

ISLAMIC FINANCE IN BANGLADESH NATIONAL ACCOUNTS: CURRENT PRACTICE AND CHALLENGES

Workshop on Islamic Finance in National accounts

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Outline of presentation

- Introduction
- Extent of Islamic Financial Institutions
- Data Source
- Current compilation Practices
- Statistics/ IF Share in GDP
- Problems and challenges
- Way forward



Introduction

About Bangladesh:

- Most densely populated country of the world (1044 per sq. Km)
- Country blessed with six seasons
- Blessed with longest sea beach of the world (Cox's Bazar)
- Also blessed with biggest mangrove forest of the world (Sundarban)
- Pioneer/birth-place and hub of micro financing
- Biggest NGO of the World (BRAC)
- Top denim producer of the world
- 4th highest rice producer
- 4th highest fish producer
- 33rd biggest economy of the world (PPP)



Introduction

About Financial system:

- Bangladesh's financial sector comprises money market, capital market, insurance companies, microfinance and cooperatives
- Central Bank of Bangladesh (Bangladesh Bank) controls and monitors all banking including other financial institutions other than insurance companies and capital markets
- Insurance Development and Regulatory Authority (IDRA) Bangladesh controls and monitors insurance companies
- Securities and Exchange Commission (SEC) Bangladesh controls and monitors capital market
- Microfinance Regulatory Authority (MRA) controls and monitors Micro Finance Institutions (MFI)-Non Government Organization (NGO)



Financial System of Bangladesh

Category	Number	Regulatory authority
Scheduled Bank	57	Bangladesh Bank (Central Bank)
State owned Specialized Bank	4	
Non-bank Financial Institutions (NFI)	35	
Life Insurance Company	31	Bangladesh Insurance Development and Regulatory Authority (BIDRA)
Non-Life Insurance Company	46	
Micro financing Institutions (MFI)	866	Micro Credit Regulatory Authority (MRA)
Licensed NGO -MFI	697	
MFI have the approval for temporary operation	175	



Financial System-contd.

Category	Number	Regulatory authority
Stock Exchange	2	Bangladesh Securities and Exchange Commission (BSEC)
Central Depository Bangladesh Ltd.	1	
Merchant Bank	58	
Stock Broker/Dealer (DSE+CSE)	393	
Asset Management Company	24	
Custodian	35	
Credit Rating Company	08	
Trustee	15	
Fund Manager	07	
Bangladesh Institute of Capital Market (BICM)	01	



Introduction Contd.

About Islamic Financial system:

- ❑ The introduction of interest-free and equity-based Islamic banking system proved its significance in the country's banking sector which continued to show strong growth since its inception in 1983. However the industry is in crying need of a separate central bank service compliant to Islamic financing
- ❑ Islamic insurance was introduced on December 1999 licensed under the insurance Act 1938 based on conventional regulations which was not equipped to deal with Islamic insurance. Proving all potentialities the industry is facing absence of Islamic reinsurance for expected growth
- ❑ Non-bank Islamic financial institutions started their journey in 2000 with 2 companies out of 35 with the asset of 4 percent market share
- ❑ Being the birth place and hub of Microfinance, Islamic microfinance was first initiated in 1989 and proved as most effective pro-poor financing system for ensuring social equity and justice



Extent of Islamic Financing (IF)

Central Bank

- Named as Bangladesh Bank
- Regulatory body for banking system
- Not yet successful in establishing effective money market for Islamic Financing although issuing of Mudarabah bond – BGIIB in October 2004
- No legal support in favour of Islamic Financing
- Regulates Islamic banking on the basis of “Bank company act 1991”
- Regulates Non-Bank Financial Institution (NFI) on the basis of “ Financial Institution Act-1993”

Bank

Indicators	Total	Full Islamic	Conventional with Islamic branch	Conventional with Islamic window
No. of bank	25	8	9	8
No. of branch	1112	1068	19	25
No. of window	25			25
Total Manpower	30336	29763	394	179
Deposit in Million Tk.	1994249	197673	53776	42799
Investment in Million Tk.	1852449	1765643	50314	36492
Investment/Deposit ratio	0.93	0.93	0.94	0.5
Remittances in million Tk.	88668	87914	664	90
Liquidity surplus (+)/Deficit (-) in million Tk.	78860	66935	6893	5031



Insurance Corporations

- Islamic insurance is regulated by insurance act 2010 contradictory with Islamic financing
- Central Shariah Council for the Islamic Insurance Companies established in 2009 (provide advisory services on Islamic laws and rules)
- Total number of insurance company-77 (Life-46, Non-life-31)
- Full Islamic life insurance company -08
- Conventional life Insurance company with Islamic wing- 13
- Full Islamic Non-life insurance company -03
- Conventional life Insurance company with Islamic wing- 01



Non-bank Financial Institution (NFI)

- NFI includes specialized financing, leasing, investment, and merchant banks etc.
- Only 2 among 35 companies operating under Islamic financing
- Islamic Finance and Investment Limited is the pioneer company followed by Hajj Finance Company Limited
- The mentioned 2 Islamic NFI contributing 3 percent market share with an asset of US\$ 221 million



Mutual Funds

- 35 mutual fund companies are operating under Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE)
- Only 3 among 35 companies operating under Islamic financing. These are- i) ICB AMCL Islamic Unit Fund, ii) IFIL Islamic Mutual Fund-1 and iii) AIBL 1st Islamic Mutual Fund
- The mentioned 3 Islamic mutual funds contributing 7.7 percent market share with US\$ 28.83 million
- Two new Islamic Mutual Funds are soon going to be launched-i) ATC Shariah Unit Fund , ii) UFS Padma Life Islamic Unit Fund



Micro Finance Institutions (MFI)

- 697 MFIs are working licensed under Microfinance Regulatory Authority (MRA)
- Around 15 MFIs offering Islamic financing
- In addition, 3 Islamic bank i.e. Islami Bank Bangladesh Ltd. (IBBL), Social Islami Bank Ltd. (SIBL) and Al-Arafa Islami Bank Ltd. Operating microfinance through specialized division.
- The Rural Development Scheme (RDS) of IBBL has presence in 18958 villages with 943901 group members of which 85 percent are female
- The Urban Poor Development scheme (UPDS) of IBBL providing microfinance to urban slums.
- IBBL has outstanding investment of US\$ 277 million in RDS and UPDS



Bond/ Sukuk

- Contributing very small in financial market
- Current outstanding bond amount is around 10 percent of GDP
- The market is dominated by fixed income government debt instruments. Maximum of small investors are mobilized by only one-National Saving Certificate
- To support Islamic banks and financial institutions, Bangladesh Bank issued *Mudarabah* bond named Bangladesh Government Islamic Investment Bond (BGIIB) in October 2004 on behalf of GOB
- The biggest issue of Islamic corporate bond amounting of around US\$ 40 million was first issued in 2007 by IBBL.
- Few subordinated bonds have been issued in recent years



Capital Market

- ❑ Separate shariah index has been introduced in DSE comprising about 90 out of its 293 enlisted companies in 2014
- ❑ CSE introduced the sharah index comprising 63 out of its enlisted 258 companies in 2014
- ❑ The shariah index is mostly dominated by Islami banks, insurance companies, NFIs and mutual funds



Cooperatives

- Department of Cooperatives is the regulatory Authority of Cooperatives in Bangladesh
- There are three categories of cooperative societies belong to financial intermediaries
- National category has 22, Central has 1097 and primary has 159929 societies.
- Many cooperative societies at the primary level operating Islamic financing but needs to be identified through survey.
- These are microfinancing in nature but not under the jurisdiction of MRA



Data Source

- Bangladesh bank ,the central bank of Bangladesh is the main source of Islamic financing data for the banks. Although income statement /profit-Loss Account of the respective Islamic banks is the alternative source of banking data but the data for the banks those are operating islamic branches and windows is found difficult to extract from that
- Bangladesh Insurance Association (BIA) and recently developed Insurance Regulatory and Development Authority (IDRA) are the sources of Takaful data since the insurance sector is yet to be well organized in bringing out the financial reports timely and regularly
- Data for NFI are quite regular since financial reports are disseminated timely. Moreover, data can be obtained from Bangladesh Bank also.
- MRA is the source for microfinance data but not for Islamic. Separate survey is required for Islamic financing
- Similar situation is for cooperatives data like microfinance.
- Others like mutual fund, bonds, capital market data could be available from the income statement of the respective company



Compilation Status

- National Accounting Wing (NAW) of Bangladesh Bureau of Statistics (BBS) is responsible for the compilation of national accounts statistics of Bangladesh
- Currently, BBS is using the base year as FY 2005-06, where Islamic financing is not separated
- Project has recently been taken to revise and rebase the current base year to FY 2015-16
- Thanks to UNSD and SESRIC for the workshops that drawn the attention for getting the Islamic financing separate from conventional financing.
- Due attention has given for collecting financial intuition wise data for compiling GVA for Islamic Financing
- New rebase data would be available in FY 2018-19



Statistics for FY 2015-16

	Number	GVA (Million Tk.)	Share (%)
Full Islamic Bank	8	62403	86.2
Conventional with Islamic branches	17	9987	13.8
Total Islamic Bank	25 (57)	72390	14.6
Total Islamic NFI	3 (35)	635	4.00
Full Islamic Life Insurance	8	10486	65.0
Conventional life with Islamic products	13	5647	35.0
Total Islamic Life Insurance	21 (31)	16133	25.5
Full Islamic Non-life Insurance	3	1395	70.0
Conventional Non-life with Islamic products	1	598	30.0
Total Non Life	4(46)	1993	3.1
Total Islamic Insurance	25 (77)	18126	28.6
Islamic Micro Finance	13 (691)	4020	7.00



Challenges

□ Data Collection

- ❖ Other than the fully shariah banks and insurance companies data are not available
- ❖ Banks and insurances operating shariah branches and windows don't have separate data for Islamic financing that needs to be estimated
- ❖ Institutions like microfinance, cooperatives needs survey for benchmarking

□ Human resource

- ❖ Only 5 compilers involved in NAS compilation
- ❖ Compilers are yet to be trained on Islamic financing compilation
- ❖ Needs education/training on products of Islamic financing to capture in NAS

□ SNA

- ❖ Islamic financing needs to be addressed in SNA
- ❖ Training needed for shariah compliant national Accounts



Way Forward

- ❑ It has been evidenced that Islamic financing is not only an issue of Islamic countries but also an issue of other Non-Islamic countries and the globe as well. So, concerned NSO should endorse the issue officially
- ❑ Considering Islamic Financing as global issue, institutionalization of Islamic Financing, Islamic Standard Industrial Classification for Financial Intermediation and Islamic Product Classification is required
- ❑ Key players of the financial systems of the economy both in national and International should work together for continuing the momentum of this potential sector for the interest of global equity and justice
- ❑ Since Islamic Financing has been tested as one of the best financing method for inclusive growth, it could be seriously considered as an effective instrument in achieving SDGs target by 2030
- ❑ International agencies including advanced countries in this field of Islamic Finance should come forward for the capacity building of the other potential countries for Islamic Financing



**Thanks
and
Q & A**