muslims that would otherwise left hoarded outside the financial sector, thereby increasing the financial inclusion. As the world struggles to recover from increasingly frequent financial and economic crises, OIC countries have the opportunity to embrace Islamic economics as an indigenous approach to guide their economic policy responses.

For this to meaningfully happen, both the Islamic theoretical foundations and their connections to policy making and implementation must be given greater attention and be integrated. However, in order to produce sound and effective policies regarding all issues of Islamic finance industry, to provide real-world solutions to the emerging challenges, to unlock the potential of the market, the decision makers should rely on data fulfilling specific criteria. In this regard, it is highly critical to accurately measure the contribution of the industry to the economies of OIC member countries.

Taking all these into consideration, during the period 2013-2014, the TCE on Islamic Banking and Finance plans to:

- draw an executive work plan, prepare the necessary documentation (Statistical Manual for Islamic Banking and Finance Indicators, Methodology for Collecting Islamic Banking and Finance Indicators, etc.);
- organize a meeting either physical or virtual to discuss issues in detail;
- initiate the process of producing Islamic banking and finance statistics through the involvement of volunteer member countries. (In this matter, the potentials present in the administrative records should be fully utilized. Pilot surveys should also be conducted in volunteer OIC member countries in order to collect data on the themes agreed upon.)
- prepare a general framework for developing the database of Islamic banking and finance statistics ;
- inform all member countries about the developments in the area of Islamic banking and finance statistics.

ANNEX I: Proposed Indicators for Islamic Banking and Finance Statistics

Code	Indicator	Definition
1	**Number of Islamic Banks by Type**	Number of Islamic banks (or sharia-compliant participation banks) operating within and outside the country. Participation banks can be defined as the institutions operating primarily for the purposes of collecting fund through special current accounts and participation accounts and granting loan pursuant to specific directives. The types can be classified in accordance with possession of participation banks such as state owned, privately owned or foreign participation banks or fully-fledged Islamic banks, fully segregated Islamic banking windows, conversions to fully-fledged Islamic banks. The types should be enriched by considering different country practices.
2	**Share of Islamic Banks in Banking System**	Share of participation banks in overall banking sector of the country (i.e. by volume and by number)
3	**Number of Branches of Islamic Banks**	Number of branches (including headquarters and ATMs) providing Islamic banking services.
4	**Number of Employees in Islamic Banks**	Number of employees working employed in the Islamic banking system
5	**Number of Clients using Islamic Banking System**	The number of clients who have an account in Islamic banks (participation banks)
6	**Characteristics of Users of Islamic Banking System**	Basic characteristics of the users of Islamic banking (Participation Banking) system such as age, income group, education level, nationality etc.)
7	**Financial Ratios of Islamic Banks**	Main financial ratios of Islamic banks such as profitability, capital adequacy.
8	**Shariah Compliant Assets**	The total assets of Islamic banks in the country by maturity (i.e. short-term vs. long-term)
9	**Shariah Compliant Liabilities**	The total assets of Islamic banks in the country by maturity (i.e. short-term vs. long-term)
10	**Deposits in Islamic Banks by Type**	Total volume of Islamic banking outstanding deposits by type (i.e. current, savings and investment accounts). Savings and Investment accounts can further be classified by sector concentration (real estate, etc.) and purpose (Mudaraba, Musharaka, Murabaha, Sukuk, Ijaraj, bai Salam, etc.)
11	**Loans of Islamic Banks**	Total volume of loans lended by Islamic banks. It can be classified by : total and concentration by sector (real estate, etc.) and purpose (Mudaraba, Musharaka, Murabaha, Sukuk,

		Ijaraj, bai Salam, etc.). It also involves Volume of Credits Extended by Islamic banks.
12	**Volume of Credits Extended by the Islamic banks**	Amount of credits given by Islamic Banks (Participation Banks) by sectors
13	**Projects Funded by the Islamic Banks**	The number and value of projects funded by the Islamic banks: Total, by sector and by type of participation contract (Mudaraba, Musharaka, etc.)
14	**Volume of Sukuk (Islamic bonds) by types**	Sukuk are financial certificates equivalent to bonds. As fixed income, interest bearing conventional bonds are not permissible in Islam, Sukuk securities are structured to comply with the Islamic law and its investment principles, which prohibits the charging, or paying of interest. Sukuk can also be structured alongside different techniques. While a conventional bond is a promise to repay a loan, Sukuk constitutes partial ownership in a debt (Sukuk Murabaha), asset (Sukuk Al Ijara), project (Sukuk Al Istisna), business (Sukuk Al Musharaka), or investment (Sukuk Al Istithmar).Financial assets that comply with the Islamic law can be classified in accordance with their tradability and non-tradability in the secondary markets. Further classification may be realized according to issue size and margin/tenor.
15	**Volume of Takaful (Islamic insurance) market**	Takaful is generally considered to be an equivalent of the conventional insurance whereby a group of persons agree to share a certain risk by collecting a specified sum from each. However, conventional insurance contain Al-Gharar (uncertainty), Al-Maisir (gambling) and Riba(usury) which are strictly forbidden in Islam while Takaful is based on the idea that what is uncertain and hence risky with respect to an individual may cease to be uncertain with respect to a very large number of similar individuals.
16	**Number of Takaful companies**	Number of Takaful companies active in the country
17	**Islamic Microcredit Financial Institutions (IMFI)**	Number of Sharia-compliant MFIs in the country
18	**Volume of Microcredit provided**	The value of microcredit given in by IMFIs in the country