

# Financial Inclusion The Role of Islamic Finance

The 16<sup>th</sup> Meeting of the Central Banks and Monetary Authorities of OIC MCs  
23-25 September 2018



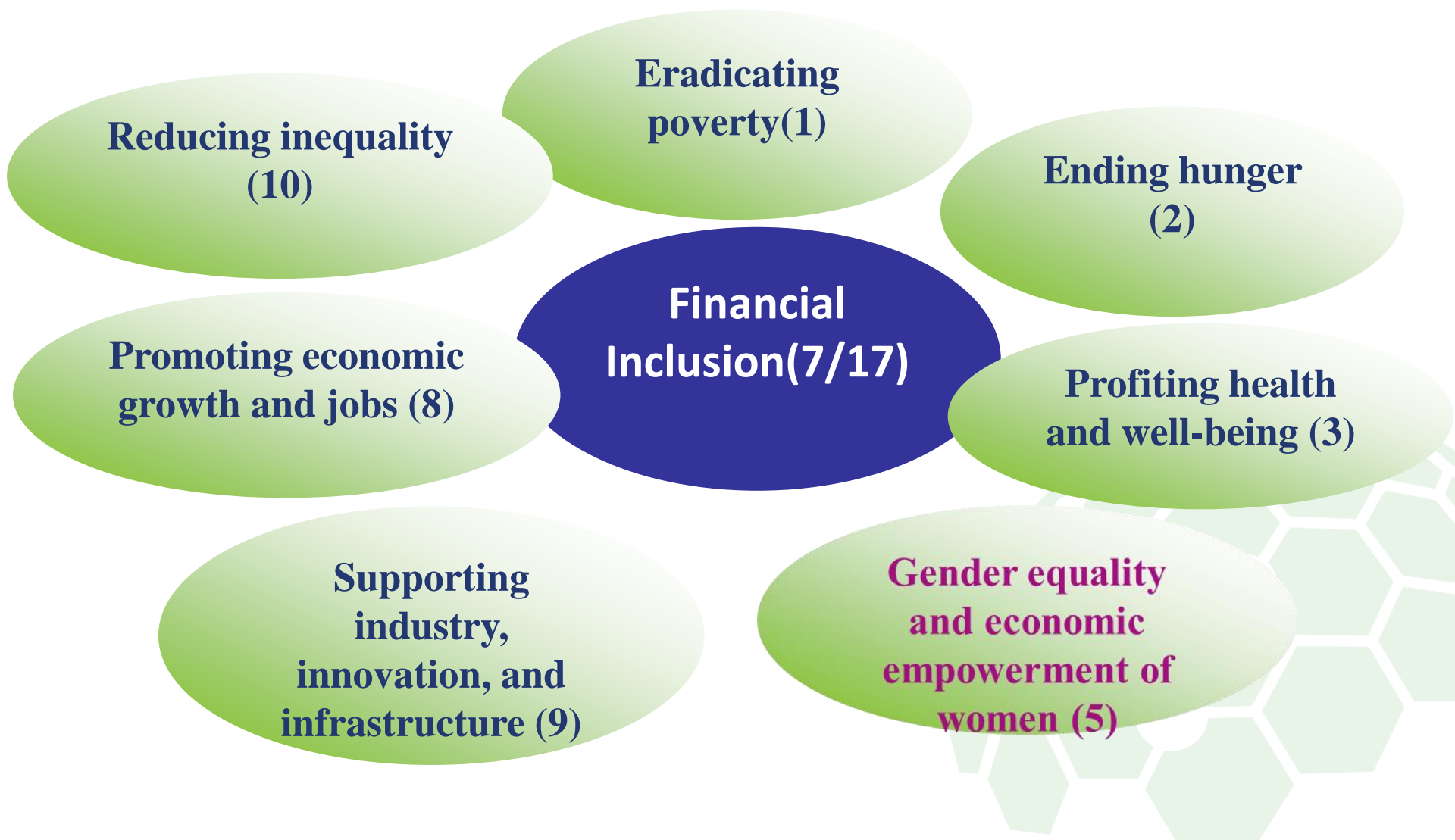
Development must be for all, it must bring people from all segments of the society into the development process regardless of their **gender, ethnicity, religion or socio-economic status.**

Financial inclusion is important as it is an enabler and accelerator of inclusive development

2 billion are excluded from the formal financial system.

More than 200 million SMEs in emerging markets alone lack access to finance.





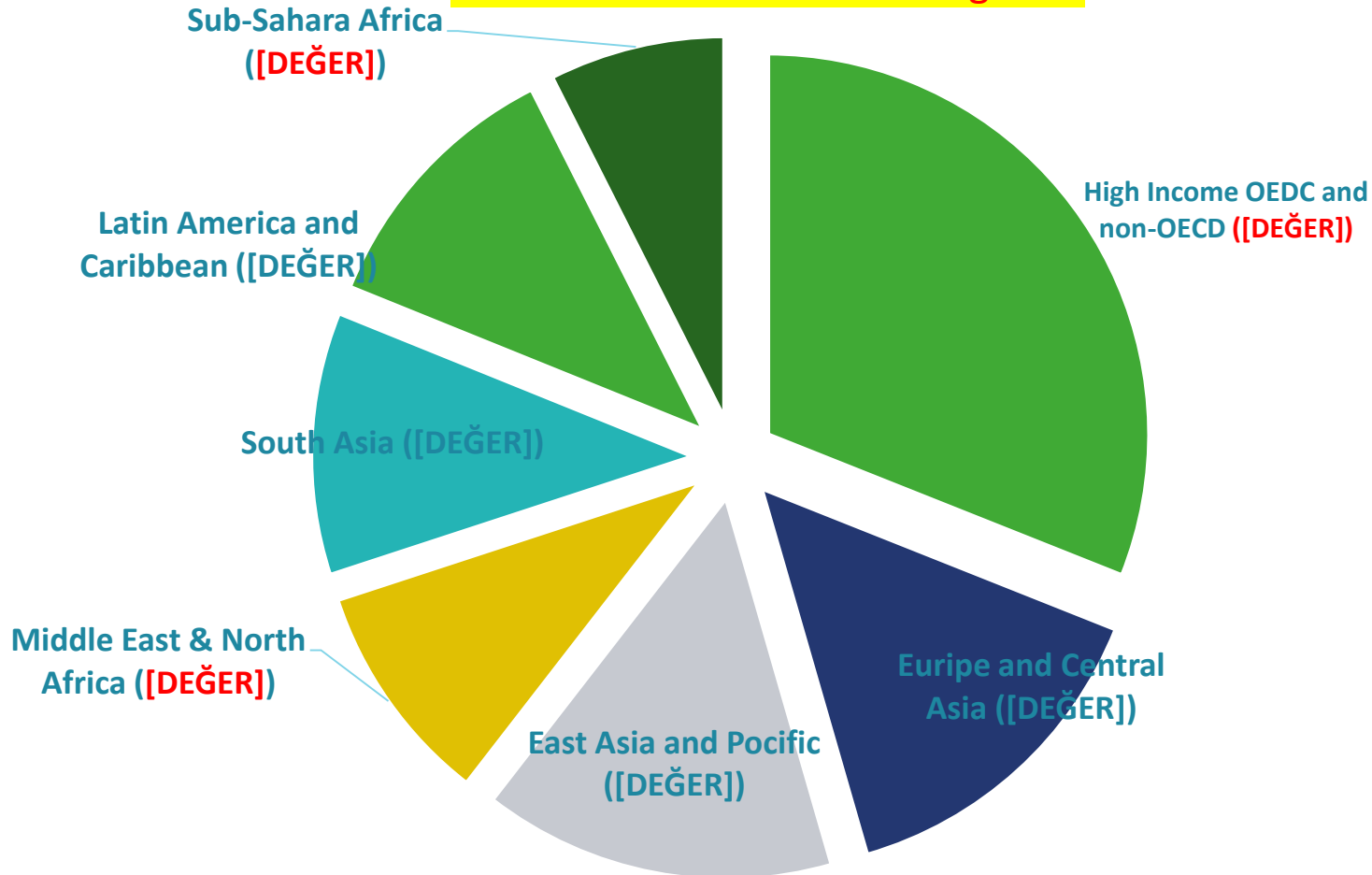
# Financing SDGs and Financial Inclusion

The GDC strongly emphasized on using domestic revenues to finance SDGs. (US\$5-7 trillion),

Mobilizing financing resources with more focus on crowding in private sector (SMEs) requires more financial inclusion and deepening domestic financial markets.

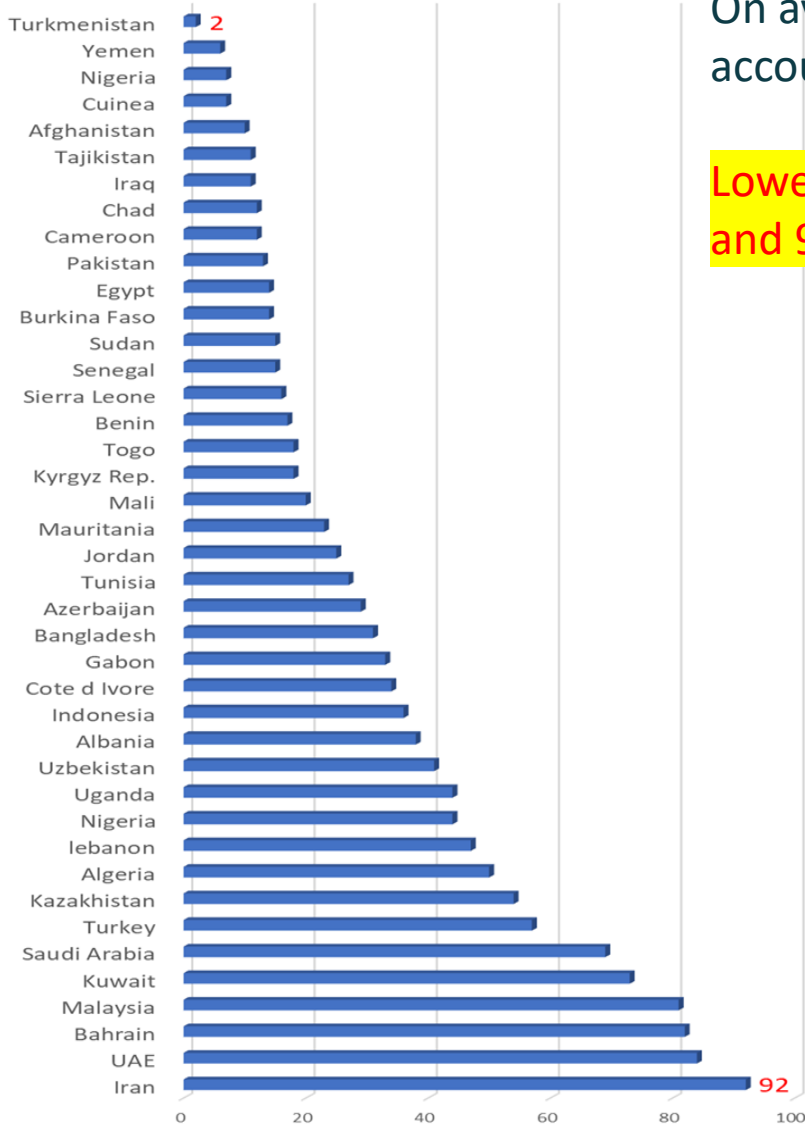
Most of the OICMCs are in the low-income group (34 out of 56). These countries generally have a weak financial system for revenue mobilization, relatively low savings, and limited access to private finance.

## Financial Inclusion Across Regions



About **72%** of the population living in Muslim countries do not use financial services

Account at a Formal Financial Institution (% age 15+)

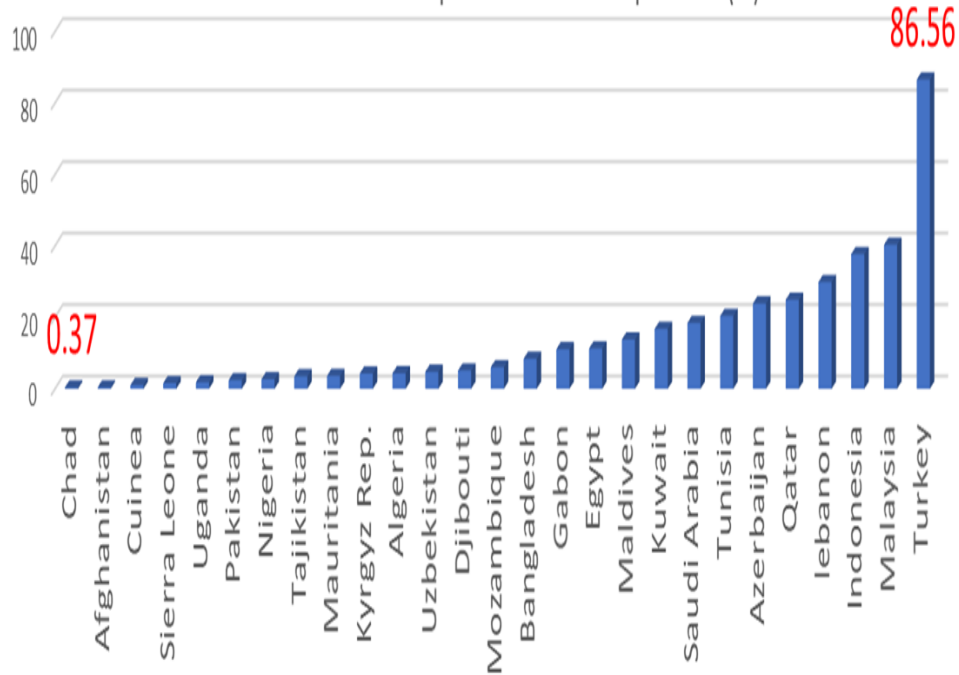


Source: Global financial Development Report 2014

On average, **28 %** adults in the OICMCs have a bank account at a formal financial institution.

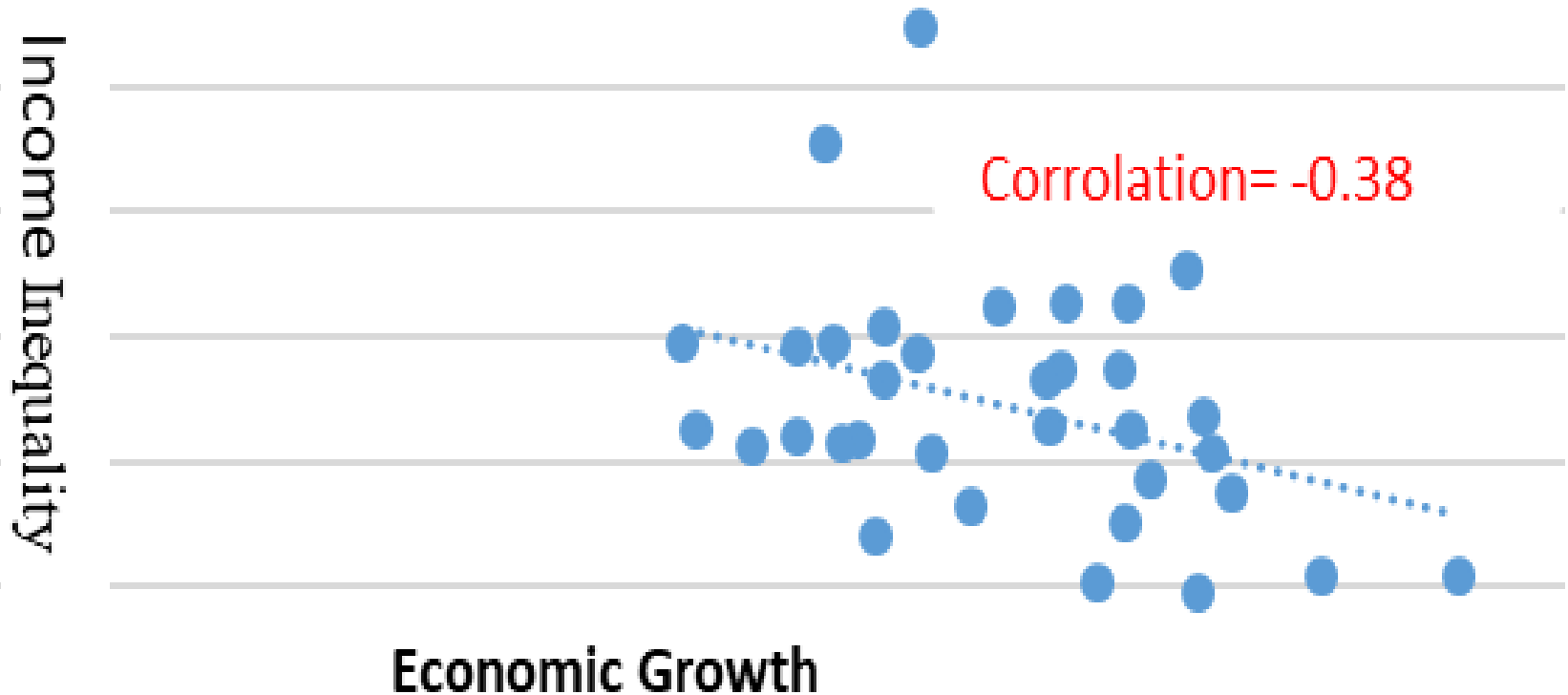
**Lower than the 30.26 % in middle income countries and 93.05 % in high-income countries.**

Bank Borrowers as Proportion of Adult Population (%)



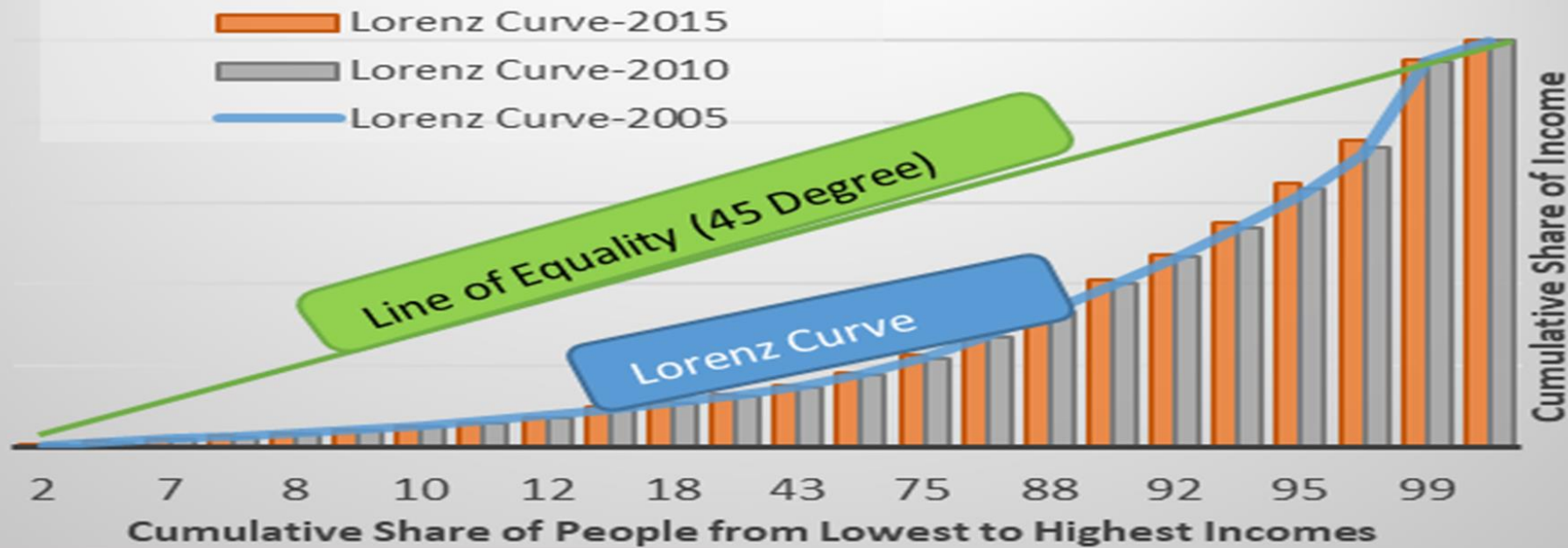
Source: World Development Indicators, World Bank, 2014

Chart 1: Income Inequality and Economic Growth in Selected Developing Countries (1997-2015)



Source: <http://data.worldbank.org/indicator/SI.POV.NAHC>

Chart 7: Income Inequality among IDB Member Countries



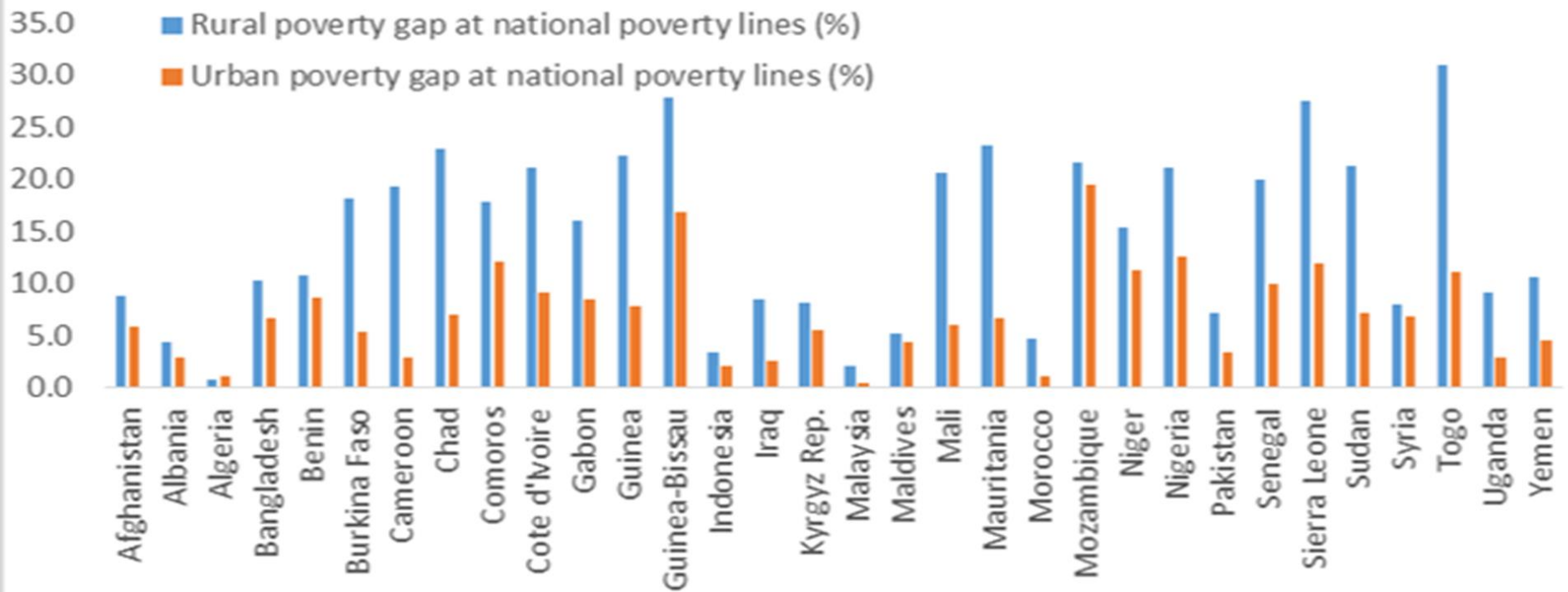
Source: Author's Calculation

The bottom 50% of population just enjoys around 18.2% total GDP PC.

In contrast, the top 10% of population has 50% of total GDP per capita (?)



Chart 9: Average Poverty Gap at National Poverty Lines, 2000-2015



Source: Poverty and Equity Database. World Bank

Poverty is mainly a rural phenomenon in many MCs.

(Why are they excluded?)

# The main obstacles for more financial inclusion

13%: religion is an obstacle. (financial services do not comply with Islamic law)

More than 20%:

Accounts are too expensive.

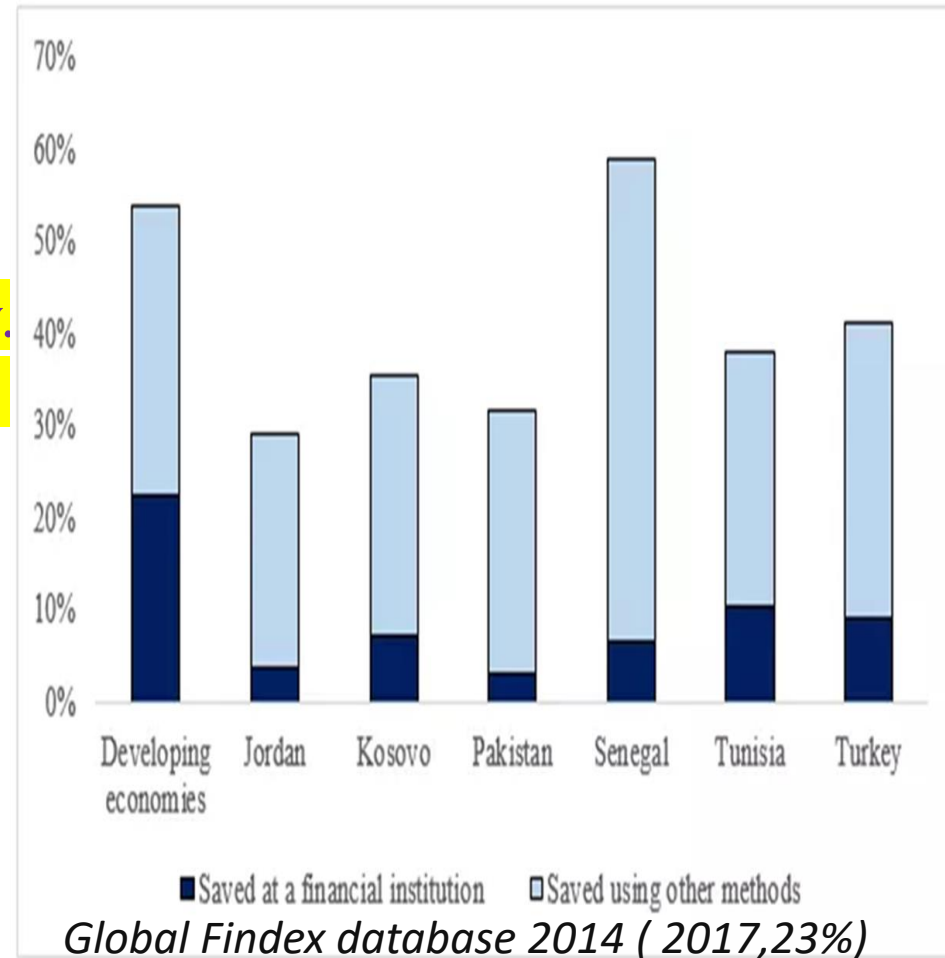
Financial institution is too far away.

They lacked the necessary docume.

More than 20 %

lack of trust in the banking sector

Now the ?



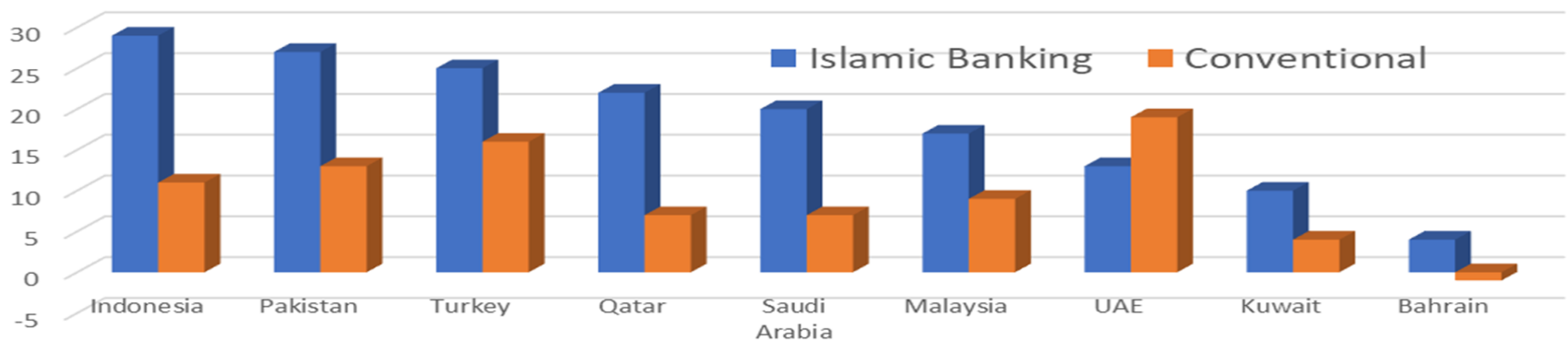
IF (double digit growth) has the potential for contributions in three dimensions.

(i) It can narrow the financial inclusion gap

(ii) Because of asset-backed financing and risk-sharing, it could provide support for SMEs.

(iii) Due to risk-sharing features and prohibition of speculation, IF, in principle, pose less systemic risk than conventional finance. (IMF)

Annual Growth Rate (2010--2014) (%)



Source: Islamic Banking Competitiveness Report 2015-2016

Still less than 1% of global financial assets and remains **concentrated in a few jurisdictions** mostly in GCC countries, Iran, and Malaysia)

**International Institutions (IMF)** are providing policy advice and capacity building in a broad range of areas.

Application of standards **(AAOIFI and the IFSB)** is not uniform across countries and are just applied only in a limited number of countries. (IMF)

**8/29** countries apply AAOIFI accounting standards

**6/29** countries apply IFSB standards regarding risk management and capital adequacy.

## At the country level:

- i. Ensure linkages between financial expansion and economic dev.
- ii. Improve the architecture and legal infrastructure for Islamic finance (with the special focus on standards set by AAOIFI and IFSB)
- iii. Strengthen human capital through creation/ supporting programs (lower income group of society, product innovation for SMEs, microfinance, unbanked segment etc.)
- iv. Establish Shariah Board in CB (if not exist)
- v. Policy dialog with Financial sector to develop a supportive legal and regulatory framework and “proactive” policy targets on usage, access and quality.

## At the OIC Level:

- I. Creating a common platform to enhance the dialogue among MCs with the aim of promoting **practical knowledge** on Islamic Finance with the view of strengthening financial facilities to the most vulnerable.
- II. Supporting a holistic approach to **harmonize** the rules and principles between **various IF institutions** at national, regional and global levels;
- III. Introducing **innovative products** which are **widely (regional and international) accepted Shariah compliant products.**



Empowering People for Sustainable Future  
Deriving Innovation, Partnership, Islamic  
Finance and Value Chains

Thank You

