



Developing Islamic Finance Strategies in the OIC Member Countries

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Table 2.8: Comparison and Contrast of Existing financial plans

Strategic Component	Component as Identified in the strategic plan	Comparison
Regulatory	<ul style="list-style-type: none"> “The most important building block for sustainable growth and development of Islamic banking is the enabling legal framework. (Strategic Plan, Pakistan 2014)” The current legal framework is not adequate to provide the support necessary for future industry growth. Enhance regulation and oversight framework for Islamic banking institutions. This will better prepare 	<ul style="list-style-type: none"> Regulatory oversight is a key component for any financial structure to grow. The importance of this component is emphasized in the plans of Pakistan and Turkey. This component should be added to the two existing strategies as well as expanded to cover all countries.
Shariah	<ul style="list-style-type: none"> Pakistan lacks the proper Shariah compliance measures for proper growth. A new framework will be developed. 	<ul style="list-style-type: none"> Sharia governance is a necessary for the proper growth of Islamic finance. This component is absent from most national strategies, however, scholars agree this is a key component that should not be forgotten.
Infrastructure	<ul style="list-style-type: none"> The country lacks proper infrastructure for rapid interest-free finance development. A more proper infrastructure for development will be created. Strengthen market infrastructure. 	<ul style="list-style-type: none"> A stable infrastructure is need to develop finance. While many plans have this as a component, this report will give more precise and detailed imitative that will help develop a production infrastructure.

Products and Services	<ul style="list-style-type: none"> • New products and innovation will increase demand and interest in Pakistan’s Islamic banking industry. • Increase the diversity of interest-free financial products and services. 	<ul style="list-style-type: none"> • New products ensure innovation. Similar to infrastructure this report will lay out what new product and services should be developed.
Initiatives	<ul style="list-style-type: none"> • A new awareness campaign will be launched to increase the public’s perception of Islamic finance in Pakistan. • A publicity campaign to promote interest-free-free finance has been initiated in Turkey. National and international events will be organized for development and promotion of the system. 	<ul style="list-style-type: none"> • Initiatives generally are presented for of a marketing blitz. While most countries agree on this strategy, there is disagreement on who should be responsible for this. • Later in this report we will address who should be responsible for initiatives.
Talent Development	<ul style="list-style-type: none"> • Build Islamic Finance human capital, Qatar. • Turkey Islamic finance human resource development in the country is identified as a weakness and needs to be addressed. • Build Islamic Finance human capital in Indonesia. 	<ul style="list-style-type: none"> • Talent development includes building human resources. • This component is important for the growth of industry but there is no consensus on who should be responsible for this. • We will address this further in the report.

Recommendations

No.	IFS Component	Task #	Recommendation	Responsible Stakeholders
1	Regulatory	1.1	Review existing regulations and guidelines to ensure compatibility with Shariah guidelines	<ul style="list-style-type: none"> • Governments
		1.2	Develop a regulatory agency to monitor secondary markets and exchanges	<ul style="list-style-type: none"> • Governments • Central Banks
		1.3	Develop a legal infrastructure to foster growth of the Islamic financial system	<ul style="list-style-type: none"> • Governments • Central Banks
		1.4	Develop a specific disclosure guidelines for Islamic banks that increases transparency	<ul style="list-style-type: none"> • Governments • Central Banks • Islamic Financial Institutions

Recommendations

No.	IFS Component	Task #	Recommendation	Responsible Stakeholders
2	Shariah	2.1	Create an independent National Shariah Board to provide oversight and governance to internal and independent Shariah boards.	<ul style="list-style-type: none"> • Governments • Islamic Financial Institutions
		2.2	Develop seminar and training programs for Shariah scholars about Islamic banking operations and product development	<ul style="list-style-type: none"> • Islamic Financial Institutions • Research Institutions • Islamic Non-financial Institutions • Islamic Finance Industry Organizations
		2.3	Increase collaboration between Shariah scholars and Islamic bank management	<ul style="list-style-type: none"> • Islamic Financial Institutions • Islamic Finance Industry Organizations

Recommendations

No.	IFS Component	Task #	Recommendation	Responsible Stakeholders
3	Infrastructure	3.1	Develop secondary markets for Islamic financial products	<ul style="list-style-type: none"> Islamic Financial Institutions
		3.2	Develop exchanges for Islamic financial products	<ul style="list-style-type: none"> Central Banks Islamic Finance Industry Organizations
		3.3	Adopt a national Islamic banking accounting standard	<ul style="list-style-type: none"> Central Banks Islamic Finance Industry Organizations
		3.4	Reevaluate liquidity management frameworks for national banks	<ul style="list-style-type: none"> Central Banks
		3.5	Develop a specific liquidity framework for Islamic banks	<ul style="list-style-type: none"> Central Banks

Recommendations

No.	IFS Component	Task #	Recommendation	Responsible Stakeholders
4	Products and Services	4.1	Increase range of Islamic products and services to satisfy the needs and demands of the Islamic finance and Islamic social finance client	<ul style="list-style-type: none">• Islamic Financial Institutions• Finance Industry Organizations
		4.2	Encourage innovation and adoption of new technology	<ul style="list-style-type: none">• Islamic Financial Institutions• Islamic Finance Industry Organizations
		4.3	Reevaluate tax implementations for Islamic financial services and products	<ul style="list-style-type: none">• Governments

Recommendations

No.	IFS Component	Task #	Recommendation	Responsible Stakeholders
5	Initiatives	5.1	Develop national campaigns to increase brand awareness of Islamic finance and social finance	<ul style="list-style-type: none">Islamic Finance Industry Organizations
		5.2	Create a new campaign to focus on the positives of Islamic finance for non-Muslim investors	<ul style="list-style-type: none">Islamic Finance Industry Organizations
		5.3	Encourage expansion of Islamic social finance in order to promote financial inclusion for the poor.	<ul style="list-style-type: none">GovernmentsIslamic Financial InstitutionsIslamic Non-financial institutions

Recommendations

No.	IFS Component	Task #	Recommendation	Responsible Stakeholders
6	Talent Development	6.1	Promote and sponsor academic research on Islamic finance and social finance	<ul style="list-style-type: none"> • Governments • Central Banks • Islamic Financial Institutions • Research Institutions • Islamic Non-financial institutions • Islamic Finance Industry Organizations
		6.2	Increase training and academic programs specific to Islamic finance	<ul style="list-style-type: none"> • Governments • Islamic Financial Institutions • Research Institutions • Islamic Non-financial institutions • Islamic Finance Industry Organizations
		6.3	Develop industry certifications for Islamic finance	<ul style="list-style-type: none"> • Research Institutions • Islamic Non-financial institutions • Islamic Finance Industry Organizations
		6.4	Create scholarship and grant programs that sponsor individuals who are interested in working in the Islamic finance industry	<ul style="list-style-type: none"> • Governments • Islamic Financial Institutions • Research Institutions
		6.5	Create Islamic finance industry trade associations	<ul style="list-style-type: none"> • Islamic Finance Industry Organizations
		6.6	Develop and host conferences for Islamic finance industry members, researchers, and regulators to share ideas and collaborate on ways of growing and improving the industry	<ul style="list-style-type: none"> • Research Institutions • Islamic Finance Industry Organizations

Examination of Existing National Strategies

- ▶ Of the countries observed in this report, only 4 have existing national plans (Pakistan, Qatar, Indonesia, and Turkey).
- ▶ This study examines, on a country level, the presence, or absence, of an existing national plan.
- ▶ Countries that currently have a national plan can still benefit from the roadmap included in this study.
- ▶ This study highlights some aspects of the IFS roadmap that can be applied for the benefit of the subject country.

Examination of Existing National Strategies

Pakistan

- ▶ Pakistan's current Islamic finance strategy focuses on Enabling Policy Environment, Shariah Governance & Compliance, Awareness and Capacity Building, and Market Development.
- ▶ These goals are very similar to a six component plan discussed in earlier sections. Implementation of this plan should yield positive results for the Islamic finance industry in Pakistan.
- ▶ However, proceeding plans should continue to push the envelope and further strengthen Pakistan's weaknesses.
- ▶ More initiatives, a stronger regulatory environment, and more human capital development, a weakness in Pakistan, will allow the country to continue the recent success in developing Islamic finance.

Examination of Existing National Strategies

Turkey

- ▶ Turkey is poised to have strong growth in the Islamic financial industry.
- ▶ Their strategic plan is a good starting point to ensure continued growth in their country.
- ▶ The existing plan has 4 key components:
 1. Improving the current perception towards interest-free finance system
 2. Improving human resources in the interest-free finance sector and enriching the literature
 3. Developing the corporate structure and the legal infrastructure of the interest-free finance system
 4. Increasing the diversity of interest-free financial products and services.

Examination of Existing National Strategies

Turkey

- ▶ These four points has many similarities with the components of our six component plan discussed in previous sections.
- ▶ Their plan is a positive step for Islamic finance domestically and internationally.

Examination of Existing National Strategies

Qatar

- ▶ Qatar has a national strategic plan for the growth of Islamic finance.
- ▶ They have several components mentioned in previous sections.
- ▶ Human capital, growing market infrastructure, and enhancing a legal and regulatory infrastructure are some of the highlights of their strategic plan for future growth.
- ▶ If they achieve the elements of their strategic plan they should see stronger Islamic financial services growth.

Examination of Existing National Strategies

Indonesia

- ▶ Indonesia has the world's largest Muslim population and is very active in Islamic banking. However, they lack a coherent strategic plan.
- ▶ By creating a strategic plan and following the guidelines recommended by this report, Indonesia can position itself to be one of the fastest growing Islamic banking countries in the world.
- ▶ Because there already exists much of the infrastructure for Islamic banking growth a strategic plan in Indonesia should focus on talent development and new and innovative product and services.
- ▶ By strategically addressing these areas, Indonesia's Islamic banking sector is poised for strong growth.

Examination of Existing National Strategies

Kuwait

- ▶ There is presently no Islamic finance strategy in Kuwait.
- ▶ There is very limited access to training in Islamic finance, with a single academic institution offering such training.
- ▶ Initiatives have been implemented in order to develop a Capital Markets Board.
- ▶ This has been successful in providing additional regulation for capital markets.
- ▶ Despite this, additional initiatives are needed in order to further grow the Islamic finance industry in Kuwait.

Examination of Existing National Strategies

Kuwait

- ▶ Additional regulations are needed to govern Islamic banking, as well as Islamic social finance.
- ▶ There also needs to be external Shariah boards that assess Islamic finance products, services, and Islamic financial and non-financial institutions business practices.
- ▶ This can be done through a main external Shariah board that determines standardized Shariah rules in order to build transparency and standardization of IF business practices that are Shariah-compliant.

Examination of Existing National Strategies

Malaysia

- ▶ Malaysia is a leader in Islamic Finance services, planning, and implementation.
- ▶ Because of Malaysia's dedication to Islamic finance they have been able to foster growth.
- ▶ Malaysia has a solid regulatory and legal framework for Islamic finance.
- ▶ Malaysia current environment could benefit from more product development and initiatives.
- ▶ A strategic plan that focuses on new product development, sustained growth through initiatives, and the human capital development in the Islamic financial services industry could ensure sustained growth for the future.

Conclusion

- ▶ In order for the Islamic Finance industry to grow and thrive, there are certain conditions that need to be developed.
- ▶ Each country should create and implement a national Islamic Finance Strategy to build and grow the Islamic finance industry.
- ▶ This will be beneficial by providing Islamic financial products and services to both their Muslim and non-Muslim population, will provide jobs to citizens that are interested in pursuing Islamic finance as a career, will build the economy by enabling the funding of small businesses, and providing needed financial assistance to the poor.
- ▶ Certain countries, such as Malaysia, Turkey, and Pakistan have developed national Islamic Finance strategies, but the majority of OIC member countries have not.

Conclusion

- ▶ The market has grown substantially since its inception in the 1950s with current total Islamic Finance assets being approximately USD 1 trillion.
- ▶ However, the industry has grown in limited regions, with most of its concentration in Malaysia and GCC countries.
- ▶ Increasing market share can be done through improvements on infrastructure, human capital, operations, regulatory systems, and financial institutions.
- ▶ A complete and advanced interbank, capital, and hedging infrastructure for the IFSI will also promote additional growth in market share.

Conclusion

- ▶ Islamic finance will be further strengthened by Shariah compliance, corporate governance and transparency effectiveness.
- ▶ Innovative business models that include new technologies and means of delivery will provide Islamic financial services more efficiently and cost effectively.
- ▶ This will enable greater financial inclusion from providing client in remote areas access to Islamic financial services.

Conclusion

- ▶ The main objective of Islamic finance is to show the true spirit of contributing to the economy and society and to prove its viability in building partnerships that further development, not creating financial instruments used as a means of exploitation.
- ▶ Communicating those inherent differences is important for increasing public interest in Islamic finance as well as ensuring the development of new and innovative products that are not slightly updated versions of existing conventional financial products.

Conclusion

- ▶ Islamic financial institutions not only value financial inclusion and providing services to the community, risk is shared with clients so that all participating parties benefit in an investments' success.
- ▶ The demand is present and further expansion of the Islamic finance industry will be able to provide both Muslims and secular investors with assets that adhere to religious, ethical, and regulatory standards.