



D R A F T

(as of 23 January 2014)

**Concept Note on Technical Committee of Experts (TCE) Meeting on
Development of a Coherent Framework for Improving the Infrastructure of
the Islamic Banking and Finance Statistics (IBFStat)**



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1) Background

The global financial and economic crisis of 2008-09 has brought to the forefront a wide range of issues concerning the stability and soundness of the conventional financial system. This has prompted an extensive global re-examination by the international community on the adequacy of the existing international economic and financial architecture and the search for a more enduring solution. The growing emphasis on ethics and morality in economic and financial transactions highlights the structural problems undermining the confidence in the current system and, in turn, the pressing need for more durable alternatives. In the search for a new architecture, there was a general consensus on the need to restore the financial transactions to their basic function – to provide services that add value to the real economy. This, in fact, represents the very essence of Islamic finance, which can be traced back to the Shariah principles.

Owing to the increasing importance of the role of statistics in all stages of human life, the Istanbul Declaration of “The Meeting of NSOs of OIC Member States” held in Istanbul on 22-23 March 2010 called for an Experts’ Group Meeting (EGM) on Islamic Statistics. The EGM, which was co-organized by SESRIC and the Department of Statistics (DOS), Jordan on 21-22 December 2010 in Amman, Jordan, could be considered as a first step towards defining the scope of Islamic Statistics, discussing the needs and requirements for new indicators specific to OIC Member Countries and highlighting the need for the launch of a comprehensive database on the subject.

The framework for Islamic Statistics was presented by DOS of Jordan during the First Session of OIC-StatCom held in Istanbul, Turkey, on 11-12 April 2011. As a way forward, OIC-StatCom set up a Working Group on Statistical Indicators Specific to OIC Member Countries in accordance with the Decision No.4 of the aforementioned session.

The Second Session of the Organization of Islamic Cooperation Statistical Commission (OIC-



StatCom), co-organized by the SESRIC and the Islamic Development Bank (IDB) on 13-15 May 2012 in Izmir, Turkey, considered the report and the presentation of the Working Group on “Statistical Indicators Specific to OIC Member Countries”. Depending on the comprehensive analysis of the report, the Commission took the extensive scope of the issue into consideration and decided to follow a theme-based priority approach to identify a roadmap for depicting the relevant indicators specific to OIC Member Countries. Three themes, namely “Islamic Banking and Finance Statistics”, “Halal Food and Products Industry Statistics” and “Waqf Statistics” are considered to be of high priority. It was also decided to establish a Technical Committee of Experts (TCE) on “Islamic Banking and Finance Statistics”.

According to the resolutions of Third Session of OIC Stat-Com, which was held on 10-12 April 2013, in Ankara, Turkey, the OIC-StatCom decided that the TCE “Islamic Banking and Finance Statistics” should follow its future activities as planned and called for an Experts’ Group Meeting (EGM) to be co-organized by SESRIC and IDB with the aim of finalizing the initial set of indicators and proposing the methodologies and standards which will be submitted to the upcoming Session of OIC-StatCom and requested SESRIC and IDB to conduct study visits among the OIC Member Countries to facilitate exchange of information about Islamic banking and finance. It was also underlined that the importance of coordination among all agents of National Statistical Systems (NSOs, Central Banks, stock exchanges, line ministries, etc.) and encouraged frequent communication and cooperation in the advancement of this field.

In 2013, 18 OIC Member Countries, namely Afghanistan, Azerbaijan, Bangladesh, Comoros, Egypt, Gambia, Iran, Jordan, Kazakhstan, Malaysia, Maldives, Mali, Palestine, Sudan, Qatar, Togo, Tajikistan and Turkey, had declared their intention to be a part of the TCE on IBFStat.

2) Challenges Ahead

One of the main objectives of OIC-StatCom Strategic Vision for 2020 adopted in the Second Session of OIC-StatCom is the development of common methodologies for indicators specific to the OIC Member Countries. In this regard, it is aimed to

- ✓ promote harmonisation of concepts, classifications and methodologies used in performing statistical activities in OIC Member Countries to achieve consistency in statistical systems;
- ✓ identify priority areas specific to the OIC Member Countries and develop conceptual and methodological background for the selected indicators;
- ✓ develop a quality assurance framework for the NSOs of OIC Member Countries describing the tools and procedures put in place to ensure that the statistics produced by the NSOs are of high quality with a focus on statistical processes and outputs.

However, there are various challenges about Islamic Banking and Finance Statistics that cannot be faced by individual organizations alone to reach the objectives of Strategic Vision stated above. One of the major challenges is that the IBF Statistics is not incorporated into the National Statistical Systems (NSS) of most of the OIC Member Countries, which prevents official collection and dissemination of related data. Secondly, for the member countries where the IBF Statistics are



covered in NSS, there is not adequate level of coordination and communication mechanism among the agencies of NSS on this matter. Thirdly, there is lack of harmonization and convergence in terms of definitions of Islamic Banking and Finance instruments and transactions. This prevents the adoption of a generally accepted standardized methodology for the collection, processing, and dissemination of relevant statistical data in the member countries.

3) Purpose of the TCE Meeting

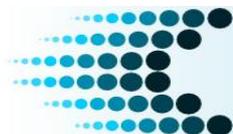
Statistical infrastructure is imperative for a well-functioning Islamic Banking and Finance industry and providing the sector with a level playing field. Moreover, policy makers, regulators and standard-setters in OIC member countries should ensure that the supervisory and legal infrastructure for Islamic Banking and Finance Statistics remain relevant to the rapidly changing Islamic Finance landscape and global developments. Infrastructure development efforts should also interface with the global financial reform agenda.

However, to produce adequate, sound and effective structural policies regarding infrastructure, the decision makers need data. Accordingly, first and foremost, the Islamic finance industry should be based on relevant statistics which are:

- reliable, accurate and timely (i.e. the decision makers should be provided with data from the original sources based on scientific methodology)
- comparable and consistent (i.e. the basis for conducting international comparisons within generally accepted standards should be established)
- comprehensive and policy oriented. (i.e. the statistics should help to diagnose the problems facing the financial system and to work on the required remedies)
- interactive (i.e. the concerned statistical agencies should be encouraged to produce and enhance the related statistics)
- referenced (i.e. the source of data should be scientifically outlined and managed)

In order to fulfill these criteria, Islamic Banking and Finance statistics should be incorporated into National Statistical Systems (NSS) of OIC member countries. In this regard, the main goals of the TCE Meeting on Islamic Banking and Finance Statistics are to:

- ✓ examine the contemporary trends in the Islamic banking and finance industry and assess the current situation of Islamic banking and finance statistics in both OIC member countries and the world;
- ✓ share country practices, valuable experiences and innovative models on IBF Statistics;
- ✓ determine the scope and content of the general framework for IBF statistics that any member country can utilize if and when they need to collect, process and disseminate relevant data on a sustainable basis within official statistical system;
- ✓ discuss future work of the TCE and draft the meeting recommendations that will be submitted to the Fourth Session of OIC-StatCom.



4) Meeting Details

The Meeting, of which the draft agenda is enclosed as a separate document, will be conducted over two days at SESRIC headquarters xx March 2014. SESRIC and IDB will be the co-organizers of the meeting as the permanent members of OIC-StatCom.

The Secretariat will invite experts and professionals from NSOs, Central Banks and other relevant agencies of member countries. OIC Member Countries which confirm their participation in the meeting are expected to designate focal points that have significant experience and knowledge on Islamic Banking and Finance. International organizations dealing with IBF Statistics will also be invited.

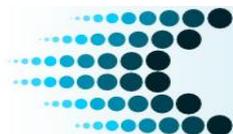
5) Expected Results

The expected results of TCE Meeting are as follows:

- ✓ to raise awareness on IBF statistics at both OIC and international level for developing the Islamic finance to become a mainstream financing alternative to the conventional interest-based system.
- ✓ to define categories under IBF statistics and to identify the priority set of indicators consistent with the international standards (reliability, comparability, consistency, etc);
- ✓ to initiate the process of producing IBF Statistics through identifying a roadmap of cooperation among the OIC member countries
- ✓ to outline a general framework for developing a comprehensive database of IBF Statistics
- ✓ to draft a list of recommendations on how to implement and broaden the framework to the level of OIC Region.

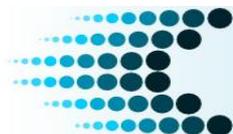
6) Tentative Work Plan

#	Tasks	Deadline
1	Sending the invitations of the TCE Meeting on IBFStat	30 December 2013
2	Discussing the draft agenda with the experts that have declared their participation (via email and/or teleconference)	23 January 2014
3	Finalizing the agenda of the TCE Meeting on IBFStat	10 February 2014
4	Organizing the TCE Meeting on IBFStat	End of March 2014
5	Preparing the draft final report of TCE Meeting on IBFStat	April - May 2014
6	Submitting the draft final report of the TCE to the 4 th Session of OIC Statistical Commission	May - June 2014
7	Revising and disseminating the final report to the NSOs and other relevant agencies through the website of OIC Statistical Commission	June – July 2014



ANNEX: Proposed Indicators for Islamic Banking and Finance Statistics

Code	Indicator	Definition
1	Number of Islamic Banks by Type	Number of Islamic banks (or sharia-compliant participation banks) operating within and outside the country. Participation banks can be defined as the institutions operating primarily for the purposes of collecting fund through special current accounts and participation accounts and granting loan pursuant to specific directives. The types can be classified in accordance with possession of participation banks such as state owned, privately owned or foreign participation banks or fully-fledged Islamic banks, fully segregated Islamic banking windows, conversions to fully-fledged Islamic banks. The types should be enriched by considering different country practices.
2	Share of Islamic Banks in Banking System	Share of participation banks in overall banking sector of the country (i.e. by volume and by number)
3	Number of Branches of Islamic Banks	Number of branches (including headquarters and ATMs) providing Islamic banking services.
4	Number of Employees in Islamic Banks	Number of employees working employed in the Islamic banking system
5	Number of Clients using Islamic Banking System	The number of clients who have an account in Islamic banks (participation banks)
6	Characteristics of Users of Islamic Banking System	Basic characteristics of the users of Islamic banking (Participation Banking) system such as age, income group, education level, nationality etc.)
7	Financial Ratios of Islamic Banks	Main financial ratios of Islamic banks such as profitability, capital adequacy.
8	Shariah Compliant Assets	The total assets of Islamic banks in the country by maturity (i.e. short-term vs. long-term)
9	Shariah Compliant Liabilities	The total assets of Islamic banks in the country by maturity (i.e. short-term vs. long-term)
10	Deposits in Islamic Banks by Type	Total volume of Islamic banking outstanding deposits by type (i.e. current, savings and investment accounts). Savings and Investment accounts can further be classified by sector concentration (real estate, etc.) and purpose (Mudaraba, Musharaka, Murabaha, Sukuk, Ijaraj, bai Salam, etc.)
11	Loans of Islamic Banks	Total volume of loans lent by Islamic banks. It can be classified by : total and concentration by sector (real estate, etc.) and purpose (Mudaraba, Musharaka, Murabaha, Sukuk, Ijaraj, bai Salam, etc.). It also involves Volume of Credits Extended by Islamic banks.



12	Volume of Credits Extended by the Islamic banks	Amount of credits given by Islamic Banks (Participation Banks) by sectors
13	Projects Funded by the Islamic Banks	The number and value of projects funded by the Islamic banks: Total, by sector and by type of participation contract (Mudaraba, Musharaka, etc.)
14	Volume of Sukuk (Islamic bonds) by types	Sukuk are financial certificates equivalent to bonds. As fixed income, interest bearing conventional bonds are not permissible in Islam, Sukuk securities are structured to comply with the Islamic law and its investment principles, which prohibits the charging, or paying of interest. Sukuk can also be structured alongside different techniques. While a conventional bond is a promise to repay a loan, Sukuk constitutes partial ownership in a debt (Sukuk Murabaha), asset (Sukuk Al Ijara), project (Sukuk Al Istisna), business (Sukuk Al Musharaka), or investment (Sukuk Al Istithmar). Financial assets that comply with the Islamic law can be classified in accordance with their tradability and non-tradability in the secondary markets. Further classification may be realized according to issue size and margin/tenor.
15	Volume of Takaful (Islamic insurance) market	Takaful is generally considered to be an equivalent of the conventional insurance whereby a group of persons agree to share a certain risk by collecting a specified sum from each. However, conventional insurance contain Al-Gharar (uncertainty), Al-Maisir (gambling) and Riba(usury) which are strictly forbidden in Islam while Takaful is based on the idea that what is uncertain and hence risky with respect to an individual may cease to be uncertain with respect to a very large number of similar individuals.
16	Number of Takaful companies	Number of Takaful companies active in the country
17	Islamic Microcredit Financial Institutions (IMFI)	Number of Sharia-compliant MFIs in the country
18	Volume of Microcredit provided	The value of microcredit given in by IMFIs in the country