



Organisation of Islamic Cooperation  
STATISTICAL, ECONOMIC AND SOCIAL RESEARCH  
AND TRAINING CENTRE FOR ISLAMIC COUNTRIES  
*Cooperation for Development*



# Why Islamic Social Finance Matters for OIC Member States?

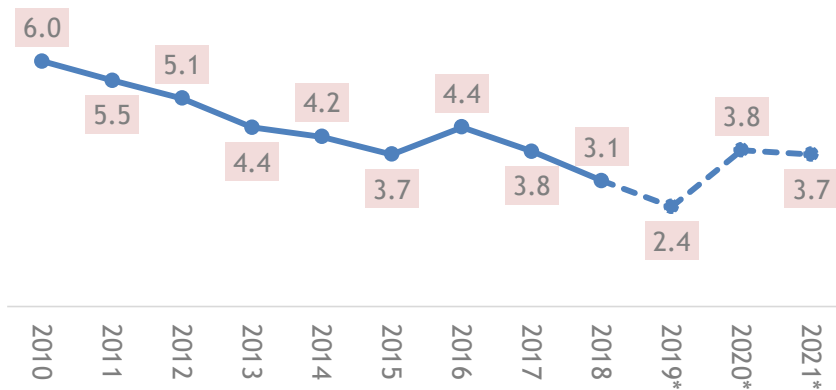
## Socio-Economic and Humanitarian Challenges

Presentation of SESRIC at the OIC Forum on Islamic Social Finance  
Jakarta, 12 November 2019

# **ECONOMIC PERFORMANCE**

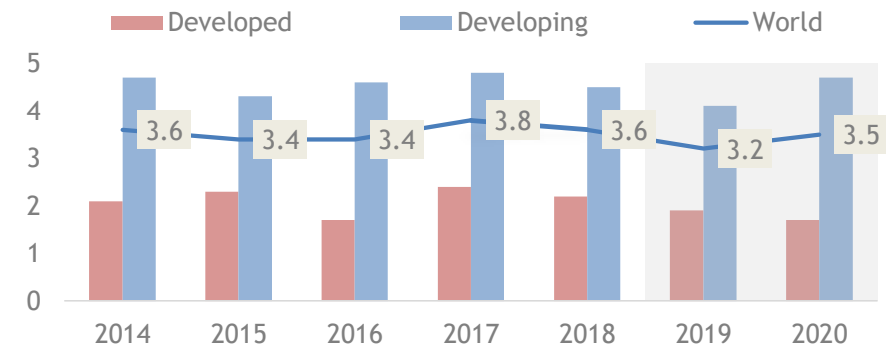
# Economic growth in OIC countries is slowing

Real GDP Growth Rates in OIC Countries (percent)



Source: IMF World Economic Outlook database.  
 Data coverage: 55 OIC countries. (\*) Forecast.

Real GDP Growth Rates in the World (percent)



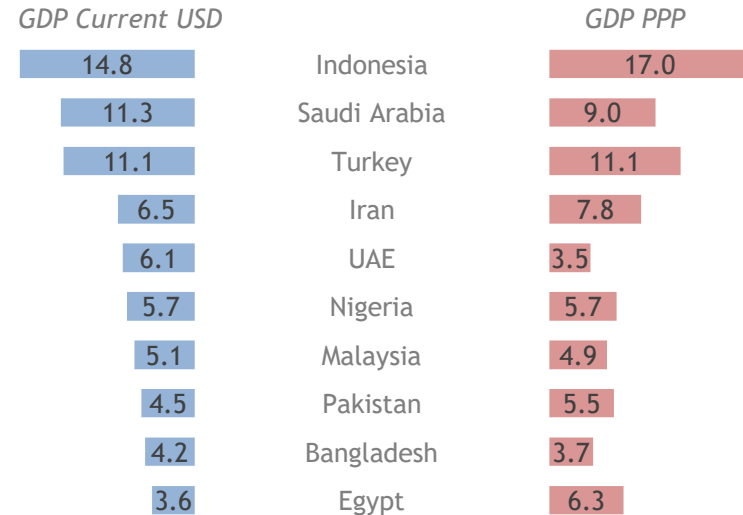
Source: IMF World Economic Outlook database. Shaded area indicates forecasts Data coverage: 193 world, 39 developed and 154 developing countries.

World economy is growing slower and substantial risks are arising. After acceleration in 2016-2017, growth rates have slowed down in both developed and developing countries, causing a slight decrease in the world real GDP growth rate from 3.8% in 2017 to 3.6% in 2018.

The GDP growth of OIC countries has slowed down to 3.1% in real terms in 2018, as compared to 3.8% in 2017. Economic growth in OIC countries is expected to decline to 2.4% in 2019.

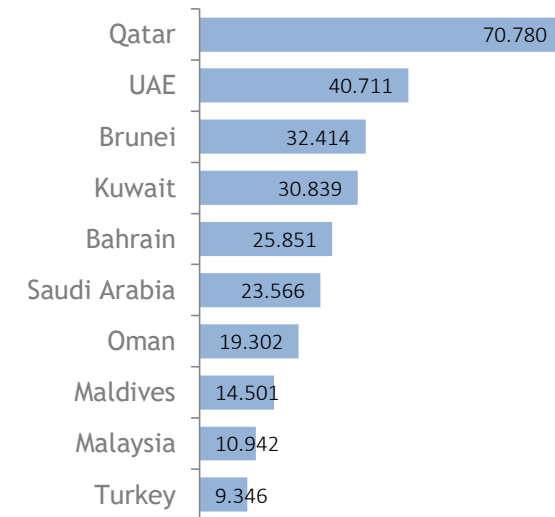
# Top 10 OIC economies

Top 10 OIC Countries by GDP (2018, percent)



Source: IMF World Economic Outlook database. Shares in the combined GDP of the OIC countries.

Top 10 OIC Countries by GDP per Capita (2018, Current US\$, Thousand)

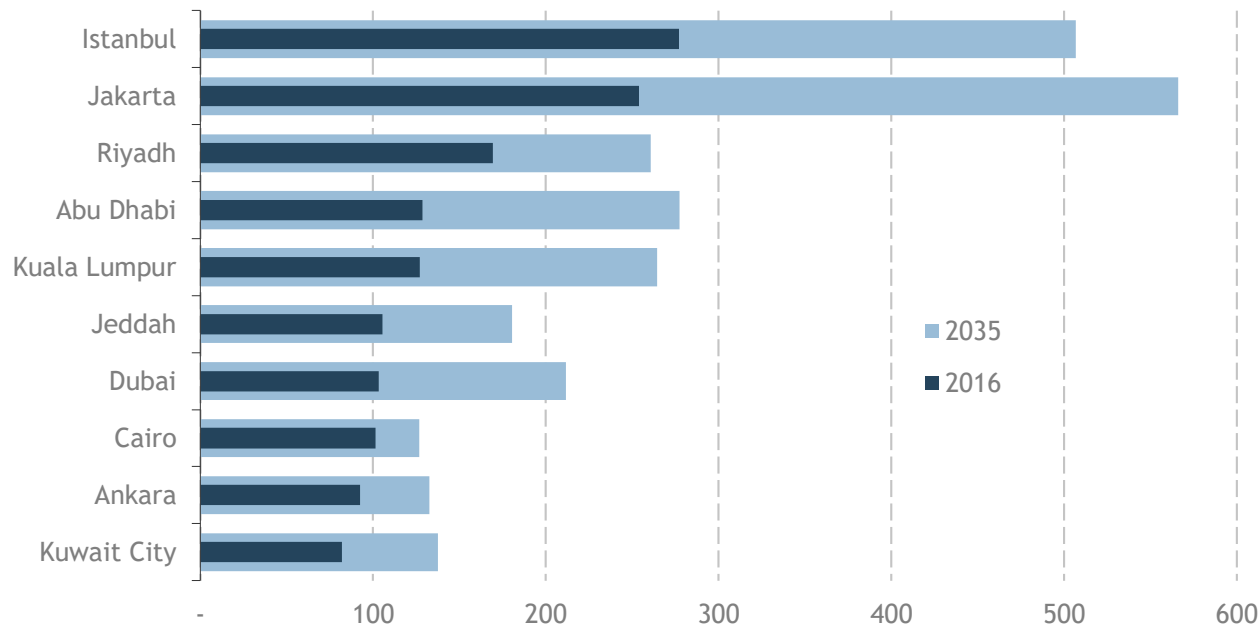


Source: IMF World Economic Outlook database.

In 2018, the top 10 OIC countries in terms of the volume of GDP in current US\$, produced 73% of the total OIC countries output.

# Top 10 OIC city economies

Largest OIC Cities by GDP  
 (billion US\$, constant 2015 prices)



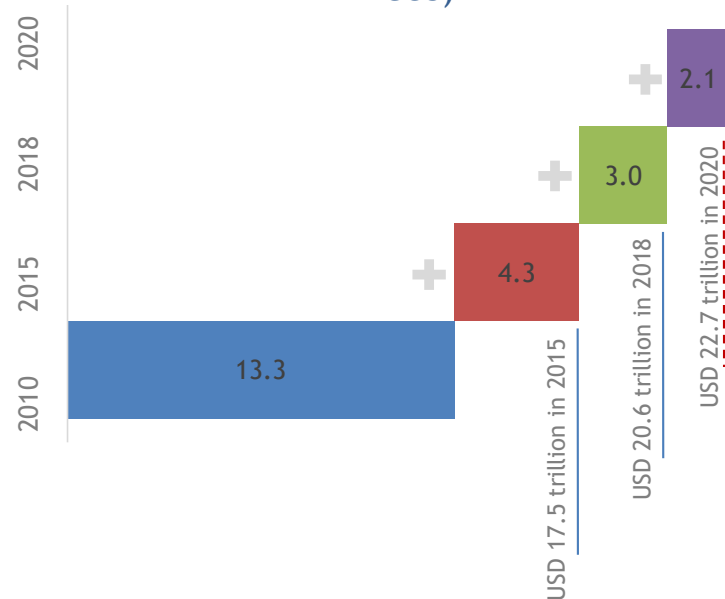
Source: Oxford Economics; TÜİK data for Ankara.

In 2016, Istanbul and Jakarta took the lead with 277 billion dollars and 254 billion US\$, respectively, followed by Riyadh (169 billion US\$), Abu Dhabi (129 billion US\$) and Kuala Lumpur (127 billion US\$).

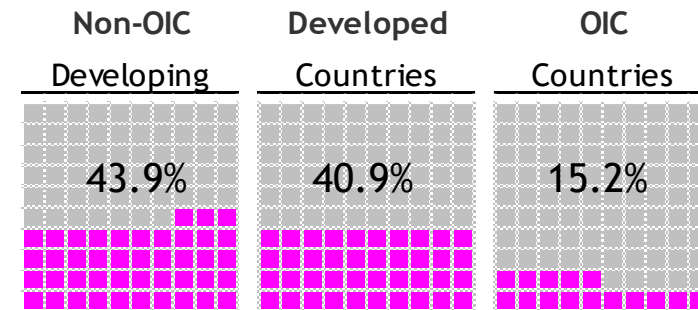
GDP rankings of top 10 OIC cities might change by 2035, since Jakarta is expected to jump to the first place with projected 566 billion US\$. Real GDP levels are expected to double in Jakarta, Abu Dhabi, Kuala Lumpur and Dubai until 2035.

# OIC countries' share in global GDP not satisfactory

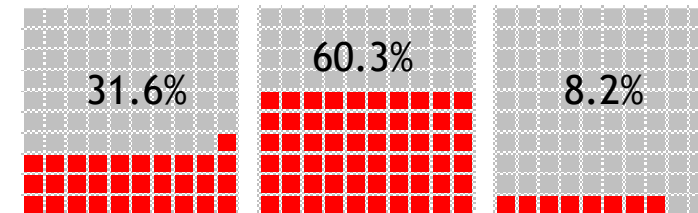
Gross Domestic Product of OIC Countries  
(Trillion PPP international dollars, Current Prices)



Shares in PPP based global GDP  
US\$ (2018)



Shares in global GDP in current  
US\$ (2018)

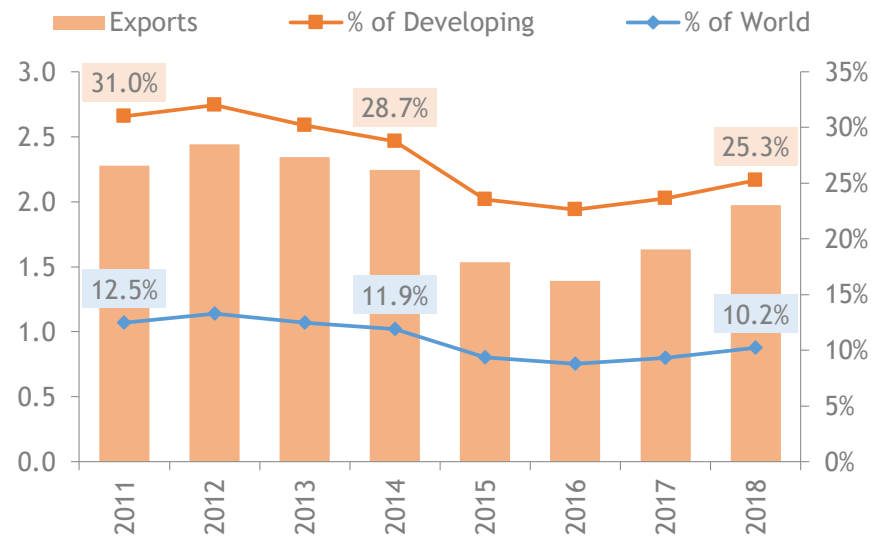


Source: IMF World Economic Outlook Database.  
 Data coverage: 55 OIC, 98 non-OIC and 39 developed countries.

The PPP based aggregated GDP of OIC countries has increased from US\$ 13.3 trillion in 2010 to US\$ 20.6 trillion in 2018, accounting for 15.2% of global GDP based on PPP. In current prices, however, the share of OIC countries in world total GDP is measured as only 8.2% (US\$ 6.92 trillion).

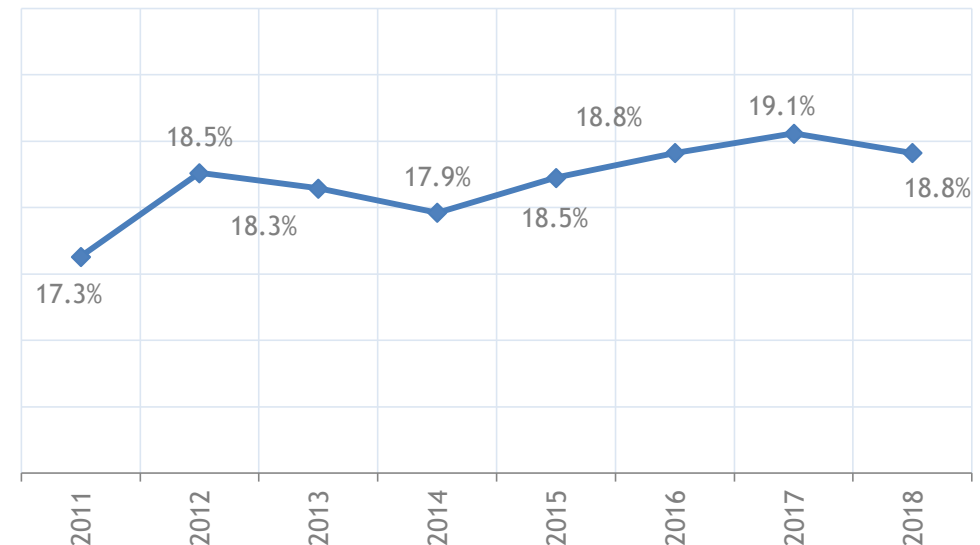
# Trade volume of exports and imports relatively stable

Merchandise Exports (US\$ Trillion)



Source: IMF Directions of Trade Statistics (DOTS)  
 Data coverage: 56 OIC countries, 37 developed countries and 116 non-OIC developing countries.

Share of Intra-OIC Trade (%)



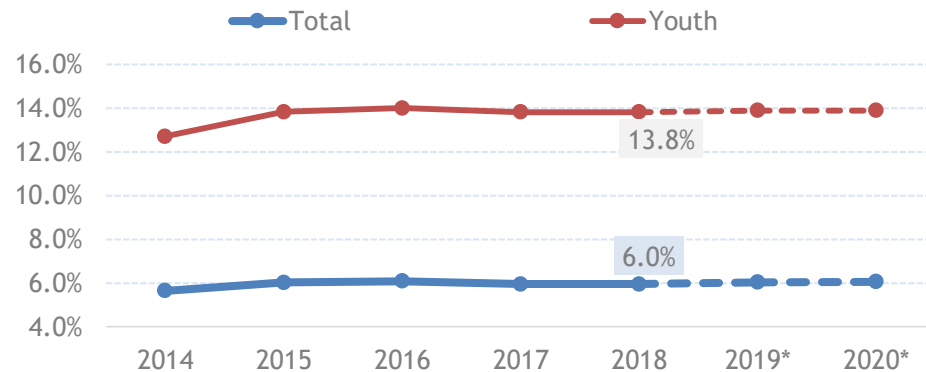
The aggregate merchandise exports of OIC countries increased to US\$ 1.98 trillion in 2018 and accounted for 10.2% of the world merchandise exports.

In 2018, share of Intra-OIC exports reached 372 billion US\$.

# **SOCIAL ISSUES**

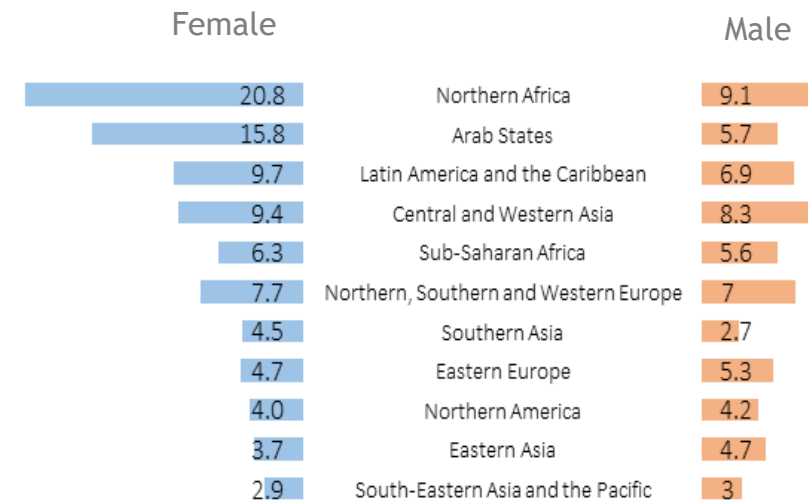
# Unemployment

Unemployment (Total and Youth)



Source: ILO modeled estimates. (\*) Forecast.  
 Data coverage: 56 OIC countries.

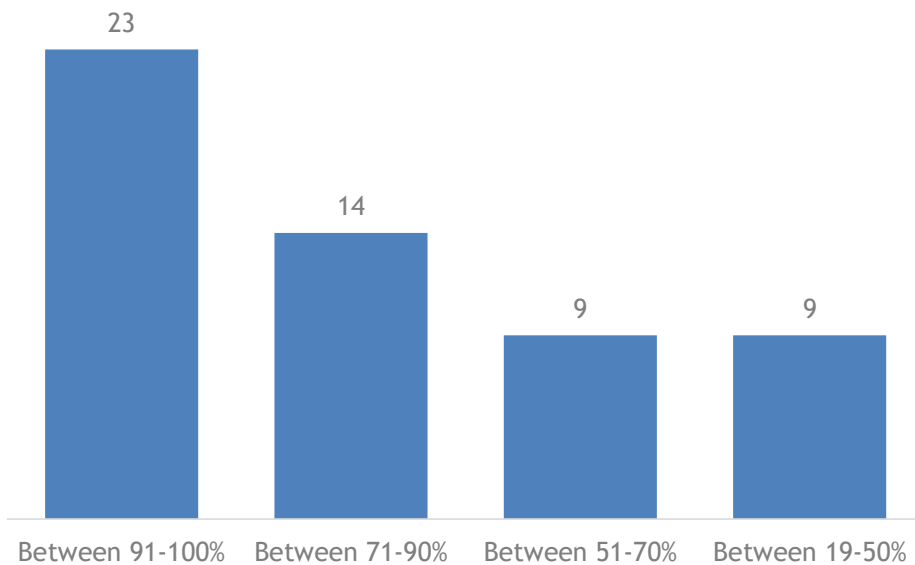
Unemployment by Gender (2019, Percent)



In many OIC countries the employment growth is under shadow of increased number of people entering labour market, thus paving the way for unemployment to remain persistently high. The lack of employment opportunities for youth (i.e. those between 15-24 years of age) and females remains to be among major challenges.

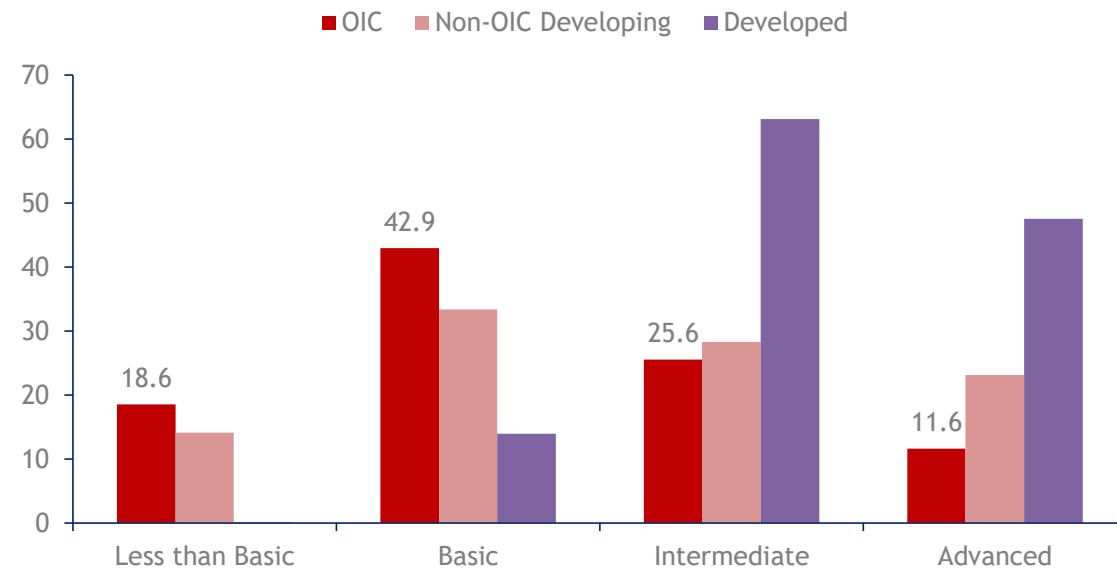
# Low literacy rates and skill levels

Literacy Rates in OIC Countries



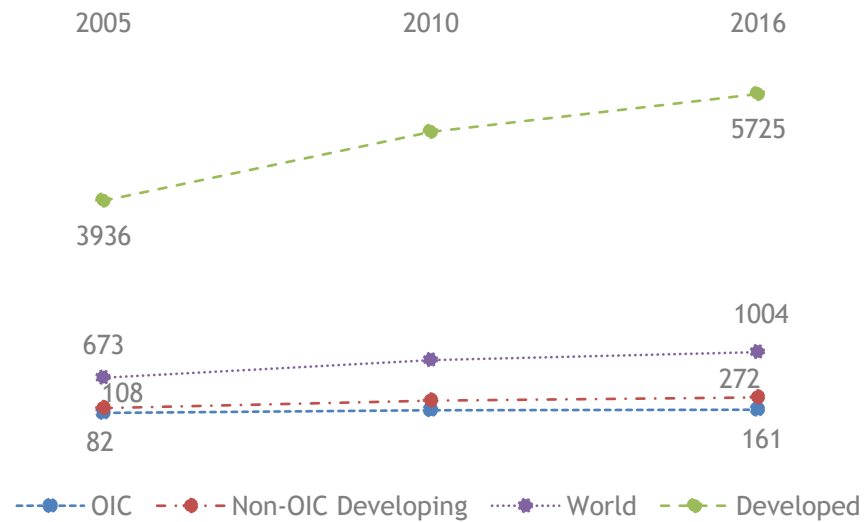
Source: World Bank WDI (2018)

Educational Attainment of the Labour Force (Shares in Total)



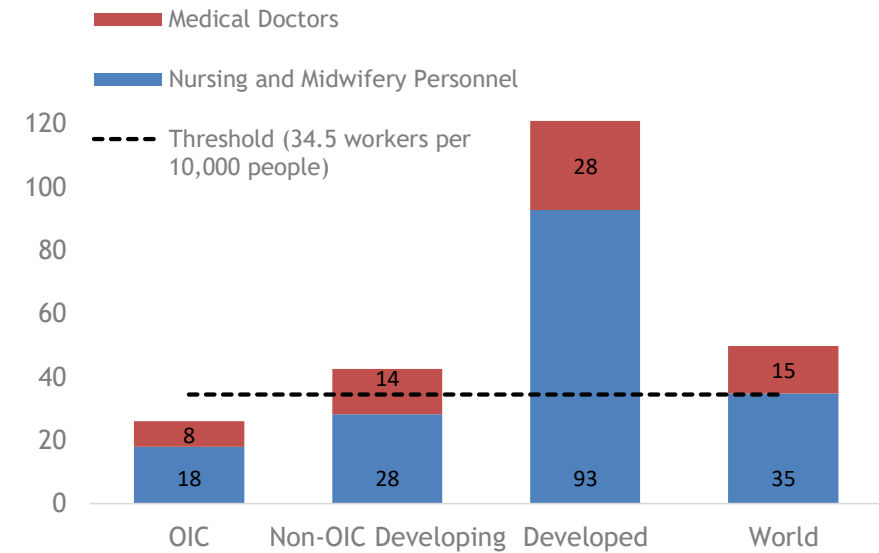
# Challenges in health care services

Comparison of Health Expenditure per capita (current US\$)



Source: World Health Organization Data Repository.

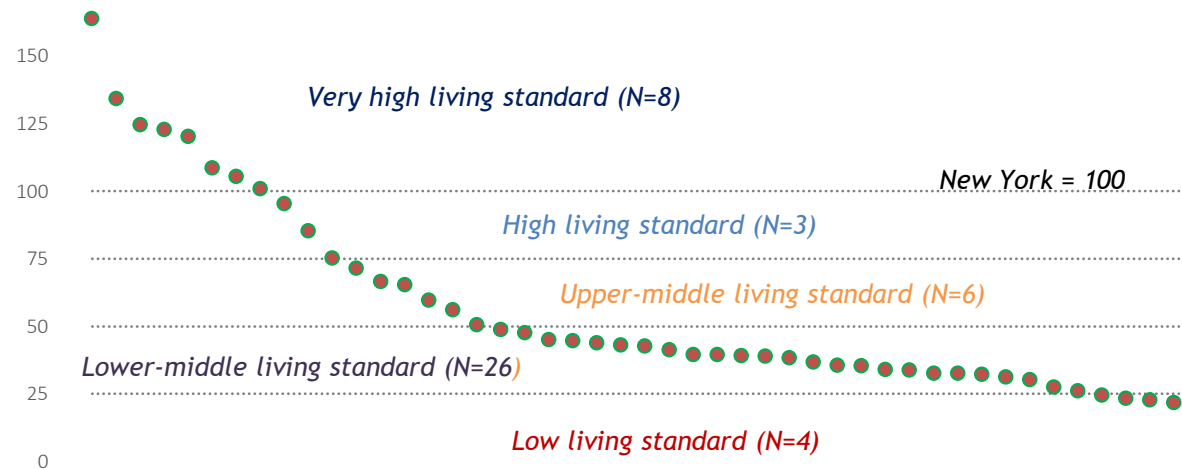
Health Workers per 10,000 people, 2001-2018\*



Source: World Health Organization Data Repository. \*Most recent data available.

# Purchasing power in buying goods and services

Local Purchasing Power Index for OIC Cities (January 2019)



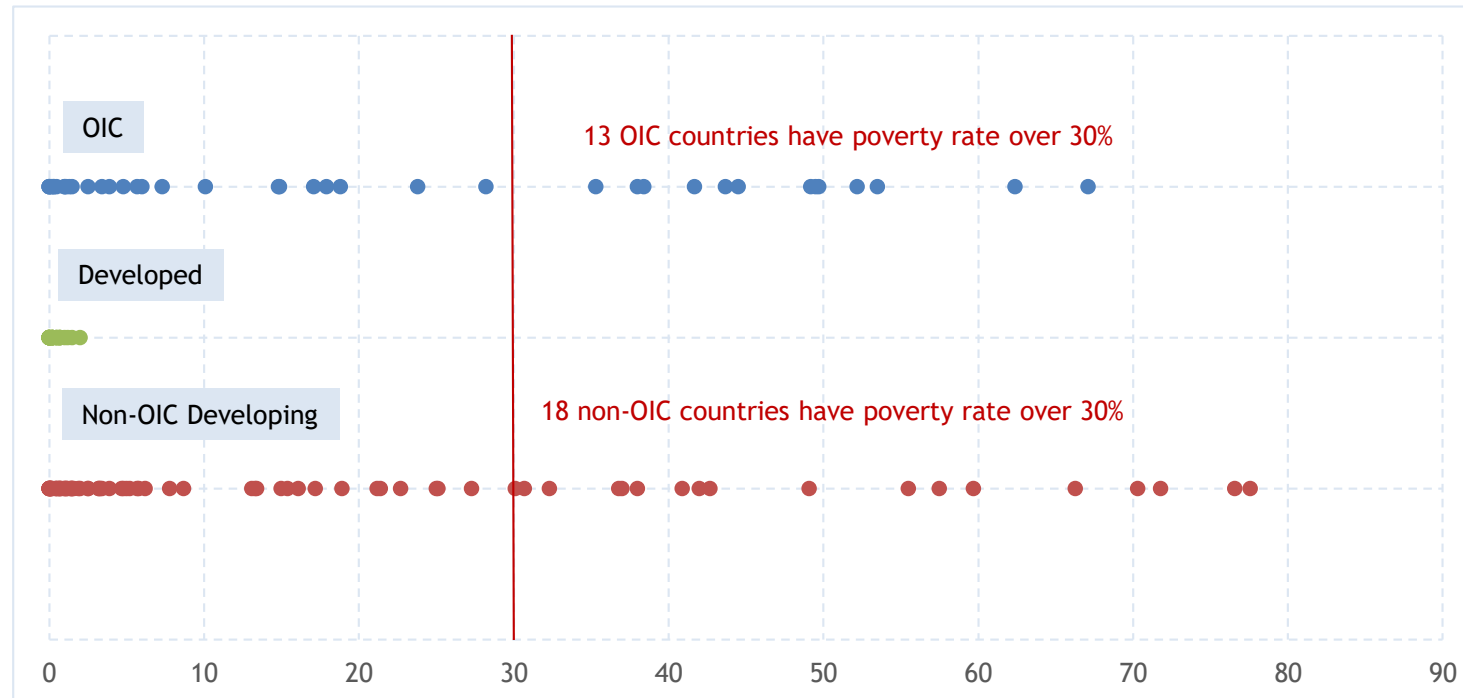
Source: [www.numbeo.com](http://www.numbeo.com).

Notes: Local purchasing power index shows relative purchasing power in buying goods and services in a given city for the average wage in that city. If domestic purchasing power is 40, this means that the inhabitants of that city with the average salary can afford to buy on an average 60% less goods and services than New York City residents with an average salary. The index takes into account cost of clothing and shoes, markets, rent per month, restaurants, sports and leisure, transportation and the utilities.

Out of 47 OIC cities listed among the 435 cities in the world, 30 do not enjoy even the half of average living standard in New York. In this regard, worst situation is in Lagos (13), where the inhabitants with the average salary can afford to buy 87% less goods and services than New York City residents. Average lower living standards are also present in Kampala (local purchasing power score 22), Alexandria (23), Bali (24), Cairo (25), Jakarta (26) and Tashkent (28).

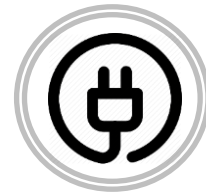
# Poverty

Poverty Headcount Ratio at US\$1.90 a Day (2011 PPP) (% of population)



Source: World Bank WDI Database. Latest year available during 2008-2017.  
 Data coverage: 41 OIC, 32 developed, and 79 non-OIC developing countries

# Other socioeconomic facts on OIC Countries



**334 million**  
people without electricity



**286 million**  
people without access to  
improved water resources



**666 million**  
people without access to  
improved sanitation



**11.5 million**  
deaths caused by  
noncommunicable and  
Communicable diseases



**194 million**  
undernourished people



**500 million**  
poor people

# Urban slum population

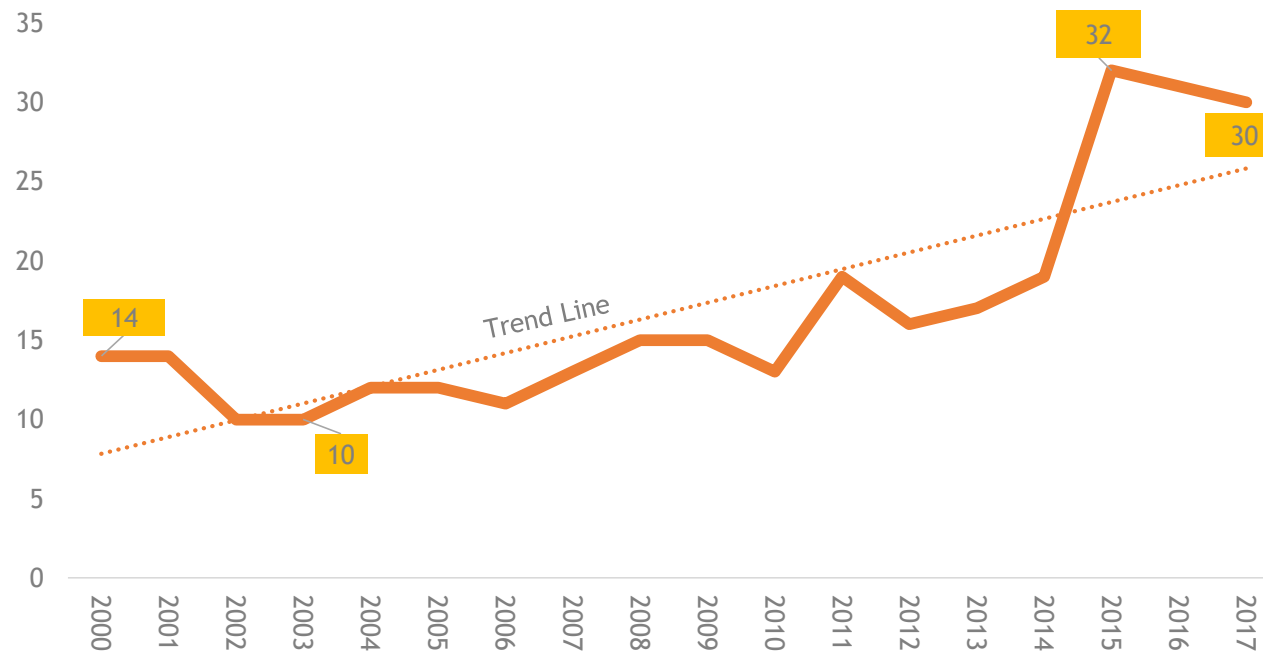


Source: UN, Millenium Development Goals Indicators, 2014.  
Data coverage: 35 OIC and 48 non-OIC developing countries.

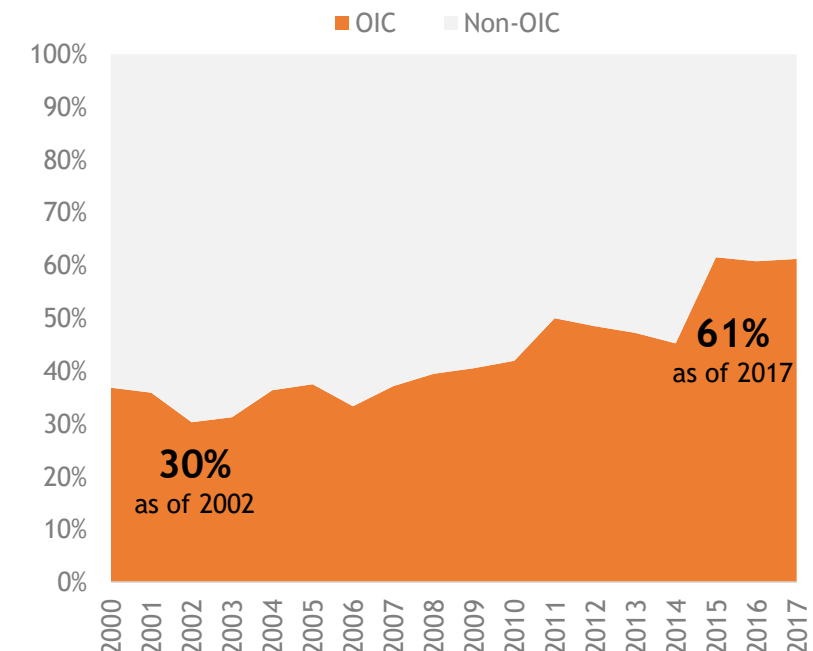
# HUMANITARIAN CHALLENGES

# Increase in number of conflicts affecting OIC Countries

Number of Conflicts in OIC Countries

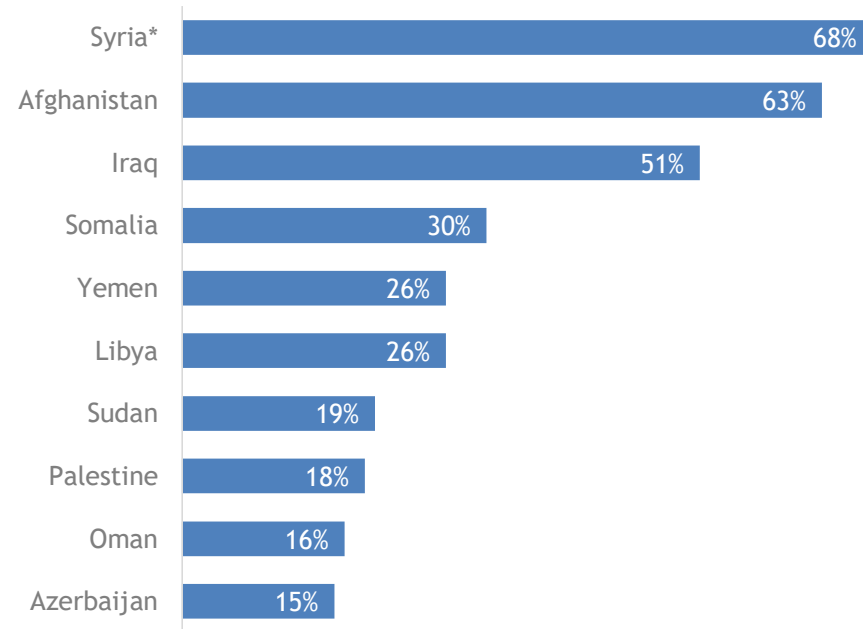


Share of OIC Countries in Conflicts

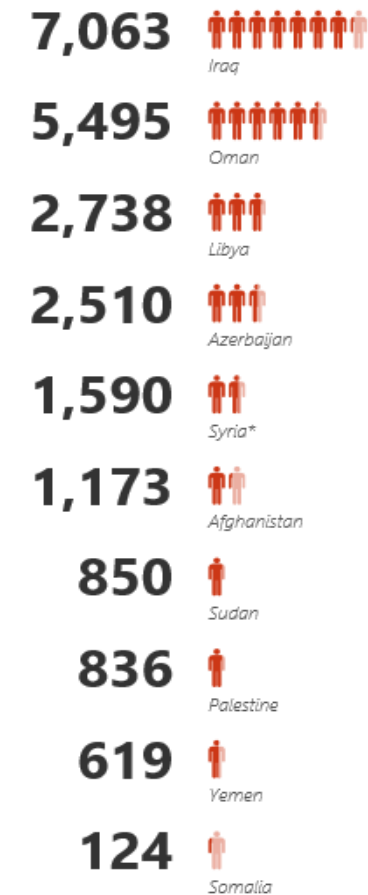


# Economic impact of violence

Economic Cost of Violence as % of GDP  
(2017, ten most affected OIC countries)



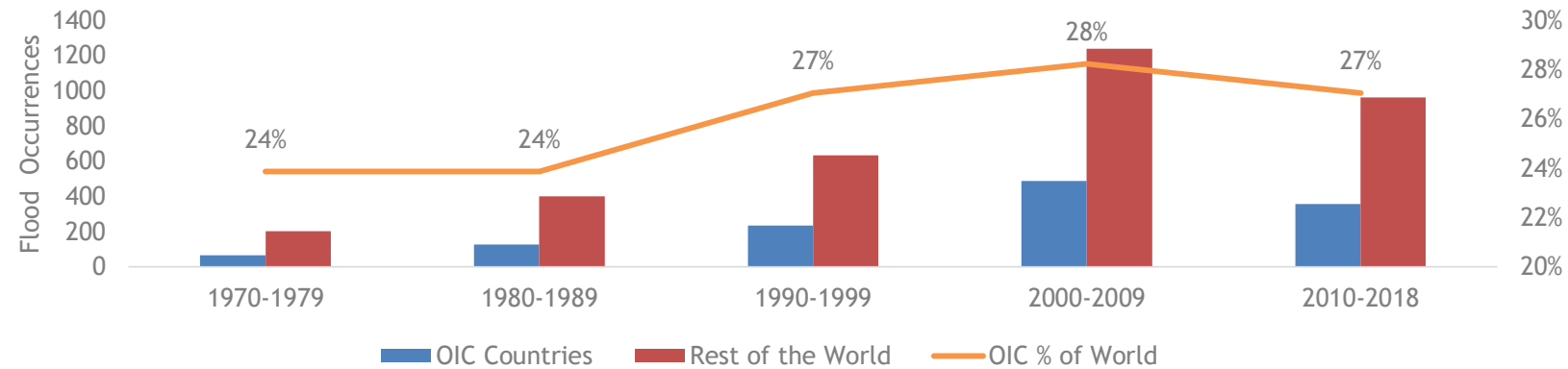
Economic Cost Per Capita  
(2017, PPP US\$)



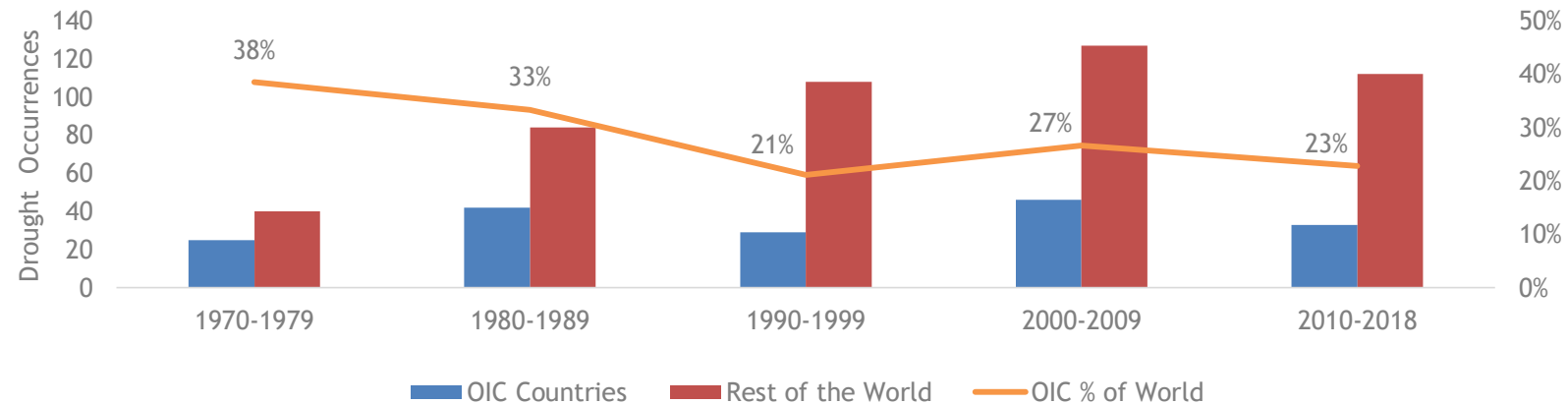
Source: Institute for Economics & Peace, *Global Peace Index 2018: Measuring Peace in a Complex World*, Sydney, June 2018.  
 Explanation: The economic impact of violence includes the direct and indirect costs of violence as well as an economic multiplier applied to the direct costs. The economic cost of violence includes only the direct and indirect costs.

# Natural Disasters

## Flood Trend (1970-2018)

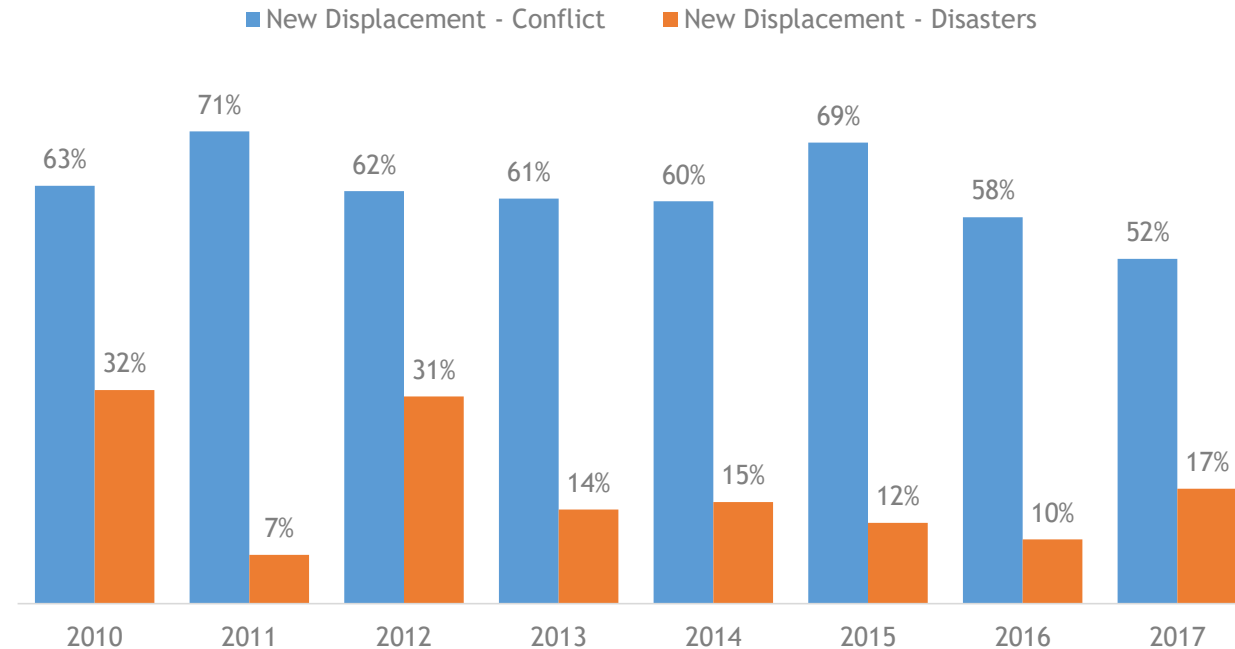


## Drought Trend (1970-2018)



# Humanitarian impact of violence and disasters

Share of OIC Countries in Global Displacement



**36 million**  
 new displacement  
 due to conflicts since  
 2010 in OIC countries

**38 million**  
 new displacement  
 due to disasters  
 since 2010 in OIC  
 countries

Source: Internal Displacement Monitoring Centre (2019)

Mid -2018

**62.5%**  
 of global refugees  
 originated from  
 OIC countries.

**65%**  
 of global refugees  
 hosted by OIC  
 countries

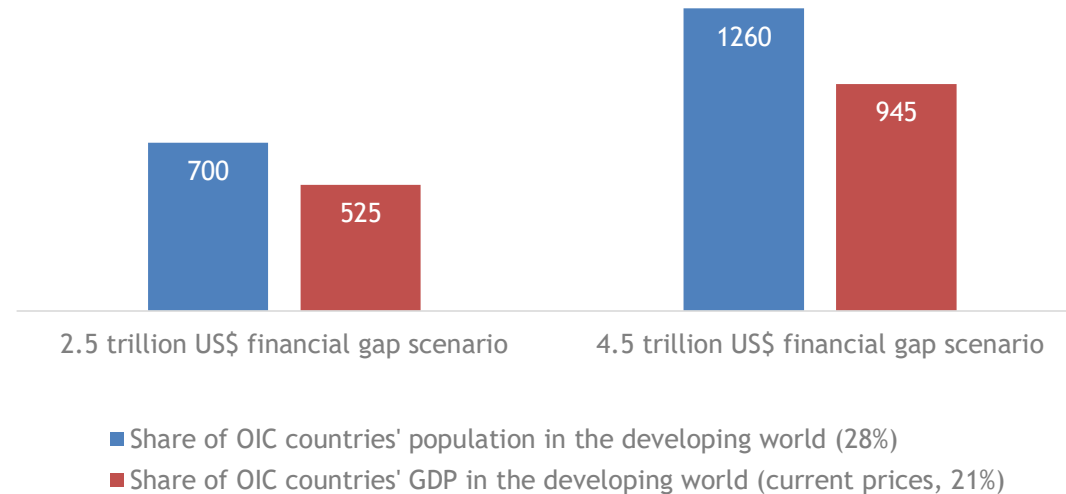
# Funding requirements for people in need

	Amount Requested (US\$ million, 2017)	Amount Funded (US\$ million, 2017)	Requirements met 2017	People in Need (millions, 2017)
Syria	3,351	1,717	51%	13.5
Yemen	2,339	1,766	76%	18.8
Somalia	1,508	1,039	69%	6.7
Nigeria	1,054	731	69%	14.0
Iraq	985	939	95%	11.0
Sudan	804	487	61%	4.8
Chad	589	243	41%	4.7
Palestine	552	259	47%	2.0
Afghanistan	409	317	78%	7.4
Pakistan	339	128	38%	3.2
Mali	305	148	48%	3.7
Niger	287	232	81%	1.9
Cameroon	238	117	49%	2.9
Libya	151	105	70%	1.3
Mauritania	75	26	35%	0.5
Burkina Faso	61	30	49%	0.9
Djibouti	43	12	27%	0.3
Senegal	16	3	19%	0.9
<b>Total</b>	<b>13,106</b>	<b>8,298</b>	<b>63%</b>	<b>98.5</b>

# Financial Gap

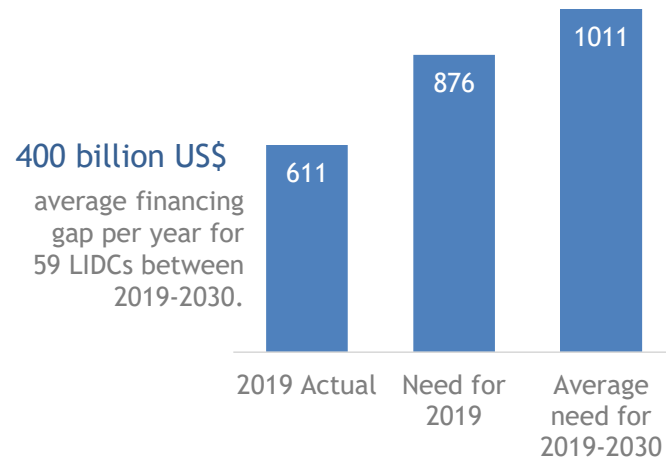
The annual investment gap in major SDG sectors in developing countries range from 2.5 trillion to 4.5 trillion US\$ per year, mainly for basic infrastructure, food security, climate change mitigation and adaptation, health, and education (UNCTAD, 2014). What could be the share of OIC countries?

Estimation of Financial Gap of OIC Countries  
 (2018, billion US\$, based on UNCTAD projections for developing World)

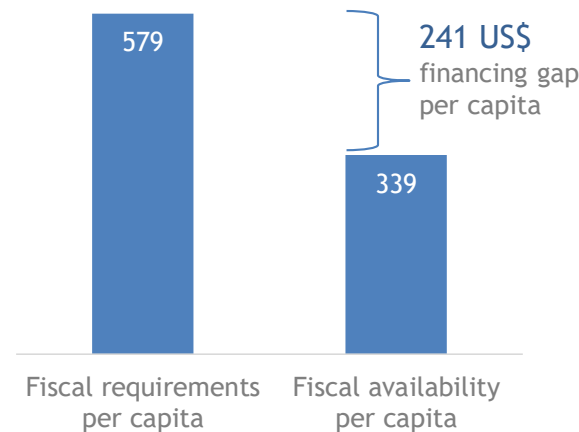


# Need for a substantial increase in fiscal revenues

Total Annual Cost Estimates  
(US\$ billions in 2019 constant prices)



Annual Financing Gap per Capita  
(2019-2030 average, US\$)



Cost Breakdowns  
(2019-2030 average, %)

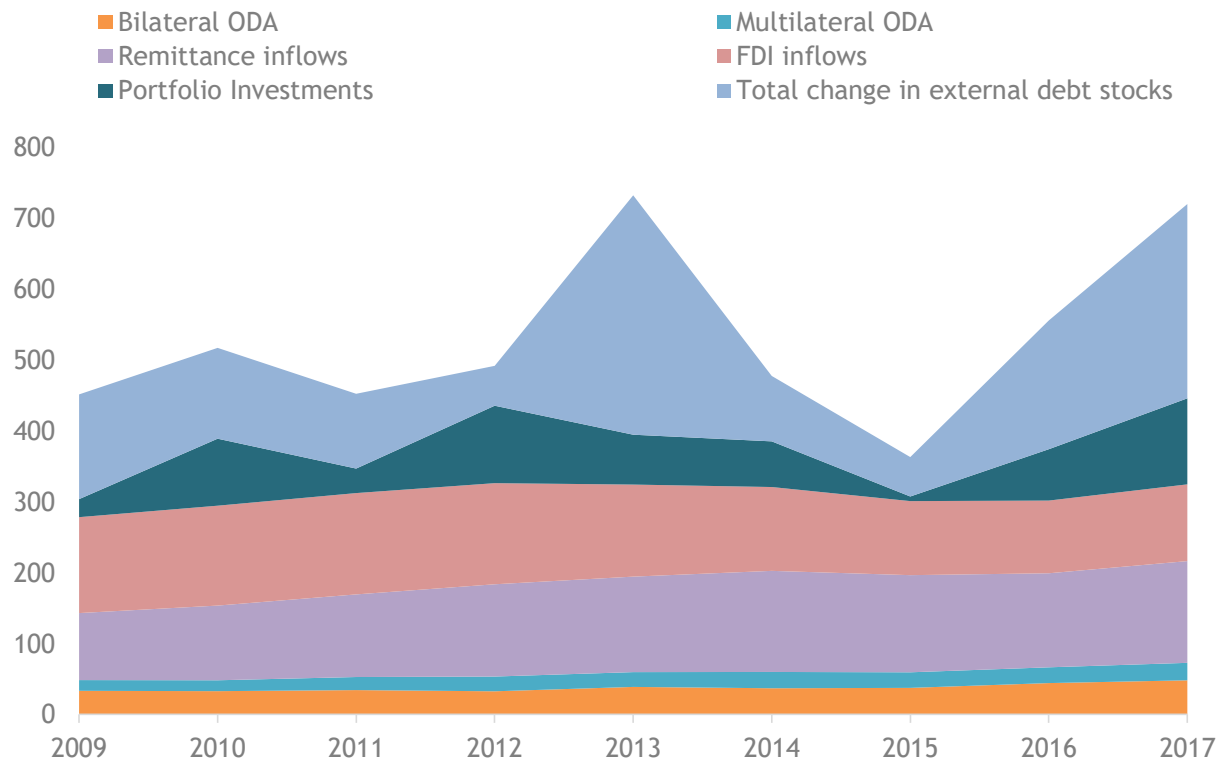
Education	26
Health	22
Infrastructure	21
Non-SDG Public Expenditure	14
Social protection	10
Justice	3
Agriculture	2
Humanitarian	2
Biodiversity	1
Data	0.1

Source: SDSN, SDG Costing & Financing for Low-Income Developing Countries, UN Sustainable Development Solutions Network, September 2019.  
 Data coverage: 27 OIC, 32 non-OIC developing countries classified under Low-Income Developing Countries.

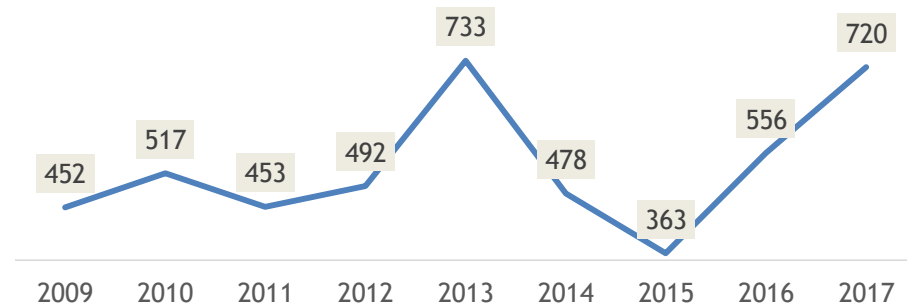
Notes: It is assumed that each country will raise the ratio of government revenues to GDP by 5 percentage points between 2019 and 2030. Estimates are based on the minimum costs possible to achieve basic coverage of SDG-related services. For example, it is assumed that the basic healthcare in LICs can be provided for \$86 per person per year. However, in the high-income countries this accounts 3,000 US\$ per person per year or higher.

# Can external financing provide a solution?

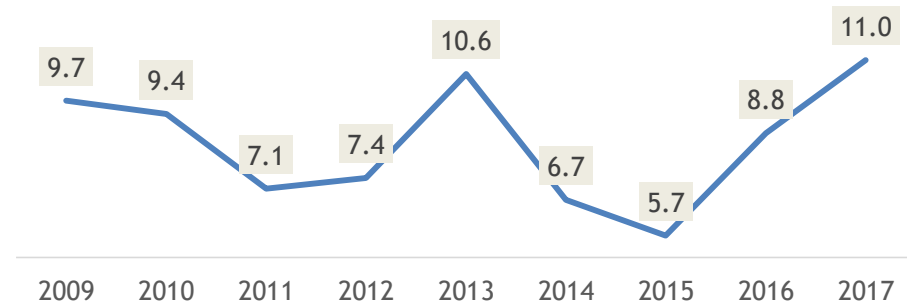
External Financing to the OIC Countries by Sources  
(Current prices, billion US\$)



Total External Financing to the OIC Countries  
(Current prices, billion US\$)



Total External Financing as percentage of  
Aggregated GDP of OIC Countries (Current prices, %)



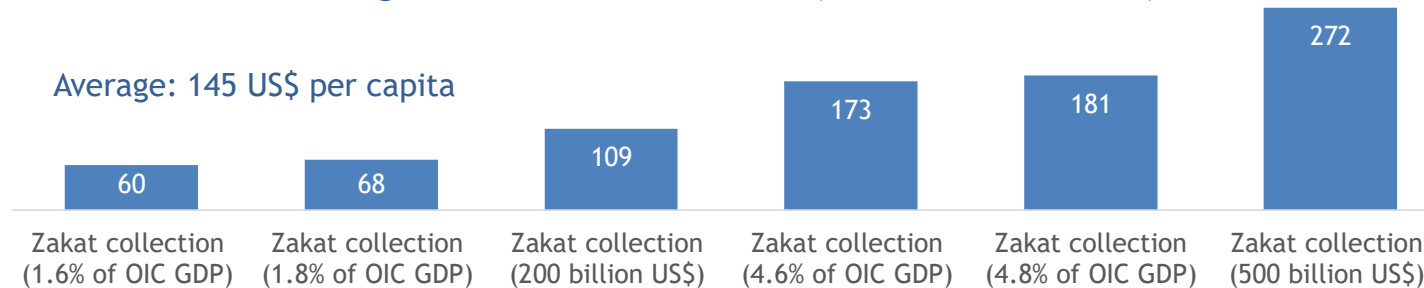
Source: Author's calculations based on OECD "Creditor Reporting System" database for official bilateral and multilateral gross disbursements flows (OIC: N = 51). Bilateral ODA flows are calculated based on 29 DAC countries and 20 Non-DAC countries that are reporting to the OECD; World Bank "Migration and Remittances Data" for remittances (OIC: N = 50); UNCTADSTAT data on FDI (OIC: N = 57); IMF "Balance of Payments Database" for portfolio investments (OIC: N = 49); and World Bank data for external debt (OIC: N = 56). Existing estimations used to fill in just a few missing values for external debt.

# Potential of Islamic social finance as a financial tool

The institutions of zakat and waqf are among some instruments instituted by Islam to enhance social welfare and mitigate poverty in societies.

- Ahmed (2004) reports that based on different opinions, the zakat collection in different countries ranges from 1.8 percent of GDP to 4.8 percent of GDP annually. With the GDP in current prices of OIC countries being 6.92 trillion US\$ in 2018, this translates to potential figures of 124.5 billion US\$ and 332 billion US\$ that can be collected from zakat and used for social sectors.
- According to Kahf (1989), zakat collection can be between 1.6 percent of GDP to 4.4 percent of GDP.
- Ziyaad Mahomed (2019): The OIC countries have 200-500 billion US\$ to give every year in zakat.
- Ziyaad Mahomed (2019): Some OIC countries measure from 15 to 100 billion US\$ worth of wakf annually what also has not been utilized effectively.

## Estimates on Additional Income per Capita for OIC Countries Resulting from Zakat Collection (current US\$, 2018)



# Zakat is an important redistributive institution

On theoretical grounds, zakat is an important redistributive institution. If the governments improve the governance, administration, and effective and transparent distribution of zakat funds, then tremendous gains can be achieved in supporting socio-economic empowerment, upliftment and development.

Shirazi (2014) suggests that the institutions of zakat and waqf (charitable trust) need to be integrated into the poverty-reduction strategies.

SESRIC (2017) advocate that Islamic social finance tools not only serve the basic needs of the vulnerable people but also support them to be economically self-reliant.

Yusoff (2011) and Azam et al. (2014) urges that every Muslim country must organize zakat collection and zakat spending in the most efficient manner.

Hassan (2010) suggests a model that combines Islamic microfinance with zakat and waqf in an institutional setup. Thus the poor borrowers will have less debt burden because their capital investments will be partly met by funds from zakat, which would not require any repayment.

Norazlina and Rahim (2011) identify that there are many types of programs that could be funded by zakat such as providing schooling, vocational training, and business support by establishing cottage industries and providing fixed assets and equipment to small businesses. In addition, zakat could also be used to provide low-cost housing and health care.

# If Muslim majority countries have so much zakat to give and distribute, why do we have poverty?

There is a need to institutionalize the Zakat collection system in order to increase the overall zakat collection (Azam et al. 2014).

Insufficient implementation mechanism on zakat limits the success of the zakat institution (Abu Bakar et al. 2007).

The satisfaction on the distribution and efficient management of zakat are the main factors influencing zakat payment (Ahmad et al., 2006).

Tools of Islamic social finance are not being effectively utilized. In order to be able to utilize Islamic social finance, there must be a mechanism to collect the resources from zakat, sadaqah, qard-al hasan (interest-free loan), and waqf and distribute to needy people in an effective manner (SESRIC, 2017).

Collection, administration and distribution of zakat to eligible recipients has not been done effectively (Ziyaad Mahomed 2019).

For zakat to make an impact on social and humanitarian issues, there is a need to mobilize these resources in an organized and efficient manner and then use them effectively.

This would require building organizations and institutions that can build and maintain trust by proper record keeping (good governance), disclosure of zakat collection (transparency) and effective distribution.

# THANK YOU!

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