

ISLAMIC FINANCE COUNTRY INDEX – IFCI 2016

Since 2011, we have been constructing, maintaining and reporting Islamic Finance Country Index (IFCI) that is a composite index used for ranking different countries with respect to the state of IBF and their leadership role in the industry on a national level and benchmarked on international level. The IFCI was initiated with the aim to capture the growth of the industry, and to provide an immediate assessment of the state of IBF industry in each country. With the six-year data since its inception, IFCI can now be used to compare the countries not only in a given year but also over time. As more countries open up to IBF, the index will provide a benchmark for nations to track their performance against others. Over time, the individual countries on the index should also be able to track and assess their own performance.

The IFCI shows the growth of IBF in an objective manner, making it a useful tool for industry analysis and comparative assessments. We recommend that the readers use previous GIFRs (2011-15) to have a comprehensive view on IFCI.

This year's report presents adjusted IFCI scores for the countries included in the sample. This was done to ensure that the data are normalised over the time series. We adopted a methodology based on a weightage system that we adopted to construct a normalising factor.

The normalising factor used in the adjusted IFCI was calculated by the following formula:

$$\text{Normalising Factor} = (\text{Average (IFCI}_{t-1}) \times \text{IFCI}_{it})/100$$

where

Average (IFCI_{t-1}) = Average of IFCI scores for all the countries included in the sample of the previous year (t-1); and

IFCI_{it} = IFCI score for an individual country i in the current year (t).

This normalising factor allows us to neutralise the purely statistical effect of data movements on IFCI score in such a way that the overall ranking in a given year remains unaffected.

The resulting adjusted IFCI scores are presented in Tables 1-6.

Table 1:
ADJUSTED IFCI SCORES FOR 2011

	Countries	2011		Countries	2011
	Iran	46.00		Sri Lanka	2.60
	Malaysia	30.00		Azerbaijan	2.50
	Saudi Arabia	26.00		Thailand	2.30
	Indonesia	22.00		South Africa	2.00
	Kuwait	19.00		China	1.00
	Pakistan	19.00		Singapore	1.00
	United Arab Emirates	19.00		Algeria	N/R
	Bahrain	16.00		Australia	N/R
	Bangladesh	12.00		Canada	N/R
	Sudan	11.00		France	N/R
	Palestine	9.00		Gambia	N/R
	Egypt	8.00		Germany	N/R
	Qatar	8.00		Ghana	N/R
	Turkey	7.50		India	N/R
	United Kingdom	7.00		Kazakhstan	N/R
	Syria	4.10		Mauritius	N/R
	United States of America	4.01		Morocco	N/R
	Yemen	4.01		Oman	N/R
	Jordan	4.00		Russian Federation	N/R
	Nigeria	3.50		Spain	N/R
	Lebanon	3.40		Switzerland	N/R
	Brunei Darussalam	3.30		The Philippines	N/R
	Kenya	3.20		Tunisia	N/R
	Senegal	3.10		Afghanistan	N/R

Table 2:
ADJUSTED IFCI SCORES FOR 2012

	Countries	2012		Countries	2012
	Iran	57.53		Algeria	1.45
	Malaysia	36.00		Afghanistan	1.43
	Saudi Arabia	33.20		South Africa	1.41
	Kuwait	24.23		Thailand	1.30
	United Arab Emirates	23.43		Palestine	1.25
	Bahrain	21.60		India	0.91
	Indonesia	17.36		Nigeria	0.74
	Pakistan	12.53		Senegal	0.66
	Qatar	10.84		Gambia	0.64
	Sudan	10.40		France	0.63
	United Kingdom	8.72		Kazakhstan	0.56
	Turkey	5.80		Switzerland	0.55
	Bangladesh	5.74		Germany	0.51
	Egypt	5.64		Canada	0.26
	Brunei Darussalam	3.13		The Philippines	0.22
	Jordan	3.00		United States of America	0.12
	Kenya	2.62		Mauritius	0.06
	Syria	2.54		China	0.01
	Yemen	2.43		Morocco	0.00
	Lebanon	2.40		Russian Federation	0.00
	Tunisia	1.99		Azerbaijan	0.00
	Oman	1.60		Australia	0.00
	Sri Lanka	1.48		Ghana	N/R
	Singapore	1.46		Spain	N/R

Table 3:
ADJUSTED IFCI SCORES FOR 2013

	Countries	2013		Countries	2013
	Iran	68.31		Oman	1.84
	Malaysia	42.69		Singapore	1.72
	Saudi Arabia	41.38		Algeria	1.53
	United Arab Emirates	20.64		Tunisia	1.49
	Indonesia	20.22		Afghanistan	1.33
	Bahrain	18.77		Thailand	1.20
	Kuwait	16.79		Kazakhstan	1.08
	Pakistan	14.15		Nigeria	1.07
	Sudan	13.42		India	1.04
	Bangladesh	9.19		Azerbaijan	1.02
	Qatar	8.88		France	0.83
	United Kingdom	8.15		Senegal	0.68
	Turkey	6.48		Germany	0.66
	Egypt	5.69		The Philippines	0.63
	United States of America	4.28		Australia	0.62
	Jordan	3.60		Switzerland	0.51
	Brunei Darussalam	3.24		China	0.46
	Lebanon	2.64		Gambia	0.40
	Yemen	2.58		Canada	0.25
	Syria	2.51		Mauritius	0.22
	South Africa	2.47		Russian Federation	0.20
	Kenya	2.02		Morocco	0.19
	Sri Lanka	2.00		Ghana	0.00
	Palestine	1.89		Spain	0.00

Table 4:
ADJUSTED IFCI SCORES FOR 2014

	Countries	2014		Countries	2014
	Iran	75.24		Thailand	1.57
	Malaysia	49.53		Algeria	1.51
	Saudi Arabia	42.21		Nigeria	1.45
	Bahrain	22.18		Afghanistan	1.31
	Kuwait	21.38		Oman	1.30
	United Arab Emirates	20.27		Kazakhstan	1.26
	Indonesia	19.82		Azerbaijan	1.19
	Sudan	13.34		Palestine	1.11
	Pakistan	11.49		India	1.00
	Qatar	10.44		France	0.82
	Bangladesh	9.97		Germany	0.65
	Turkey	7.23		The Philippines	0.62
	United Kingdom	5.94		Australia	0.61
	Egypt	5.11		China	0.57
	United States of America	4.26		Switzerland	0.51
	Jordan	3.08		Senegal	0.48
	Brunei Darussalam	3.03		Tunisia	0.48
	Yemen	2.44		Gambia	0.40
	Lebanon	2.42		Canada	0.24
	Singapore	2.10		Ghana	0.00
	Syria	2.06		Mauritius	0.00
	Kenya	1.97		Morocco	0.00
	Sri Lanka	1.84		Russian Federation	0.00
	South Africa	1.66		Spain	0.00

Table 5:
ADJUSTED IFCI SCORES FOR 2015

	Countries	2015		Countries	2015
	Iran	77.93		South Africa	2.06
	Malaysia	73.09		Syria	2.03
	Saudi Arabia	66.94		Canada	1.90
	United Arab Emirates	34.57		Tunisia	1.76
	Kuwait	33.40		Thailand	1.73
	Bahrain	23.93		India	1.73
	Indonesia	22.45		Algeria	1.52
	Qatar	19.04		Afghanistan	1.30
	Sudan	14.24		Australia	1.26
	Pakistan	13.38		Nigeria	1.24
	Bangladesh	11.11		Azerbaijan	1.23
	Turkey	8.83		Kazakhstan	1.13
	Egypt	7.34		Palestine	1.10
	United Kingdom	6.13		France	0.81
	Jordan	3.98		Philippines	0.61
	United States of America	3.27		Germany	0.59
	Brunei Darussalam	2.89		Gambia	0.58
	Sri Lanka	2.72		China	0.57
	Oman	2.55		Senegal	0.49
	Yemen	2.45		Ghana	0.38
	Lebanon	2.39		Mauritius	0.24
	Kenya	2.32		Russian Federation	0.20
	Singapore	2.13		Spain	0.05
	Switzerland	2.10		Morocco	0.00

Table 6:
ADJUSTED IFCI SCORES FOR 2016





	Countries	2016		Countries	2016
	Malaysia	77.77		Tunisia	2.00
	Iran	77.39		Switzerland	1.97
	Saudi Arabia	66.98		Canada	1.87
	United Arab Emirates	36.68		South Africa	1.73
	Kuwait	35.51		Afghanistan	1.70
	Indonesia	24.21		Thailand	1.70
	Qatar	22.02		Syria	1.49
	Bahrain	21.90		India	1.27
	Pakistan	18.89		Australia	1.25
	Bangladesh	16.14		Algeria	1.24
	Sudan	14.04		Kazakhstan	1.20
	Egypt	9.02		Azerbaijan	1.11
	Turkey	8.95		Palestine	1.10
	Jordan	7.98		France	0.80
	United Kingdom	5.96		Philippines	0.63
	Oman	5.91		Germany	0.62
	Brunei Darussalam	5.85		Gambia	0.57
	United States of America	3.28		China	0.56
	Sri Lanka	2.96		Senegal	0.48
	Lebanon	2.67		Ghana	0.38
	Nigeria	2.35		Mauritius	0.23
	Kenya	2.28		Russian Federation	0.19
	Yemen	2.09		Spain	0.05
	Singapore	2.05		Morocco	0.00

Table 7 presents the latest IFCI Scores and Rankings, compared with the previous year. It is interesting to note that for the first time in the last 6 years, there has been a change in the first position: Malaysia has successfully dislodged Iran that ranked number 1 from 2011 to 2015. This establishes Malaysia as the global leader in IBF.







There are a number of factors that have helped Malaysia to emerge as the global leader in IBF, but the most significant of these is the commitment of the government to use IBF as a policy tool and an integral part of its economic agenda.

Iran, on the other hand, has faced economic sanctions from the Western powers and other countries, and hence has failed to emerge as an influential player in the global Islamic financial services industry, despite the fact that it boasts to have the largest amount of Islamic financial assets in the world. The lifting of economic sanctions on Iran may bring it back to the first position in the years to come.

Table 7:
ADJUSTED IFCI SCORES FOR 2016

Countries	IFCI Score 2016	IFCI Score 2015	IFCI Rank 2016	IFCI Rank 2015	Changes
 Malaysia	77.77	73.09	1	2	1
 Iran	77.39	77.93	2	1	-1
 Saudi Arabia	66.98	66.94	3	3	0
 United Arab Emirates	36.68	34.57	4	4	0
 Kuwait	35.51	33.40	5	5	0
 Indonesia	24.21	22.45	6	7	1
 Qatar	22.02	19.04	7	8	1
 Bahrain	21.90	23.93	8	6	-2
 Pakistan	18.89	13.38	9	10	1
 Bangladesh	16.14	11.11	10	11	1
 Sudan	14.04	14.24	11	9	-2
 Egypt	9.02	7.34	12	13	1
 Turkey	8.95	8.83	13	12	-1
 Jordan	7.98	3.98	14	15	1

Countries	IFCI Score 2016	IFCI Score 2015	IFCI Rank 2016	IFCI Rank 2015	Changes
 United Kingdom	5.96	6.13	15	14	-1
 Oman	5.91	2.55	16	19	3
 Brunei Darussalam	5.85	2.89	17	17	0
 United States of America	3.28	3.27	18	16	-2
 Sri Lanka	2.96	2.72	19	18	-1
 Lebanon	2.67	2.39	20	21	1
 Nigeria	2.35	1.24	21	34	13
 Kenya	2.28	2.32	22	22	0
 Yemen	2.09	2.45	23	20	-3
 Singapore	2.05	2.13	24	23	-1
 Tunisia	2.00	1.76	25	28	3
 Switzerland	1.97	2.10	26	24	-2
 Canada	1.87	1.90	27	27	0
 South Africa	1.73	2.06	28	25	-3
 Afghanistan	1.70	1.30	29	32	3
 Thailand	1.70	1.73	30	29	-1
 Syria	1.49	2.03	31	26	-5
 India	1.27	1.73	32	30	-2
 Australia	1.25	1.26	33	33	0
 Algeria	1.24	1.52	34	31	-3
 Kazakhstan	1.20	1.13	35	36	1
 Azerbaijan	1.11	1.23	36	35	-1
 Palestine	1.10	1.10	37	37	0
 France	0.80	0.81	38	38	0
 Philippines	0.63	0.61	39	39	0
 Germany	0.62	0.59	40	40	0
 Gambia	0.57	0.58	41	41	0
 China	0.56	0.57	42	42	0

Countries	IFCI Score 2016	IFCI Score 2015	IFCI Rank 2016	IFCI Rank 2015	Changes
 Senegal	0.48	0.49	43	43	0
 Ghana	0.38	0.38	44	44	0
 Mauritius	0.23	0.24	45	45	0
 Russian Federation	0.19	0.20	46	46	0
 Spain	0.05	0.05	47	47	0
 Morocco	0.00	0.00	48	48	0



BOX 2.1:

A NOTE ON DATA AND METHODOLOGY

IFCI is based on a multivariate analysis. For construction of the index, data was collected on a number of variables, including macroeconomic indicators of the countries included. The data was then tested to see if it contained any meaningful information to draw conclusions from. After consideration of different multivariate methods, it was decided to use factor analysis to identify the factors that may influence IBF in the countries included in the sample.

In order for factor analysis to be applicable, it is important that the data fits a specification test for such an analysis. The Kaiser-Meyer-Oklin (KMO) measure of sampling adequacy is used to compare the magnitudes of the observed correlation coefficients in relation to the magnitudes and partial correlation coefficients. Large values (between 0.5 and 1) indicate that factor analysis is an appropriate technique for the data at hand. If the value is less than that, then the results of the factor analysis may not be very useful. For the data we used, we found the measure to be 0.85, which made it reasonable for us to use factor analysis.

Batlett's test of sphericity is another specification test that tests the hypothesis that the correlation matrix is an identity matrix indicating that the given variables are unrelated and therefore unsuitable for structure design. Smaller values (less than 0.05) of the significance level indicate that factor analysis may be useful with the data. For the present purposes, this value was found to be significant (0.00 level), which means that data was fit for factor analysis.

Factor analysis was therefore run to compute initial communalities to measure the proportion of variance accounted for in each variable by the rest of the variables. In this manner, we were able to assign weights to all eight factors in an objective manner.

By following the above method, we have been able to remove the subjectivity in the index. The weights along with the identified factors make up the IFCI. The weights point to the relative importance of each constituent factor of the index in determining the rank of an individual country.

There are over 70 countries involved in IBF in one way or another. However, due to limitations imposed by authenticity, availability and heterogeneity of the data, IFCI was launched in 2011 with only 36 countries. Over the next three years, the availability of data allowed us to include another six countries to make the sample size of 42. This year, another six countries are included, in an attempt to expand the coverage of the index.

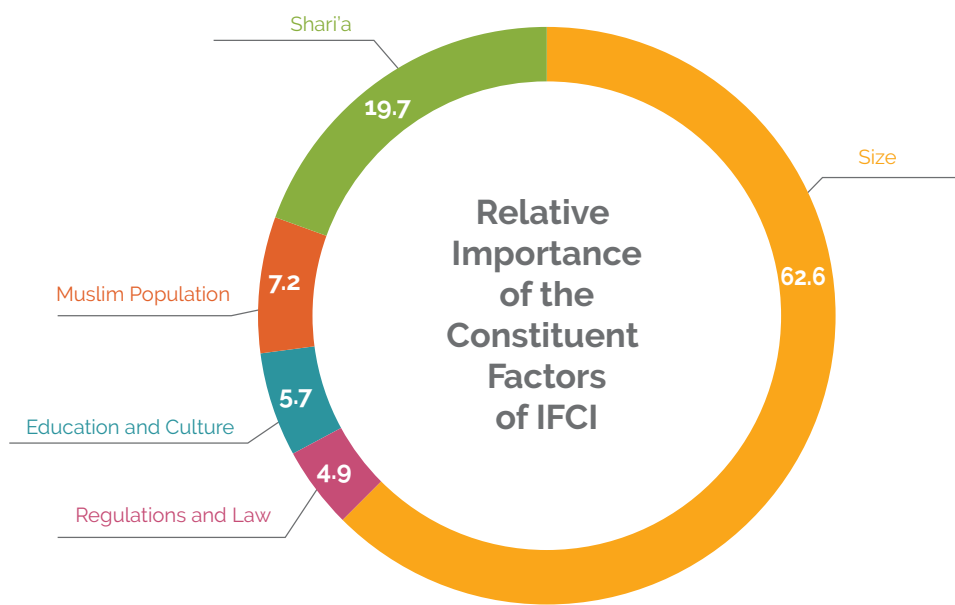
The data used comes from different primary and secondary sources, but in its collective final form becomes the proprietary data set of Edbiz Consulting, which collects, collates and maintain it.

We collect data on eight factors/variables for the countries included in IFCI. The variables and their respective weights are described in the following table.

CONSTITUENT VARIABLES/FACTORS OF IFCI AND THEIR DESCRIPTION AND WEIGHTS

S.No.	Variables/Factors	Description	Weights
1.	Number of Islamic Banks	Full-fledged Islamic banks both of local and foreign origin	21.8%
2.	Number of IBFIs	All banking and non-banking institutions involved in IBF, including Islamic windows of conventional banks	20.3%
3.	Shari'a Supervisory Regime	Presence of a state (or non-state) representative central body to look after the Shari'a compliancy process across the IBFIs in a country	19.7%
4.	Islamic Financial Assets	Islamic financial assets under management of Islamic and conventional institutions	13.9%
5.	Muslim Population	Absolute number of Muslims	7.2%
6.	Sukuk	Total sukuk outstanding in the country	6.6%
7.	Education & Culture	Presence of an educational and cultural environment conducive to operations of IBFIs, including formal Islamic finance professional qualifications, degree courses, diplomas and other dedicated training programmes	5.7%
8.	Islamic Regulation & Law	Presence of regulatory and legal environment enabling IBFIs to operate in the country on a level-playing field (e.g., an Islamic banking act, Islamic capital markets act, takaful act etc.)	4.9%

RELATIVE IMPORTANCE OF THE CONSTITUENT FACTORS OF IFCI



The general model used for the construction of IFCI is as follows:

$$\begin{aligned} \text{IFCI} (C_j) &= \sum_{i=1}^{i=8} W_i \cdot X_i \\ &= W_1 \cdot X_1 + W_2 \cdot X_2 + W_3 \cdot X_3 + W_4 \cdot X_4 + W_5 \cdot X_5 + W_6 \cdot X_6 + W_7 \cdot X_7 + W_8 \cdot X_8 \end{aligned}$$

where

C_j = Country j including in the index

W_i = Weight attached to a given variable / factor i

X_i = A given variable/factor i included in the index

The countries are ranked according to the above formula every year, using the annual data.














As the above table and figure suggest, size of Islamic financial services industry as captured by four factors (namely, number of Islamic banks, number of IBFIs, volume of Islamic financial assets, and the sukuk outstanding) is the most important factor in the index, explaining 62.6% variation. Therefore, it is superior to the univariate analysis that focus on just size of the industry in a given country. Furthermore, size in itself is not

enough to capture the relative importance of IBF in a country. It is equally important to consider depth and breadth of the industry. Hence, both the size of Islamic financial assets and the number of IBFIs are included. Furthermore, the inclusion of sukuk, which accounts for 15% of the global Islamic financial services industry, as a separate factor is also useful.








Although the other factors collectively explain 37.4% variation in the index, their inclusion is important as they give a comprehensive view on the state of affairs of IBF in a country.

It must be clarified that IFCI is a positive measure of the state of affairs of IBF and its potential in a country, without taking a normative view on what should be the important factors determining size and growth of the industry, and their relative importance (i.e., weights).

Table 8:
MAINSTREAM RELEVANCE OF IBF

Countries	2011	2012	2013	2014	2015	2016	Growth in IFCI (2011-2016)	Mainstream Relevance of IBF
 Afghanistan		1.28	1.33	1.31	1.30	1.70	0.42	
 Algeria		1.30	1.53	1.51	1.52	1.24	-0.06	
 Australia			0.62	0.61	1.26	1.25	0.63	
 Azerbaijan	2.50	0.00	1.02	1.19	1.23	1.11	-1.39	
 Bahrain	16.00	19.41	18.77	22.18	23.93	21.90	5.90	Moderate
 Bangladesh	12.00	5.16	9.19	9.97	11.11	16.14	4.14	Marginal
 Brunei Darussalam	3.30	2.81	3.24	3.03	2.89	5.85	2.55	
 Canada		0.24	0.25	0.24	1.90	1.87	1.63	
 China	1.00	0.01	0.46	0.57	0.57	0.56	-0.44	
 Egypt	8.00	5.07	5.69	5.11	7.34	9.02	1.02	
 France		0.57	0.83	0.82	0.81	0.80	0.24	
 Gambia		0.57	0.40	0.40	0.58	0.57	0.00	
 Germany		0.45	0.66	0.65	0.59	0.62	0.16	

Countries	2011	2012	2013	2014	2015	2016	Growth in IFCI (2011-2016)	Mainstream Relevance of IBF
 Ghana		0.00	0.00	0.00	0.38	0.38	0.38	
 India		0.82	1.04	1.00	1.73	1.27	0.46	
 Indonesia	22.00	15.60	20.22	19.82	22.45	24.21	2.21	
 Iran	46.00	51.71	68.31	75.24	77.93	77.39	31.39	Exceptional
 Jordan	4.00	2.70	3.60	3.08	3.98	7.98	3.98	Marginal
 Kazakhstan		0.50	1.08	1.26	1.13	1.20	0.70	
 Kenya	3.20	2.35	2.02	1.97	2.32	2.28	-0.92	
 Kuwait	19.00	21.78	16.79	21.38	33.40	35.51	16.51	Significant
 Lebanon	3.40	2.16	2.64	2.42	2.39	2.67	-0.73	
 Malaysia	30.00	32.36	42.69	49.53	73.09	77.77	47.77	Highest
 Mauritius		0.05	0.22	0.00	0.24	0.23	0.18	
 Nigeria	3.50	0.67	1.07	1.45	1.24	2.35	-1.15	
 Oman		1.44	1.84	1.30	2.55	5.91	4.47	
 Pakistan	19.00	11.27	14.15	11.49	13.38	18.89	-0.11	
 Palestine	9.00	1.12	1.89	1.11	1.10	1.10	-7.90	
 Qatar	8.00	9.74	8.88	10.44	19.04	22.02	14.02	Significant
 Russia		0.00	0.20	0.00	0.20	0.19	0.19	
 Saudi Arabia	26.00	29.84	41.38	42.21	66.94	66.98	40.98	Exceptional
 Senegal	3.10	0.59	0.68	0.48	0.49	0.48	-2.62	
 Singapore	1.00	1.31	1.72	2.10	2.13	2.05	1.05	
 South Africa	2.00	1.26	2.47	1.66	2.06	1.73	-0.27	
 Spain		0.00	0.00	0.00	0.05	0.05	0.05	
 Sri Lanka	2.60	1.33	2.00	1.84	2.72	2.96	0.36	
 Sudan	11.00	9.35	13.42	13.34	14.24	14.04	3.04	
 Switzerland		0.50	0.51	0.51	2.10	1.97	1.47	
 Syria	4.10	2.28	2.51	2.06	2.03	1.49	-2.61	
 Thailand	2.30	1.17	1.20	1.57	1.73	1.70	-0.60	

Countries	2011	2012	2013	2014	2015	2016	Growth in IFCI (2011-2016)	Mainstream Relevance of IBF
 Philippines		0.20	0.63	0.62	0.61	0.63	0.43	
 Tunisia		1.79	1.49	0.48	1.76	2.00	0.21	
 Turkey	7.50	5.21	6.48	7.23	8.83	8.95	1.45	
 UAE	19.00	21.06	20.64	20.27	34.57	36.68	17.68	Significant
 UK	7.00	7.84	8.15	5.94	6.13	5.96	-1.04	
 USA	4.01	0.11	4.28	4.26	3.27	3.28	-0.73	
 Yemen	4.01	2.18	2.58	2.44	2.45	2.09	-1.92	
Average	10.12	6.70	7.95	9.00	10.61	11.58	1.47	Insignificant

IFCI is a measure of the size as well as potential of IBF in a country. The inclusion of Muslim population in the construction of the index captures the potential of IBF in a country. One of the reasons that Iran held top position on IFCI (2011-15) is the size of the Muslim population in the country (in addition to having the largest volume of Islamic financial assets). Similarly, countries like Pakistan and Indonesia have huge potential in terms of IBF due to the sizes of Muslim populations in these countries, among other factors.

Table 8 tells an interesting story. Despite huge focus on IBF in some circles, IBF remains like a ‘cottage industry’ in most of the countries where it has registered its presence. The average IFCI scores on a global level have not increased significantly between 2011 and 2016. This means that on a global level IBF has yet to receive any meaningful recognition.

Malaysia is an exceptional example. In addition to it, there are only 6 countries in the world where IBF is growing with a degree of significance (see Table 8).

This necessitates devising of a strategy on a global level as well as on national levels to promote IBF. This is a major focus of this year’s report.