

ISLAMIC FINANCE COUNTRY INDEX – IFCI 2017

Developed by Edbiz Consulting in 2011, Islamic Finance Country Index (IFCI) is the oldest index for ranking different countries with respect to the state of Islamic banking and finance (IBF) and their leadership role in the industry on a national level and benchmarked to an international level. IFCI has evolved over the last seven years, with an adjustment in the calculating formula to normalise the data over the time series. The data has now started achieving a meaningful length. In 2011, when IFCI was first launched, there was no previous benchmark to assess the performance of the countries included in the sample. With seven years in running, the index has started exhibiting some characteristics of time series data. Therefore, it is now possible to draw some implications from the past performance of IBF in individual countries and on a global level for the future growth of the industry.
























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 in each country. With the seven-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 Global Islamic Finance Report (2011-16) to have a comprehensive view on IFCI.


























IFCI 2017

Table 1 presents the latest IFCI scores and ranks. Following are some of the important observations:

- Malaysia ranks number one, with 79.25 score. This is the second year in a row that Malaysia has been on the top position, taking over from Iran in 2016.
- There is no change in ranks of the first 5 positions. Malaysia, Iran and UAE have slightly improved their scores while Saudi Arabia and Kuwait have witnessed deterioration in their scores.

Table 1:
LATEST IFCI SCORES AND RANKS

COUNTRIES	2017 IFCI	2016 IFCI	2017 IFCI	2016 IFCI	CHANGE
	RANK	RANK	SCORE	SCORE	
 MALAYSIA	1	1	79.25	77.77	-
 IRAN	2	2	78.42	77.39	-
 SAUDI ARABIA	3	3	65.90	66.98	-
 UNITED ARAB EMIRATES	4	4	38.02	36.68	-
 KUWAIT	5	5	35.20	35.51	-
 PAKISTAN	6	9	24.30	18.89	+3
 INDONESIA	7	6	23.98	24.21	-1
 BAHRAIN	8	8	21.96	21.90	-
 QATAR	9	7	21.94	22.02	-2
 BANGLADESH	10	10	16.73	16.14	-
 SUDAN	11	11	15.70	14.04	-
 TURKEY	12	13	12.17	8.95	+1
 JORDAN	13	12	10.29	7.98	+1
 EGYPT	14	12	9.99	9.02	-2
 BRUNEI DARUSSALAM	15	17	8.85	5.85	+2
 OMAN	16	16	6.41	5.91	-
 UNITED KINGDOM	17	15	5.89	5.96	-2
 SRI LANKA	18	19	3.78	2.96	+1
 UNITED STATES OF AMERICA	19	18	3.50	3.28	-1
 TUNISIA	20	25	2.87	2.00	+5
 KENYA	21	22	2.85	2.28	+1
 LEBANON	22	20	2.64	2.67	-2
 NIGERIA	23	21	2.32	2.35	-2

COUNTRIES	2017 IFCI	2016 IFCI	2017 IFCI	2016 IFCI	CHANGE
	RANK	RANK	SCORE	SCORE	
 YEMEN	24	23	2.03	2.09	-1
 SINGAPORE	25	24	1.94	2.05	-1
 SWITZERLAND	26	26	1.93	1.97	-
 CANADA	27	27	1.82	1.87	-
 SOUTH AFRICA	28	28	1.75	1.73	-
 AFGHANISTAN	29	29	1.71	1.70	-
 THAILAND	30	30	1.69	1.70	-
 KAZAKHSTAN	31	35	1.32	1.20	+4
 INDIA	32	32	1.30	1.27	-
 ALGERIA	33	34	1.24	1.24	+1
 AUSTRALIA	34	33	1.22	1.25	-1
 AZERBAIJAN	35	36	1.15	1.11	+1
 PALESTINE	36	37	1.10	1.10	+1
 SYRIA	37	31	0.92	1.49	-6
 FRANCE	38	38	0.78	0.80	-
 GERMANY	39	40	0.66	0.62	+1
 THE PHILIPPINES	40	39	0.65	0.63	-1
 CHINA	41	42	0.57	0.56	+1
 GAMBIA	42	41	0.57	0.57	-1
 SENEGAL	43	43	0.50	0.48	-
 GHANA	44	44	0.39	0.38	-
 MAURITIUS	45	45	0.24	0.23	-
 RUSSIAN FEDERATION	46	46	0.21	0.19	-
 SPAIN	47	47	0.06	0.05	-
 MOROCCO	48	48	0.01	0.00	-

- There are 14 countries that have witnessed decrease in their IFCI scores. While some of them are the countries with majority Muslim populations, the trend is more visible in the countries with Muslim minorities.
- 13 countries improved their ranking. Tunisia took the biggest leap and improved its position from number 25 to 20. Other gainers included Kazakhstan and Pakistan, which improved from 35th to 31st (4 points up) and from 9th to 6th (3 points up) positions, respectively.
- 13 countries went down on their ranking. Syria had the most significant drop of 6 points, for obvious reasons including the ongoing civil war and military conflict.
- There was no movement for 22 countries.
- The data also exhibits the robustness of the sample and its size. There are 48 countries included in the sample (less than some other indices being reported in the industry). The IFCI score falls below 1.00 at the 37th position, implying that the information contents provided by the last 10 countries is almost negligible.

What led to improvement in IFCI ranks of the sampled countries


Movements in IFCI are determined by changes in values of its constituent factors. Some of the 13 countries that have shown improvement in IFCI are discussed below:

Tunisia: +5

Tunisia experienced the biggest jump in IFCI ranking, from 25 to 20. This upward change must be understood with respect to the low level of IBF activities in the country, and a general downward trend in IBF in the countries in the same bracket (see Table 2). Out of the 6 countries in this bracket, 4 have slipped down the list for various reasons. Lebanon and Nigeria (both slipped down 2 points) are the countries with significant Muslim populations in multi-ethnic societies with various faith groups. Yemen, on the other hand, is a predominantly Muslim country, and has gone down the rank primarily due to the ongoing military conflict involving war with the neighbouring Saudi Arabia.

Singapore is an interesting case. The country was keen to develop a vibrant Islamic finance market but it appears to have failed to compete with the neighbouring Malaysia that continues to dominate the global Islamic financial services industry. Amidst weak policy framework and Islamic financial regulations, the bulk of improvement in IFCI score in Tunisia came from the growth of Islamic financial assets. With only three Islamic banks operating in the country, claiming for about 5% of banking business, Tunisian Islamic banking is still in infancy. Tunisia's improvement in IFCI ranking also comes from the increase in awareness of IBF in the country. A number of training workshops were organised during the year, which helped the country to witness nearly 25% growth in Islamic banking assets.

Table 2:
IFCI SCORE OF THE COUNTRIES RANKED 20TH TO 25TH

COUNTRIES	2017 IFCI	2016 IFCI	2017 IFCI	2016 IFCI	CHANGE
	SCORE	SCORE	RANK	RANK	
 TUNISIA	2.87	2.00	20	25	+5
 KENYA	2.85	2.28	21	22	+1
 LEBANON	2.64	2.67	22	20	-2
 NIGERIA	2.32	2.35	23	21	-2
 YEMEN	2.03	2.09	24	23	-1
 SINGAPORE	1.94	2.05	25	24	-1

Kazakhstan: +4

There is only one full-fledged Islamic bank in the country, with a number of non-bank Islamic financial institutions. Kazakhstan has shown great commitment to IBF since 2014 when President Nursultan Nazarbayev was honoured with Global Islamic Finance Leadership Award by Global Islamic Finance Awards. The country has since engaged with a number of organisations like Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), Islamic Financial Services Board (IFSB) and the Islamic Corporation for the Development of the Private Sector (ICD), which held meetings in Kazakhstan during 2016. This helped increase awareness of IBF and educate various stakeholders in the industry. The role of Astana International Financial Centre (AIFC) is worth mentioning in this respect.

Pakistan: +3

Pakistan improved its IFCI score on account of an active involvement of the government (especially Ministry of Finance), which resulted in a number of new initiatives and enhancement of the existing processes, procedures and mechanisms. Following are some of the factors that contributed to Pakistan's improvement:

1. The three newly developed Centres of Excellence (CoEs) for education of IBF (supported by the State Bank of Pakistan and funded by grants from the UK's Department for International Development) showed a lot of activity. These CoEs have started offering new courses, qualifications and training programmes to the students as well as employees of Islamic banks and financial institutions.
2. Through a number of international conferences organised by these CoEs, Pakistan's profile in the global Islamic financial services industry has substantiated.

3. The Securities and Exchange Commission of Pakistan (SECP) also took new measures to strengthen the framework for monitoring and supervising Shari'a-compliant stocks listed on Pakistan Stock Exchange (PSX). The disclosure requirements for Shari'a-compliant stocks were improved to ensure authenticity of PSX's newly developed All Shares Islamic Index (ASII).
4. The SECP was also seen actively involved in some of the activities aimed at promoting Islamic capital market in the country. For example, SECP recommended to the federal government to introduce 2% tax rebate for Shari'a-compliant stocks listed on PSX. This was implemented through the Finance Act 2016.
5. Due to the reforms introduced and strengthening of regulatory framework by SECP, Pakistan's Mudaraba Sector also showed improvement in 2016. A draft bill on amendments to the Mudaraba Companies and Mudaraba (Floatations and Control) Ordinance 1980 was issued by SECP.
6. The government has accorded tax neutrality to sukuk issuance by allowing certain tax exemptions. With this new tax incentive in place, it is expected to boost IBF and sukuk development in the country.

All these and other factors contributed to Pakistan moving three points up. The real impetus to the recent developments in this respect came from Saeed Ahmed, Deputy Governor of State Bank of Pakistan, who played a pivotal leadership role in promoting Islamic banking in the country. His contributions were recognised by Global Islamic Finance Awards (GIFA) in Jakarta where he was presented with GIFA Advocacy Award 2016.

Brunei Darussalam: +2

Brunei Darussalam has been an important domestic market for IBF but it has not been noticed on a global level, primarily due to the geographical location of the country and its strong neighbour, i.e., Malaysia. The country has, however, started emerging as a visible player in the global Islamic financial services industry. Its IFCI ranking improvement was primarily due to the increase in size of the Islamic financial assets and the growing commitment of the government to Shari'a in economic and social spheres.




Table 3 presents the latest IFCI scores, along with that of the previous six years. Based on the scores, the table classifies the sampled countries into six groups:

1. **Insignificant:** The countries with the latest IFCI score of less than or equal to 10 ($IFCI \leq 10$) – **35 countries**;
2. **Marginal:** The countries with the latest IFCI score of more than 10 but less than or equal to 20 ($10 < IFCI \leq 20$) – **4 countries**;
3. **Moderate:** The countries with the latest IFCI score of more than 20 but less than or equal to 30 ($20 < IFCI \leq 30$) – **4 countries**;
4. **Significant:** The countries with the latest IFCI score of more than 30 but less than or equal to 40 ($30 < IFCI \leq 40$) – **2 countries**;



























5. **Exceptional:** The countries with the latest IFCI score of more than 40 (IFCI > 40) – **2 countries;** and
6. **Highest¹:** The country that tops the list (in this case, **Malaysia**, which has an IFCI score of 79.20).

This means that there are only 13 countries where IBF has assumed any meaningful relevance to the mainstream banking and finance. These countries are presented later in the Part 2 along with an analysis in light of some macroeconomic indicators (see Table 8).

Table 3:
IFCI SCORES 2011-17

COUNTRIES	2011	2012	2013	2014	2015	2016	2017	RELEVANCE OF IBF TO THE GLOBAL ISLAMIC FINANCIAL SERVICES INDUSTRY
 AFGHANISTAN		1.28	1.33	1.31	1.30	1.70	1.71	
 ALGERIA		1.30	1.53	1.51	1.52	1.24	1.24	
 AUSTRALIA			0.62	0.61	1.26	1.25	1.22	
 AZERBAIJAN	2.50	0.00	1.02	1.19	1.23	1.11	1.15	
 BAHRAIN	16.00	19.41	18.77	22.18	23.93	21.90	21.95	MODERATE
 BANGLADESH	12.00	5.16	9.19	9.97	11.11	16.14	16.72	MARGINAL
 BRUNEI DARUSSALAM	3.30	2.81	3.24	3.03	2.89	5.85	8.85	
 CANADA		0.24	0.25	0.24	1.90	1.87	1.82	
 CHINA	1.00	0.01	0.46	0.57	0.57	0.56	0.57	
 EGYPT	8.00	5.07	5.69	5.11	7.34	9.02	9.99	
 FRANCE		0.57	0.83	0.82	0.81	0.80	0.78	
 GAMBIA		0.57	0.40	0.40	0.58	0.57	0.57	
 GERMANY		0.45	0.66	0.65	0.59	0.62	0.66	
 GHANA		0.00	0.00	0.00	0.38	0.38	0.39	
 INDIA		0.82	1.04	1.00	1.73	1.27	1.30	
 INDONESIA	22.00	15.60	20.22	19.82	22.45	24.21	23.96	MODERATE
 IRAN	46.00	51.71	68.31	75.24	77.93	77.39	78.37	EXCEPTIONAL
 JORDAN	4.00	2.70	3.60	3.08	3.98	7.98	10.29	MARGINAL
 KAZAKHSTAN		0.50	1.08	1.26	1.13	1.20	1.32	
 KENYA	3.20	2.35	2.02	1.97	2.32	2.28	2.85	
 KUWAIT	19.00	21.78	16.79	21.38	33.40	35.51	35.18	SIGNIFICANT

1. One may like to consider 5 categories, as Highest is in fact included in the Exceptional category.

COUNTRIES	2011	2012	2013	2014	2015	2016	2017	RELEVANCE OF IBF TO THE GLOBAL ISLAMIC FINANCIAL SERVICES INDUSTRY
 LEBANON	3.40	2.16	2.64	2.42	2.39	2.67	2.64	
 MALAYSIA	30.00	32.36	42.69	49.53	73.09	77.77	79.20	HIGHEST
 MAURITIUS		0.05	0.22	0.00	0.24	0.23	0.24	
 NIGERIA	3.50	0.67	1.07	1.45	1.24	2.35	0.01	
 OMAN		1.44	1.84	1.30	2.55	5.91	6.41	
 PAKISTAN	19.00	11.27	14.15	11.49	13.38	18.89	24.30	MODERATE
 PALESTINE	9.00	1.12	1.89	1.11	1.10	1.10	1.10	
 QATAR	8.00	9.74	8.88	10.44	19.04	22.02	21.93	MODERATE
 RUSSIAN FEDERATION		0.00	0.20	0.00	0.20	0.19	0.21	
 SAUDI ARABIA	26.00	29.84	41.38	42.21	66.94	66.98	65.86	EXCEPTIONAL
 SENEGAL	3.10	0.59	0.68	0.48	0.49	0.48	0.50	
 SINGAPORE	1.00	1.31	1.72	2.10	2.13	2.05	1.94	
 SOUTH AFRICA	2.00	1.26	2.47	1.66	2.06	1.73	1.74	
 SPAIN		0.00	0.00	0.00	0.05	0.05	0.06	
 SRI LANKA	2.60	1.33	2.00	1.84	2.72	2.96	3.78	
 SUDAN	11.00	9.35	13.42	13.34	14.24	14.04	15.69	MARGINAL
 SWITZERLAND		0.50	0.51	0.51	2.10	1.97	1.93	
 SYRIA	4.10	2.28	2.51	2.06	2.03	1.49	0.92	
 THAILAND	2.30	1.17	1.20	1.57	1.73	1.70	1.69	
 THE PHILIPPINES		0.20	0.63	0.62	0.61	0.63	0.65	
 TUNISIA		1.79	1.49	0.48	1.76	2.00	2.87	
 TURKEY	7.50	5.21	6.48	7.23	8.83	8.95	12.16	MARGINAL
 UNITED ARAB EMIRATES	19.00	21.06	20.64	20.27	34.57	36.68	37.99	SIGNIFICANT
 UNITED KINGDOM	7.00	7.84	8.15	5.94	6.13	5.96	5.88	
 UNITED STATES OF AMERICA	4.01	0.11	4.28	4.26	3.27	3.28	3.50	
 YEMEN	4.01	2.18	2.58	2.44	2.45	2.09	2.03	
AVERAGE	10.12	6.70	7.95	9.00	10.61	11.58	10.51	MARGINAL

BOX 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-Okin (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.

Bartlett'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 some 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 and other six countries to make the sample size of 42. The current sample stands at 48, and we believe that this is a robust enough number to analyse the state of affairs of the global Islamic financial services industry. Information contents of the data for other countries is not instructive at all.

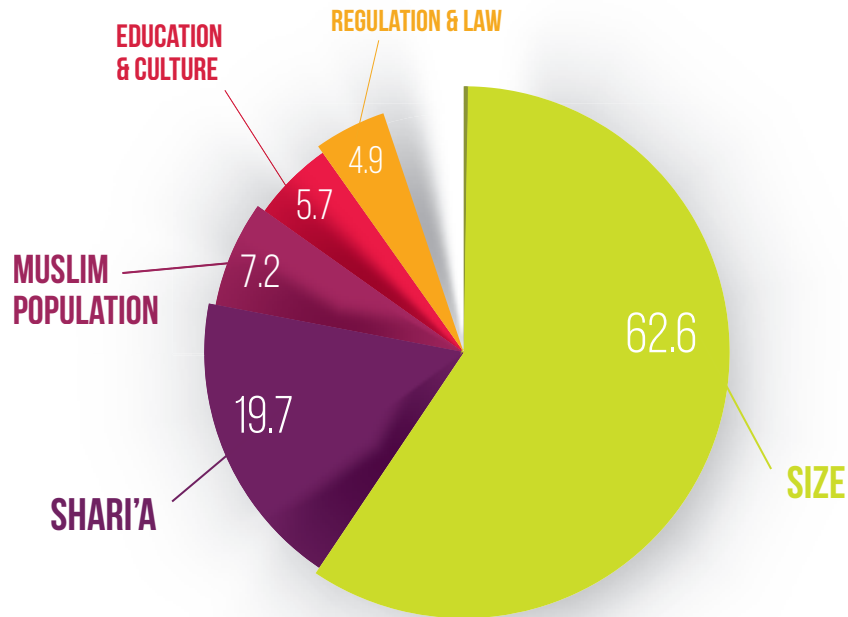
The data used comes from different primary and secondary sources, but in its collective final form becomes the proprietary data set of Edbiz Consulting, which collects, collates and maintains it.

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

CONSTITUENT VARIABLES/FACTORS OF IFCI AND THEIR DESCRIPTION AND WEIGHTS

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., and 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 updated annual data.

In 2016, a major adjustment exercise was undertaken to take into account some of the time-series characteristics of the data. The primary objective of this exercise was to normalise the data over the time. 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:

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

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.

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 analyses 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 4 presents growth in IFCI over the last 7 years, showing that overall annual growth in the index between 2011 and 2016 has been 10.82%. This should, however, not imply that the growth has been evenly distributed in the countries included in the sample. There are 5 countries where IBF has on average gone down in significance over the last seven years. These include Algeria, the Russian Federation, Senegal, Syria and the USA.






















Table 4:
GROWTH IN IFCI: 2012-17

COUNTRIES	GROWTH IN IFCI	GROWTH IN IFCI	GROWTH IN IFCI	GROWTH IN IFCI	GROWTH IN IFCI	AVERAGE ANNUAL GROWTH IN IFCI
	(2012-13)	(2013-14)	(2014-15)	(2015-16)	(2016-17)	(2012-17)
 AFGHANISTAN	3.85	-1.40	-1.14	31.20	0.40	6.48
 ALGERIA	16.99	-1.33	0.88	-18.19	-0.49	-0.43
 AUSTRALIA		-1.33	104.73	-0.30	-2.61	25.12
 AZERBAIJAN		16.97	2.59	-9.08	3.12	4.15
 BAHRAIN	-3.32	18.15	7.88	-8.47	0.22	2.89
 BANGLADESH	77.99	8.58	11.39	45.26	3.60	29.37
 BRUNEI DARUSSALAM	15.26	-6.47	-4.70	102.58	51.34	31.60
 CANADA	3.80	-1.33		-1.78	-2.45	-0.44
 CHINA		23.52	-1.09	-1.78	2.17	5.70
 EGYPT	12.08	-10.11	43.69	22.80	10.73	15.84
 FRANCE	47.29	-1.33	-1.14	-1.17	-3.00	8.13
 GAMBIA	-29.36	-1.42	45.97	-1.78	-0.26	2.63
 GERMANY	44.25	-1.15	-9.65	5.25	6.62	9.07
 GHANA				-1.78	4.85	1.54
 INDIA	27.64	-4.35	72.86	-26.15	1.78	14.36
 INDONESIA	29.63	-2.00	13.28	7.84	-1.03	9.55
 IRAN	32.11	10.14	3.58	-0.69	1.27	9.28
 JORDAN	33.51	-14.46	20.09	100.80	28.85	35.56
 KAZAKHSTAN	113.99	16.73	-9.88	6.11	10.03	27.39
 KENYA	-13.92	-2.67	17.62	-1.78	25.25	4.90
 KUWAIT	-22.88	27.32	56.22	6.32	-0.95	13.21
 LEBANON	22.28	-8.29	-1.14	11.75	-1.25	4.67

COUNTRIES	GROWTH IN IFCI	GROWTH IN IFCI	GROWTH IN IFCI	GROWTH IN IFCI	GROWTH IN IFCI	AVERAGE ANNUAL GROWTH IN IFCI
	(2012-13)	(2013-14)	(2014-15)	(2015-16)	(2016-17)	(2012-17)
 MALAYSIA	31.95	16.00	47.59	6.40	1.84	20.75
 MAURITIUS	327.15	100.00		-1.78	2.29	56.92
 NIGERIA	60.82	35.13	-14.77	90.02	-1.23	33.99
 OMAN	27.90	-29.12	95.56	131.72	8.49	46.91
 PAKISTAN	25.63	-18.79	16.38	41.20	28.66	18.62
 PALESTINE	68.27	-41.28	-1.17	0.36	0.05	5.25
 QATAR	-8.79	17.57	82.32	15.63	-0.39	21.27
 RUSSIAN FEDERATION				-1.78	7.77	2.99
 SAUDI ARABIA	38.68	2.01	58.58	0.05	-1.67	19.53
 SENEGAL	13.88	-28.82	1.36	-1.78	4.33	-2.21
 SINGAPORE	31.74	21.79	1.41	-3.81	-5.22	9.18
 SOUTH AFRICA	95.54	-32.78	23.71	-15.99	0.72	14.24
 SPAIN				-1.78	17.76	7.99
 SRI LANKA	50.62	-8.02	47.56	8.93	27.76	25.37
 SUDAN	43.58	-0.62	6.77	-1.40	11.73	12.01
 SWITZERLAND	3.60	-1.33	314.85	-6.38	-1.85	61.78
 SYRIA	9.77	-17.91	-1.16	-26.66	-38.33	-14.86
 THAILAND	2.60	30.29	10.65	-2.20	-0.34	8.20
 THE PHILIPPINES	215.32	-1.83	-0.70	2.16	3.88	43.77
 TUNISIA	-16.95	-67.69	266.57	13.59	43.65	47.83
 TURKEY	24.25	11.54	22.20	1.34	35.90	19.05
 UNITED ARAB EMIRATES	-1.98	-1.80	70.57	6.11	3.56	15.29
 UNITED KINGDOM	3.98	-27.13	3.31	-2.82	-1.38	-4.81
 UNITED STATES OF AMERICA		-0.52	-23.20	0.20	6.69	-4.21
 YEMEN	18.26	-5.47	0.59	-14.77	-2.88	-0.86
AVERAGE	18.53	13.22	18.00	9.13	-4.78	10.82

Table 5 presents contributions of composite factors to IFCI for the year 2016. On the basis of relative contributions of these factors, one may classify the countries into three broad categories, which are comprehensively-balanced, balanced and skewed.

Table 5:
CONTRIBUTIONS OF COMPOSITE FACTORS TO IFCI

COUNTRIES	ISLAMIC BANKING	IBFIs	SHARI'A SUPERVISORY REGIME	ISLAMIC FINANCIAL ASSETS	MUSLIM POPULATION	ISLAMIC CAPITAL MARKETS	EDUCATION & CULTURE	ISLAMIC REGULATION AND LAW
 AFGHANISTAN	27%	32%	5%	13%	16%	2%	2%	3%
 ALGERIA	31%	33%	3%	9%	6%	7%	5%	6%
 AUSTRALIA	0%	30%	3%	40%	0%	1%	25%	1%
 AZERBAIJAN	0%	15%	0%	45%	25%	1%	14%	0%
 BAHRAIN	13%	15%	20%	18%	1%	10%	12%	11%
 BANGLADESH	11%	19%	10%	17%	17%	10%	9%	7%
 BRUNEI DARUSSALAM	17%	20%	11%	23%	1%	9%	9%	10%
 CANADA	0%	41%	1%	46%	0%	1%	10%	1%
 CHINA	0%	80%	0%	5%	15%	0%	0%	0%
 EGYPT	15%	17%	7%	21%	15%	9%	9%	7%
 FRANCE	0%	0%	0%	54%	0%	23%	23%	0%
 GAMBIA	30%	31%	1%	25%	10%	1%	1%	1%
 GERMANY	33%	35%	0%	30%	0%	1%	1%	0%
 GHANA	10%	60%	0%	27%	1%	0%	1%	1%
 INDIA	0%	13%	0%	19%	37%	3%	15%	13%
 INDONESIA	9%	13%	11%	14%	15%	19%	10%	9%
 IRAN	17%	19%	7%	21%	13%	9%	8%	6%
 JORDAN	22%	26%	5%	13%	9%	11%	7%	7%
 KAZAKHSTAN	11%	25%	8%	21%	11%	5%	11%	8%
 KENYA	25%	30%	2%	19%	12%	4%	5%	3%
 KUWAIT	16%	18%	8%	19%	4%	18%	9%	8%

COUNTRIES	ISLAMIC BANKING	IBFIs	SHARI'A SUPERVISORY REGIME	ISLAMIC FINANCIAL ASSETS	MUSLIM POPULATION	ISLAMIC CAPITAL MARKETS	EDUCATION & CULTURE	ISLAMIC REGULATION AND LAW
 LEBANON	19%	21%	7%	19%	6%	13%	8%	7%
 MALAYSIA	15%	15%	13%	18%	8%	14%	9%	8%
 MAURITIUS	25%	24%	11%	12%	7%	6%	8%	7%
 NIGERIA	24%	25%	6%	15%	10%	7%	6%	7%
 OMAN	26%	27%	21%	11%	1%	4%	3%	7%
 PAKISTAN	17%	18%	11%	9%	13%	11%	11%	10%
 PALESTINE	25%	26%	9%	19%	3%	7%	6%	5%
 QATAR	21%	19%	11%	18%	3%	10%	9%	9%
 RUSSIAN FEDERATION	5%	35%	0%	31%	7%	15%	6%	1%
 SAUDI ARABIA	15%	17%	4%	22%	11%	14%	10%	7%
 SENEGAL	33%	25%	6%	9%	11%	2%	9%	5%
 SINGAPORE	10%	7%	0%	49%	1%	26%	3%	4%
 SOUTH AFRICA	26%	27%	3%	18%	4%	8%	7%	7%
 SPAIN	0%	0%	0%	1%	0%	0%	99%	0%
 SRI LANKA	31%	33%	1%	14%	2%	1%	14%	4%
 SUDAN	14%	15%	15%	11%	13%	13%	9%	10%
 SWITZERLAND	23%	28%	0%	21%	0%	18%	6%	4%
 SYRIA	29%	32%	1%	20%	9%	0%	7%	2%
 THAILAND	31%	33%	3%	10%	7%	3%	7%	6%
 THE PHILIPPINES	38%	39%	0%	9%	3%	7%	1%	3%
 TUNISIA	29%	31%	3%	15%	9%	3%	3%	7%
 TURKEY	23%	26%	5%	13%	12%	9%	7%	5%
 UNITED ARAB EMIRATES	18%	26%	11%	13%	1%	13%	9%	9%
 UNITED KINGDOM	25%	26%	0%	14%	1%	15%	10%	9%
 UNITED STATES OF AMERICA	26%	28%	0%	20%	1%	15%	9%	1%
 YEMEN	26%	28%	4%	9%	8%	2%	12%	11%

Countries with Comprehensively-balanced Development in IBF

These are the countries wherein constituting factors contribute evenly to the development of IBF sector. A country is categorised as the one with comprehensively-balanced development in IBF if standard deviation of the contributions of the composite factors is less than or equal to 5%. As Table 6 suggests, there are only 6 countries, namely, Sudan, Pakistan, Indonesia, Malaysia, Bangladesh and Egypt, which have undergone comprehensively-balanced development in their respective IBF sectors. It is interesting to note that the countries with the highest Muslim population (e.g., Indonesia, Pakistan, Bangladesh) have developed their IBF sectors more comprehensively than other leading countries like Iran, Saudi Arabia and other important players in the GCC region.

Table 6:
COUNTRIES WITH COMPREHENSIVELY-BALANCED DEVELOPMENT
IN IBF SECTORS

	STANDARD DEVIATION OF CONTRIBUTIONS OF THE CONSTITUTING FACTORS	COUNTRIES	IFCI RANK	GLOBAL IMPORTANCE
1	2%	SUDAN	11	MARGINAL
2	3%	PAKISTAN	6	MODERATE
3	3%	INDONESIA	7	MODERATE
4	4%	MALAYSIA	1	HIGHEST
5	4%	BANGLADESH	10	MARGINAL
6	5%	EGYPT	14	INSIGNIFICANT

Countries with Balanced Development in IBF

There are 17 countries with balanced development in the IBF sector. A country is categorised as one with balanced development in IBF if standard deviation of the contributions of the composite factors is more than 5% but less than or equal to 10%. Table 7 presents the countries with balanced development. The remaining 25 countries have skewed development in their IBF sectors.














Table 7:
COUNTRIES WITH BALANCED DEVELOPMENT IN IBF SECTORS

	STANDARD DEVIATION OF CONTRIBUTIONS OF THE CONSTITUTING FACTORS	COUNTRIES	IFCI RANK	GLOBAL IMPORTANCE
7	6%	IRAN	2	EXCEPTIONAL
8	6%	SAUDI ARABIA	3	EXCEPTIONAL
9	6%	KUWAIT	5	SIGNIFICANT
10	6%	BAHRAIN	8	MODERATE
11	6%	QATAR	9	MODERATE
12	6%	LEBANON	22	INSIGNIFICANT
13	7%	UAE	6	SIGNIFICANT
14	7%	BRUNEI DARUSSALAM	15	INSIGNIFICANT
15	7%	KAZAKHSTAN	31	INSIGNIFICANT
16	8%	TURKEY	12	INSIGNIFICANT
17	8%	JORDAN	13	MARGINAL
18	8%	NIGERIA	23	INSIGNIFICANT
19	8%	MAURITIUS	45	INSIGNIFICANT
20	9%	PALESTINE	36	INSIGNIFICANT
21	10%	UK	17	INSIGNIFICANT
22	10%	YEMEN	24	INSIGNIFICANT
23	10%	SOUTH AFRICA	28	INSIGNIFICANT

IFCI and Macroeconomic Indicators

There are only 13 countries in the world, which are playing some significant role in the global Islamic financial services industry. These are listed in Table 8, with their geographical location, and some basic information on their demographics and economies. The sample of leading countries in IBF is a mixed bag, including relatively developed countries like Malaysia, the countries in the highest per capita income bracket (e.g., Qatar), and those falling in the list of the countries with the poorest populations (e.g., Bangladesh). This is both good and bad news. It is good in the sense that it shows IBF can work in all environments and can serve all segments of the societies. The other side of the coin may reveal, however, that IBF has not contributed to national socio-economic agendas, as there is no systematic relationship between the degree of economic development and the incidence of IBF. At least the limited data at hand does not suggest so!

Table 8:
LEADING COUNTRIES IN IBF: IFCI AND MACROECONOMIC INDICATORS

COUNTRIES	IFCI SCORE	IFCI RANK	POPULATION	GDP ¹	GDP PER CAPITA ²	IFCI SIGNIFICANCE
			(MILLION)	(US\$ BILLION)	(US\$)	
 MALAYSIA	79.25	1	31.08	863.8	27,792	HIGHEST
 IRAN	78.42	2	80.59	1,459	18,104	EXCEPTIONAL
 SAUDI ARABIA	65.90	3	32.51	1,731	53,245	EXCEPTIONAL
 UAE	38.02	4	9.34	667.2	71,434	SIGNIFICANT
 KUWAIT	35.20	5	4.06	301.1	74,162	SIGNIFICANT
 PAKISTAN	24.30	6	195.20	988.2	5,062	MODERATE
 INDONESIA	23.98	7	262.35	3,028	11,541	MODERATE
 BAHRAIN	21.96	8	1.41	66.37	47,071	MODERATE
 QATAR	21.94	9	2.32	334.5	144,181	MODERATE
 BANGLADESH	16.73	10	164.07	628.4	3,830	MARGINAL
 SUDAN	15.70	11	41.77	176.3	4,221	MARGINAL
 TURKEY	12.17	12	80.10	1,670	20,849	MARGINAL
 JORDAN	10.29	13	7.82	86.19	11,022	MARGINAL

Sources: For population: Worldometer; For GDP: CIA;

¹ Purchasing Power Parity (PPP) estimates

² Purchasing Power Parity (PPP) estimates (calculated by Edbiz Consulting)

Muslim Population a Driver of Growth

IFCI ranking implicitly suggests that the countries with large Muslim populations are the future frontiers for growth in IBF. Therefore, it is absolutely imperative for the Islamic banking groups based in the Middle East and the Far East to expand their businesses into these countries. Some groups – Al Baraka Banking Group as an example – are already present in the countries like Pakistan and Bangladesh, and one should expect that they will benefit from the growth potentials of these countries.

Dubai Islamic Bank also owns a fully-owned subsidiary in Pakistan, which has expanded in terms of number of branches as well as in terms of financial assets in the last few years. The bank also owns 40% stake in Panin Dubai Syariah Bank in Indonesia. Maybank from Malaysia holds 40% shares in Muslim Commercial Bank in Pakistan, which has last year opened a subsidiary Islamic bank – MCB Islamic Bank – in the country.

Given the importance of Muslims as a main stakeholder group on the demand side, Islamic banks should focus more on acquiring businesses from Muslims rather than focusing on non-Muslims, as suggested by some Western advisory groups.