



# HOW TO IMPROVE FINANCIAL INCLUSION CAPACITY OF THE **COMCEC** MEMBER STATES

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DEVELOPMENT

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Financial Systems Global Practice

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# World Bank Global Islamic Finance Center

## Objectives

- The Islamic finance agenda in the Bank revolves around three (3) main objectives
  - ▣ Strengthening the legal, regulatory and institutional foundations of Islamic Finance
  - ▣ Using knowledge management to raise awareness, develop consensus and foster the advancement of Islamic finance globally
  - ▣ Supporting market development and promoting the use of Islamic financial products to expand access to financial services

# Importance of Global Partnerships

Global Standard  
Setters and MDB's

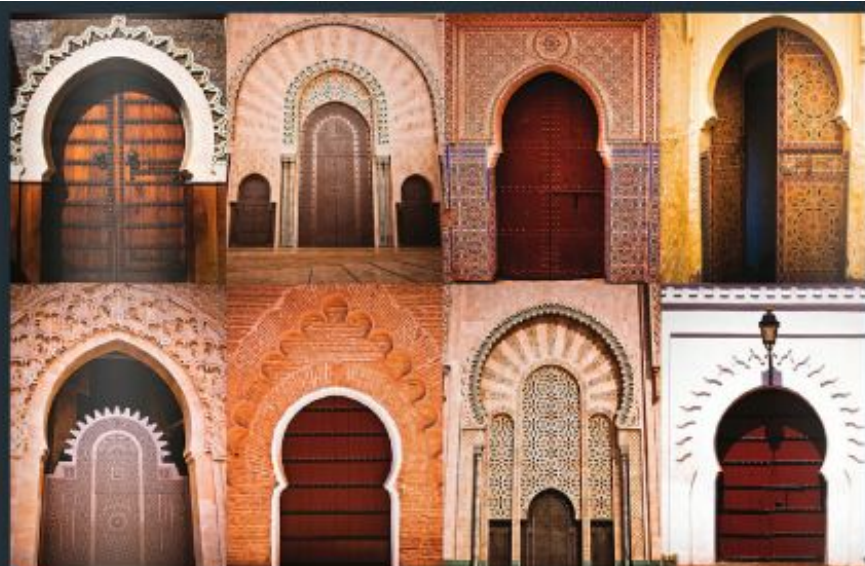
- ▣ Islamic Financial Services Board (IFSB)
- ▣ Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)
- ▣ Islamic Development Bank

Leading Research  
Centers

- ▣ International Center for Education in Islamic Finance (INCEIF)
- ▣ Oxford Center for Islamic Studies (OCIS)

Market Players

- ▣ Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRIC)
- ▣ Albaraka Banking Group
- ▣ Kuwait Finance House



DIRECTIONS IN DEVELOPMENT  
Finance

# Economic Development and Islamic Finance

Zamir Iqbal and Abbas Mirakhor, Editors

# 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 more able 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 GDP)	(3) resource shortfall under \$1.25 per annum as % of GDP	(4) Does <i>Zakah</i> cover (3)?	(1) Country	(2) <i>Zakah</i> (% of GDP)	(3) resource shortfall under \$1.25 per annum as % of GDP	(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				

# Case Study: Akhuwat, Pakistan

Key Features	Cost Structure	
• <b>Interest-Free Loans (<i>Qard-al-Hasan</i>)</b>	Interest	Zero
• <b>Use of Mosque/Church</b>	Processing Fee	Zero
• <b>Family Loans</b>	Profit	Zero
• <b>Local Philanthropy</b>	Application Fee	Zero
• <b>Volunteerism</b>		
• <b>Borrowers become Donors</b>		
• <b>Simple Operations leading to Cost Efficiency</b>		

Progress	Total
Total Loans	300,000
Amount Disbursed	Rs. 4 billion Approx. \$ 40 million
Active Loans	140,000
Percentage Recovery	99.85%
Number of Cities	110
Number of Branches	157



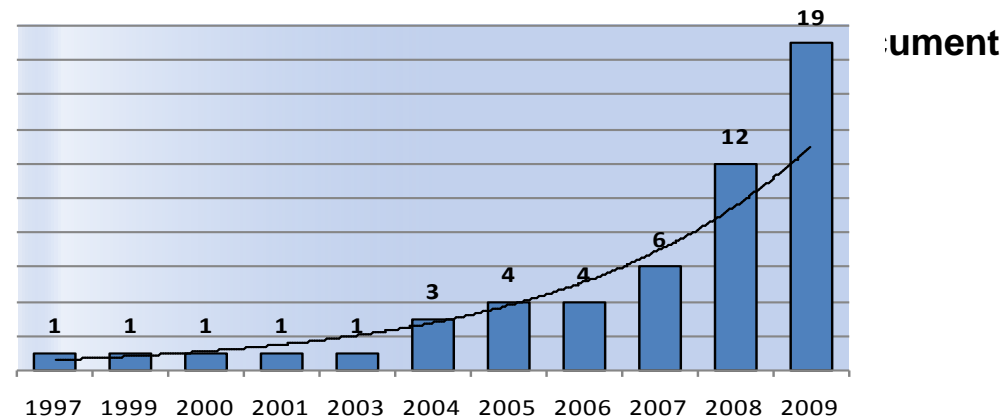
# Policy Consideration

## 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.



# 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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