THE ROLE OF IDB IN PROMOTING DEVELOPMENT THROUGH ISLAMIC FINANCE

WIFE – AFF
Roundtable 2015
TOKYO, JAPAN

https://youtu.be/shxj0WOkBo8
Providing Resources
Fighting Poverty
Restoring Dignity
Agenda

1. THE ISLAMIC FINANCIAL SERVICES INDUSTRY

2. IDB GROUP AND ISLAMIC FINANCE DEVELOPMENT

3. JAPAN & ISLAMIC FINANCE

4. POTENTIAL COOPERATION BETWEEN IDB and JAPAN
Islamic Financial Service Industry - Overview

The Pillars of Islamic Finance Internationalization

1. Growth
   - US$ 2 trillion by Design
   - growing 50% faster than Traditional Banking

2. Profitability
   - Average ROE of 12% for top 20 Islamic

3. Customers
   - 25% of the world’s population is Muslim

Current Outlook

- Asset Growth: 17%
- Countries: 92+
- ROA: 1.6%
- Institutions: 900+
- Customers: +70 million

Strategic Needs

- Increased Focus on Financial Inclusion
- Increasing Cost Efficiency
- Create Regional Champions
Islamic Financial Service Industry - Overview

Total Islamic Finance Assets (2009-2018F)

Growing 50% faster than the overall banking sector

Source: KFH Research database
S&P 500: $1.9 Trillion of Assets

Description

The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities. There is over USD 7 trillion benchmarked to the index, with index assets comprising approximately USD 1.9 trillion of this total. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

Index Attributes

Created in 1957, the S&P 500 was the first U.S. market-cap-weighted stock market index. Today, it’s the basis of many listed and over-the-counter investment instruments. This world-renowned index includes 500 of the top companies in leading industries of the U.S. economy.
Islamic Financial Service Industry - Overview

What’s required for growth of Islamic Finance?

To achieve this goal, the top three priorities have to be:

- Knowledge/Human Capital Capacity Building
- Regulatory Clarity
- Responsible Innovation
- Technology
- Integrative Thinking Framework
A Bird’s eye view of the Muslim Population Distribution

Regional Distribution of Muslims
Population by region as of 2010

- **Europe**: 43,490,000
- **Middle East-North Africa**: 317,070,000
- **Sub-Saharan Africa**: 248,110,000
- **Asia-Pacific**: 985,530,000
- **Latin America-Caribbean**: 840,000
- **North America**: 3,480,000

Percentage of world Muslim population in each region as of 2010:

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub-Saharan Africa</td>
<td>15.5%</td>
</tr>
<tr>
<td>Middle East-North Africa</td>
<td>19.8%</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>61.7%</td>
</tr>
<tr>
<td>Europe</td>
<td>2.7%</td>
</tr>
<tr>
<td>North America</td>
<td>0.2%</td>
</tr>
<tr>
<td>Latin America-Caribbean</td>
<td>0.1%</td>
</tr>
</tbody>
</table>

Population estimates are rounded to the ten thousands. Percentages are calculated from unrounded numbers. Percentages may not add to 100 due to rounding.

Pew Research Center's Forum on Religion & Public Life • Global Religious Landscape, December 2012
Prospective cross border Islamic Finance investment prospects and implications on the global economic development

- Multiple economies have announced clear development plans that will require long term financing
- Some of these plans were announced but are not yet fully financed
- Capital mobility will thus be critically important to achieve those plans

- Growth of Islamic funds in developed markets will attract investors from other jurisdictions with existing Islamic finance presence
- Establishment of an Islamic financial hub in a developed market will encourage the introduction of more innovative products and a more developed secondary market
- Islamic finance will thus be a critical factor for continued global economic growth
The Islamic finance ecosystems across many countries is significantly underdeveloped, with only 12 countries having developed systems. Only 28 countries have some of Islamic finance regulations, with only 4 having comprehensive regulations (Source: IFDI)

Outstanding performance by the top 4 countries Malaysia, Bahrain, Oman and UAE

8 others aiming for the next level of Development

A majority of countries have undeveloped Islamic finance ecosystems
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Islamic Development Bank (IDB)
Foster the economic development and social progress of MCs and Muslim communities.

Islamic Research & Training Institute (IRTI)
Undertake applied & basic research in Islamic Economics and Finance.

Islamic Corporation for Insurance of Investment & Export Credit (ICIEC)
Provide Shariah-compatible export credit insurance, political risk insurance, technical assistance.

Islamic Corporation for the Development of the Private Sector (ICD)
Promote development of private sector development.

International Islamic Trade Financing Corporation (ITFC)
Promote and enhances intra-trade and trade cooperation through trade finance and promotion programs.

Sharia's Compliance
The Islamic Development Bank

- Est. 1975
- Authorized Capt. of ID 100 B & Subscribed of ID 50 B

1,128 staff distributed across entities & regional offices / Gateways

A Unique Model of South-South Cooperation

Global MDB: Membership 56 Countries Spread over 4 Continents

4 Regional offices

LATIN AMERICA
- 1. Dakar, Senegal (2006)

AFRICA
- 27

EUROPE

ASIA

5 new Country Gateway offices starting with Indonesia & Turkey
Aggregate IDB Group Financing (1975-2014)

Over the last 40-years, IDB Group has approved net financing of: ID 71.2 Billion (approx. US$ 103.3 billion)

Major Activities
- Project Financing, 47,308m
- Trade Financing, 54,853m
- Technical Assistance, 1,487m
- Special Assistance, 1,320m

Sector-wise
- Trade, 27%
- Energy, 33%
- Water, Sanitation & Urban Services, 6%
- Agriculture, 8%
- Transportation, 11%
- Industry & Mining, 5%
- Health, 3%
- Education, 4%
- Finance, 1%
- Other, 1%

* Special Assistance primarily includes social sector projects e.g. relief operations, scholarships etc.
### Mission

- “Promote comprehensive human development, with a focus on the priority areas of alleviating poverty, improving health, promoting education, improving governance and prospering the people.”

### Vision 1440H

By the year **1440H** (2020G) IDB Group shall have become a world class development bank inspired by Islamic principles, that has helped significantly transform the landscape of comprehensive human development in the Muslim world and helped restore its dignity.

<table>
<thead>
<tr>
<th>Member country prospective needs</th>
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</thead>
<tbody>
<tr>
<td>Improving health</td>
</tr>
<tr>
<td>Promoting education</td>
</tr>
<tr>
<td>Crisis support</td>
</tr>
<tr>
<td>Poverty alleviation</td>
</tr>
<tr>
<td>Inclusiveness of muslim communities</td>
</tr>
<tr>
<td>Infrastructure for prosperity</td>
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<tr>
<td>Good governance</td>
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</tbody>
</table>
The Mission and the Vision 1440H are validity with the MC current and prospective needs.

### IDBG mission Priorities addressed

- Alleviating poverty
- Prospering people
- Promoting education
- Improving health
- Improving governance

### Vision strategic thrusts Priorities addressed

- Alleviate Poverty
- Empower the Sisters of Islam
- Prosper the People
- Improve the Image of Muslim World
- Facilitate integration of IDBG MC Economies
- Universalize Education
- Promote Health
- Expand the IF Industry

### MC needs Priorities identified

- Food and water security
- Social inequalities
- Infrastructure across sectors
- Employment, specially in the youth population
- Energy security and renewable energy
- Women empowerment
- Private sector development
- Education
- Health
- IF Sector as a mean to develop the country

Source: BCG, IDB mission statement, MC megatrends, MC stakeholders consultations
**Strategic objectives:** The Vision translates into strategic objectives that will drive the core activities of IDBG

**INCLUSIVENESS**
Become a Preferred Partner for MCs\(^1\) Social and Economic Development

**CONNECTIVITY**
A Strong Catalyst for South-South Collaboration

**ISLAMIC FINANCE SECTOR GROWTH**
A Leading Reference in Islamic Finance

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**Rationale**

**Addresses the needs of** the poorer and marginalized communities who represent a significant portion of the IDBG’s stakeholders

**Promotes cooperation** among its MCs to enhance trade, investment, knowledge, and capacity development as part of its mandate

**Facilitates the development** of the global Islamic Financial industry as a part of its unique mandate

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1. Member Countries  Y
Source: IDB; BCG
**Strategic pillars:** The five pillars (+1 CC) outline the core focus areas over the next 10 years will be the basis of IDBG Core Competencies – What IDBG is good/best at …

1. **Economic and social infrastructure**
   - Projects with infrastructure component across sectors (Agriculture, education, health, transport, etc.)

2. **Private sector development**
   - Non-sovereign related activities conducted with the purpose to develop the private sector

3. **Islamic finance sector development**
   - Activities with the primary purpose to develop the Islamic finance sector

4. **Social development**
   - Interventions with a special focus on the neediest populations

5. **Cooperation between MCs**
   - Activities conducted with the purpose to enhance trade and investments between MCs

**Capacity Development**

Underpins the achievement of the strategic pillars and strengthens the institutional and social capabilities of the member countries

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1. PPPs are included as part of Infrastructure  
2. Member countries and muslim communities in non-member countries  
3. Excludes infrastructure financing

Source: BCG
The Cross Cutting Areas: Capacity development is integrated in each strategic pillar and coordinated across IDBG.

Establish single source of capacity development

**Economic and social infrastructure**
Training, education and other 'softer' elements complimenting the 'hard' physical build out

**Private sector development**
Advising and training financial institutions through which IDBG will channel the financing to the private sector

**Islamic finance sector development**
Assisting MCs in standard setting and harmonization, advisory of legislative and regulatory frameworks

**Social development**
Building capacity for implementation channels (NGOs, governments) through which IDBG offers support

**Cooperation between MCs**
Interconnector for MC's capacity development & build capacity in regional integration and cooperation organizations

Centrally Coordinated and reported across different pillars
IDBG 10 Year Strategy Framework

**Overarching Vision**

**Strategic Objectives**
- Inclusiveness: Become a preferred partner for MCs economic and social development
- Connectivity: A strong catalyst for South-South Cooperation
- IFS Growth: The leading reference in Islamic Finance

**Strategic Pillars**
- Economic and Social Infrastructure
- Private Sector Development
- Inclusive Social Development
- Cooperation between Member Countries
- Islamic Financial Sector Development

**Guiding Principles**
- Resource Mobilization
- Financial Sustainability
- Manage for Result
- Selectivity
- Group Synergy & Governance
- Build Capabilities in Strategic Pillars
- Link Strategy to Budget & Resources

**Strategy Implications**
- Financial Implications
- Operational Implications
- Organizational Implications

**Communication & Change Management**
Internal and External Communication & Change Management
## Islamic Financial Sector Development in 10 Years

### Overarching Goals

- **Islamic Finance Industry to Reach 7.5 Trillion**
  - 25% of global population regardless of their status and wealth, should have access to Islamic financial services
  - 40 MCs shall have the appropriate eco-system for Islamic Finance
  - 12 countries shall have integrated domestic IFIs with international system
  - 4 MCs have 100% of their population have access to financial services

### Sector Results

- **Enablers**
  - **Enablement**
    - Enabling regulations and prudential standards – IFSD and IFSB
    - Enabling regulations for Islamic instruments – IIFM / IILM / IFSD
    - Funding for poor / disadvantaged – WWF / APIF / IFSD
    - IIRTI – Capacity building and Public awareness programs
    - Government and CB
  - **Performance**
    - Equity investments – IDBi
    - Adoption of compatible accounting and auditing standards – AAOIFI, CIBAFI, IFSB, IFSD
    - Highest levels of corporate governance and transparency – AAOIFI, CIBAFI, IFSD
    - ITFC, ICIEC, ICD and FPDC
    - IIRTI – Capacity building and Public awareness programs

### IDBG Performance

- **20% increase in strategic alliances and MOUs with Multilateral/IIIs, and No. of Master Plans developed**
- **20% increase in IFIs with IDBG Equity participation**
- **20% increase in contribution to the global dialogue on IF**

### Develop A synergy strategy between IDBG Department and Entities

- **1-2 years**
  - Enablers
  - Performance
  - Reach

- **3-5 years**
  - Performance
  - Reach

- **>5 years**
  - Enablers
Islamic Financial Sector Development in 10 Years

Contribute to the Islamic Finance Industry Development/ Efficiency and stability

Contribute to the Economy Development (Public & Private Sectors)

Training & Research + Public Dissemination + Consultancy/Services

IFSD  FPDC  WWF/APIF  IDBi  Treasury  ITFC  ICD  ICIEC  OC  IRTI
Each member country confronts three broad types of issues in the development of Islamic finance:

1. **ENABLEMENT**
   - Member countries need to have the appropriate eco-system to facilitate transactions and establishment of institutions.

2. **PERFORMANCE**
   - Islamic Financial Institutions need to perform according to the highest of standards and be considered as the leading providers of financial services.

3. **REACH**
   - All segments of the population that require Islamic financial services have access to it, regardless of their ability and wealth.

IDB Islamic Finance Development Strategy
By supporting the development of Islamic finance, microfinance and Awqaf sectors, the IDB is working towards its objective of providing access to financial services for all Muslims.
Islamic Finance Development Impact

Global

Creating Sound International Regulatory Environment and Industry Best Practices

Country

Enabling Robust Environment

Institutional

Supporting the growth of the Industry

Islamic Infrastructure Institutions

Legal, Regulatory & Supervisory Framework

Research, Training Capacity Building

New Islamic Banks & Windows

Conversion of Conventional Banks

Advisory and Product Development

Microfinance, Awqaf (Trust), Zakat

Strategic Partnerships

WORLD BANK

International Monetary Fund

Bank Negara Malaysia

Central Bank of Malaysia

Law Society

IEG

CIBAFI

CGAP

COMCEC

Central Bank of Bahrain

Islamic International Rating Agency
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Thank you