



Financial Inclusion and Role of Islamic Finance

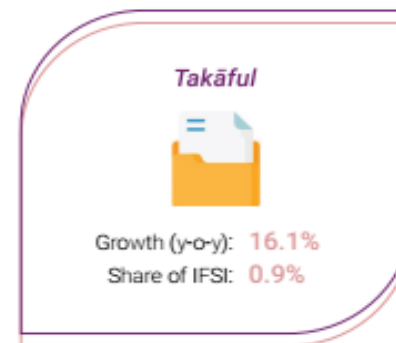
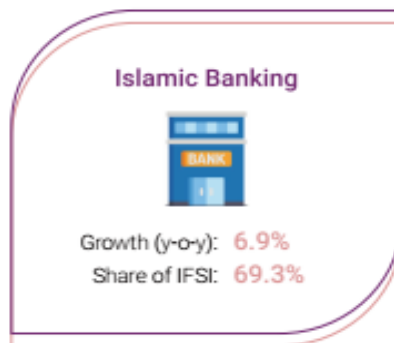
Dr. Salman Ahmed Shaikh



Head, Postgraduate Programs, SZABIST University, Pakistan

Presentation Outline

- ▶ Islamic Banking Footprint
- ▶ Financial Inclusion in Muslim World
- ▶ Financial Inclusion through Islamic Finance
- ▶ Investments in Islamic Microfinance
- ▶ Use of Fintech in Islamic Finance
- ▶ Public Infrastructure Financing

Presentation Outline



GLOBAL ISLAMIC BANKING GROWTH		
CAGR (2018-2022)		
 ASSETS 2.5%	 FINANCIAL 10.5%	 DEPOSITS 8.6%
Year-on-Year (4Q'22)		
6.9%	13.0%	6.0%

Presentation Outline

Region	Islamic Banking Assets	Shukūk Outstanding	Islamic Funds Assets	Takāful Contributions	Total	Share (%)
Gulf Cooperation Council (GCC)	1342.9	356.6	24.1	16.7	1740.4	53.6%
South-East Asia (SEA)	307.2	411.4	32.8	6.0	757.4	23.3%
Middle East and South Asia (MESA)	478.3	57.8	62.9	5.9	604.9	18.6%
Africa	49.6	2.9	1.9	0.8	55.2	1.7%
Others	71.2	1.0	14.9	0.6	87.7	2.7%
Total	2249.2	829.7	136.6	30.0	3245.5	100.0%
Share %	69.3%	25.6%	4.2%	0.9%	100%	

Source: IFSB Secretariat workings

Challenges in Making Islamic Finance Mainstream



- ▶ Lack of awareness about Islamic banking
- ▶ Perceived economic similarity with conventional
- ▶ Limited product structures
- ▶ Commercial displacement risk on price/return
- ▶ Short term liquidity management
- ▶ No discount window / lender of last resort option
- ▶ Lack of regulatory approval for commodity trade on own account
- ▶ Lack of tax neutrality arrangements

Financial Inclusion in Muslim World

Country	Account (%)	Female (%)	Poorest 40% (%)	Country	Account (%)	Female (%)	Poorest 40% (%)
Afghanistan	9.65	4.7	5.86	Maldives	79.55	74.18	71.41
Albania	44.17	45.69	27.27	Mali	43.5	41.21	37.51
Algeria	44.1	31.19	31.91	Mauritania	23.46	16.09	22.83
Azerbaijan	46.26	38.84	35.58	Morocco	44.37	32.7	33.93
Bahrain	82.61	75.41	75.82	Mozambique	49.49	38.69	34.48
Bangladesh	52.81	43.46	48.65	Niger	11.69	10.24	12.17
Benin	48.61	39.79	41.19	Nigeria	45.32	34.96	32.69
Bosnia	79.34	70.37	72.29	Oman	73.6	63.53	65.95
Burkina Faso	36.11	30.68	25.5	Pakistan	20.98	13.48	17.61
Comoros	34.25	29.33	26.8	Qatar	65.88	61.57	53.82
Cote d'Ivoire	50.76	37.44	44.01	Saudi Arabia	74.32	63.49	66.61
Djibouti	12.27	8.76	..	Senegal	55.96	50.3	48.18
Egypt	27.44	24.2	20	Sierra Leone	28.85	24.76	20.67
Guinea	30.44	24.01	23.76	Sudan	15.27	9.98	7.53
Indonesia	51.76	52.3	46.93	Syria	23.25	19.59	23.79
Iran	89.98	85.08	87.4	Tajikistan	39.49	39.41	38.23
Iraq	18.57	14.89	14.43	Togo	49.61	44.3	39.04
Jordan	47.12	34.06	37.01	Tunisia	36.85	28.75	32.02
Kazakhstan	81.11	83.63	82.08	Türkiye	74.09	62.55	61.37
Kuwait	79.84	73.46	70.8	Turkmenistan	40.58	35.52	39.42
Kyrgyz Republic	45.09	43.76	44.09	UAE	85.74	86.68	83.4
Lebanon	20.7	16.59	12.85	Uganda	65.91	65.06	51.39
Libya	65.67	59.62	58.28	Uzbekistan	44.13	38.82	41.5
Malaysia	88.37	87.51	82.98	Yemen	11.9	5.44	6.5

Financial Inclusion in Muslim World

- ▶ In only 10 out of 48 OIC countries, the adults with bank accounts are less than 25% of population (World Bank).
- ▶ GCC countries, Central Asian countries, Turkiye, Malaysia, Bosnia, Maldives and even Iran have more than 80% adults having bank accounts.
- ▶ There is significant gender gap in some countries. In Yemen, Afghanistan, Pakistan, Sudan and Mauritania, adult females with bank accounts are 70% of adult males with bank accounts.
- ▶ In GCC, Central Asian and East Asian countries along with Iran, Uganda and Albania, this ratio is more than 90% which shows minimal gender gap.

Financial Inclusion in Muslim World

- ▶ A significant number of people still avoid banking due to religious reasons.
- ▶ As per Global Findex, 26.8% of adults in Tunisia and Morocco, 25.6% in Iraq, 24.1% in Saudi Arabia and 22.8% in Djibouti, point to religious reason for not having an account at a formal financial institution
- ▶ Need financial inclusion and which in Muslim majority regions hinges upon growth and penetration in Islamic banking.

Investments in Islamic Microfinance

- ▶ Major hurdles in penetration of Islamic microfinance include **scale inefficiency** and **high outreach costs**.
- ▶ Since the size of financing provided to the clients in microfinance is smaller, the **high fixed costs of credit analysis, documentation, monitoring** and **Shari'ah compliance** is hard to cover from the competitive mark-up rates in the market, especially through a brick and mortar model.
- ▶ Thus, Islamic microfinance assets contribute less than 1% in total Islamic finance assets. There is need to bring inclusivity in the Islamic finance ecosystem given the high levels of poverty in the Muslim world generally.

Investments in Islamic Microfinance

- ▶ There is a need to devise an institutional structure to achieve **scale**, **efficiency** and **impact**.
- ▶ The use of Fintech in functional operations of Islamic microfinance can help in achieving efficiency.
- ▶ The use of Fintech can ensure **transparency, effective monitoring** and **reducing transaction costs**.
- ▶ Integrating Islamic microfinance with third-sector welfare institutions and programs and with Islamic social and redistributive institutions, such as Zakat, Awqaf, and Takaful will enhance the financial stability of Islamic microfinance institutions.

Investments in Islamic Microfinance

Investments in Islamic Microfinance

- ▶ Islamic institutions like Sadaqah, Waqf, and Zakat can provide direct support to the poorest of the poor clients either in cash or in kind to satisfy their essential survival needs before engaging them in microcredit services.
- ▶ It is pertinent to use these institutions and product structures in a comprehensive package ensuring integration, **scale**, **sustainability**, **outreach**, and **efficiency** by effectively **embedding technology** in operations.
- ▶ If Islamic banks enter into micro financing, they can benefit from **high recovery rates** and spreads in this sector.

Use of Fintech in Islamic Finance

Use of Fintech in Islamic Finance

- ▶ In Islamic finance contracts, use of technology can help in completing different steps involved in a typical Islamic finance transaction more quickly and efficiently.
- ▶ It will also ensure **efficient monitoring** and fulfilling documentary requirements.
- ▶ To capitalize on the advantages of Fintech, **standardization in Shari'ah rules** is vital.
- ▶ **Standardized standard operating procedures can enhance the scope of automation** for incorporating Fintech in the contract mechanics and execution.

Use of Fintech in Islamic Finance

Use of Fintech in Islamic Finance

- ▶ Islamic banks face the challenge of efficiency given that they need to participate more intensely in the Islamic finance contracts.
- ▶ If the additional procedures and documentation for ensuring Shari'ah compliance can be done more efficiently with Fintech, then it will bring efficiency in Islamic banking products and operations.
- ▶ Furthermore, Fintech can help in **effective marketing and cross-selling of financial products** in Islamic banking by providing interactive exchange of information and communication with the customers.

Future Opportunities for Growth

- ▶ Islamic banking windows in Europe where Muslim population is ~ 44 million and require savings products and Halal mortgage. UK has 5 Islamic & 20 FIs providing Islamic finance.
- ▶ Speeding penetration via M&As & corporate restructuring. This allows jump in growth without depending on organic linear growth.
- ▶ Providing development finance in Muslim countries using:
 - ▶ Ijarah / Diminishing Musharakah based housing schemes
 - ▶ Waqf based schools, hospitals, incubation centers etc.
 - ▶ Salam financing in agriculture sector
 - ▶ Public insurance using Takaful



For questions, suggestions and feedback

salman@islamic-economics-project.com

www.islamic-economics-project.com