



**WORLD BANK GROUP**  
Finance & Markets  
Global Islamic Finance Center

# *The Role of Islamic Capital Markets in Growth and Development*

*The OIC Member States'  
Stock Exchanges Forum  
11<sup>th</sup> Annual Meeting*

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# Outline

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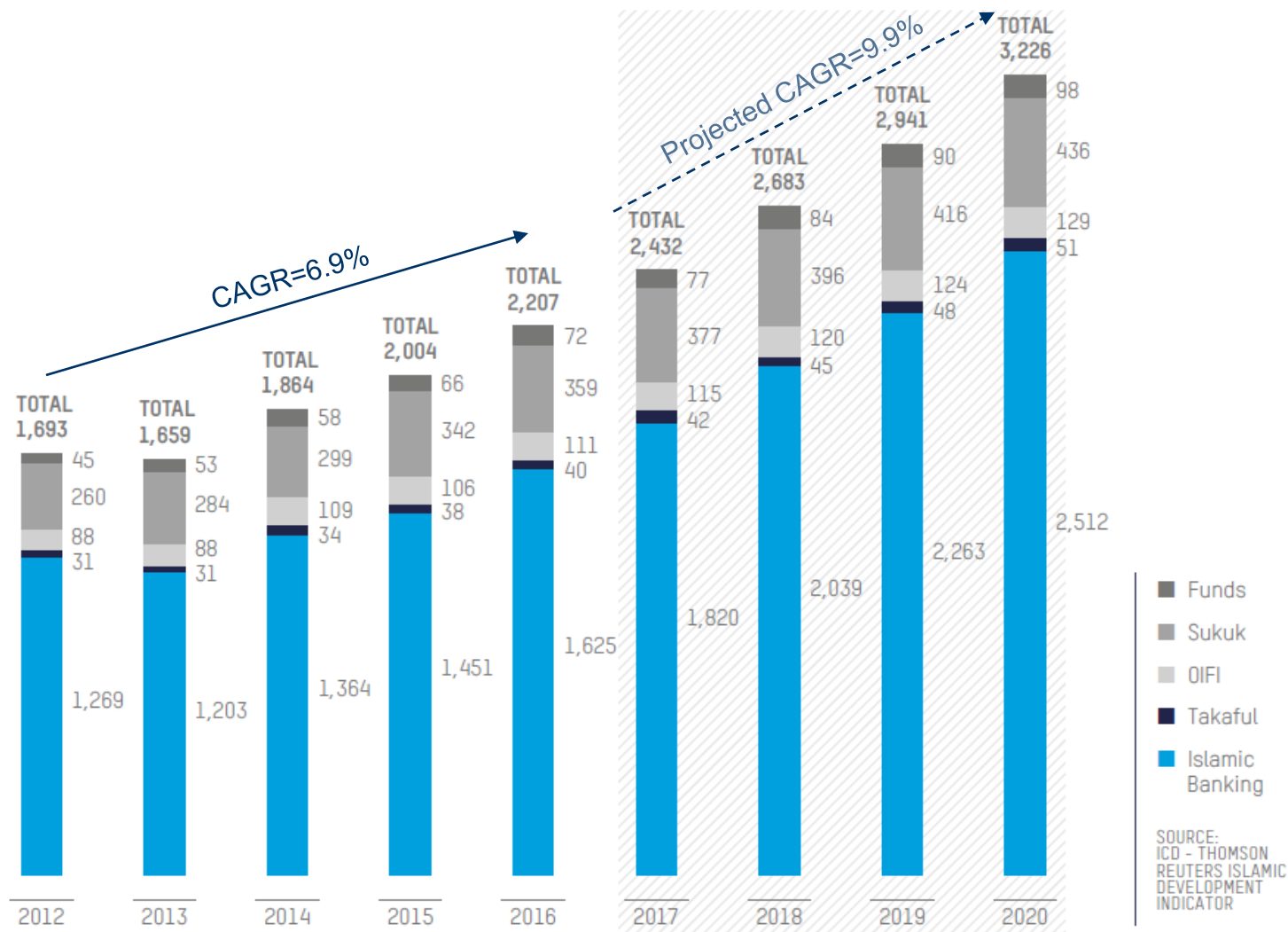
- I. Stylized Facts & Trends of Global Islamic Capital Markets**
  
- II. Islamic Capital Markets – Economic Growth & Development Nexus**

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## **I. Stylized Facts & Trends of Global Islamic Capital Markets**

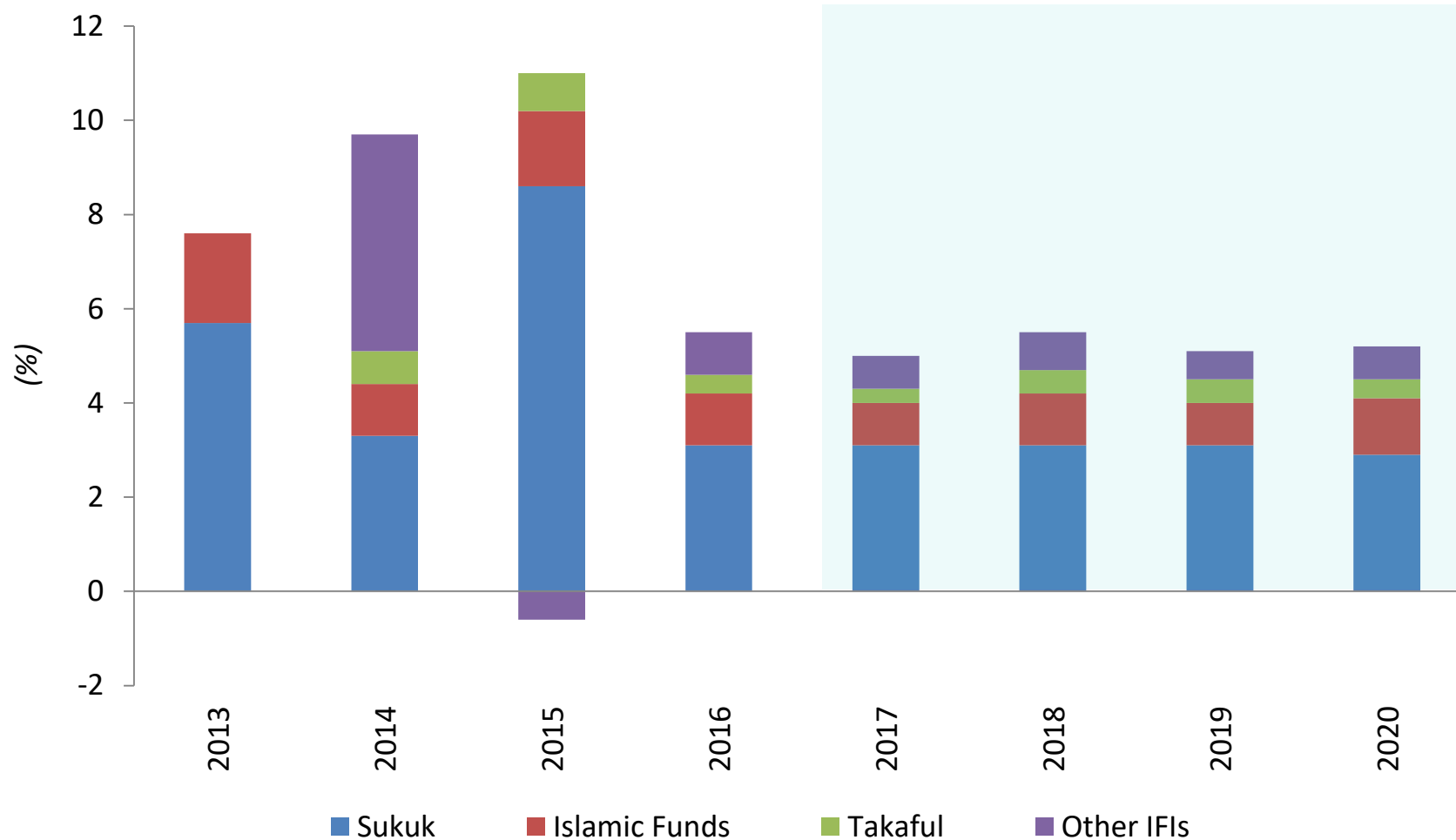
## Islamic financial assets grow steadily to exceed US\$ 3 trillion in a few years...

Global Islamic Finance Assets (US\$ Billion)



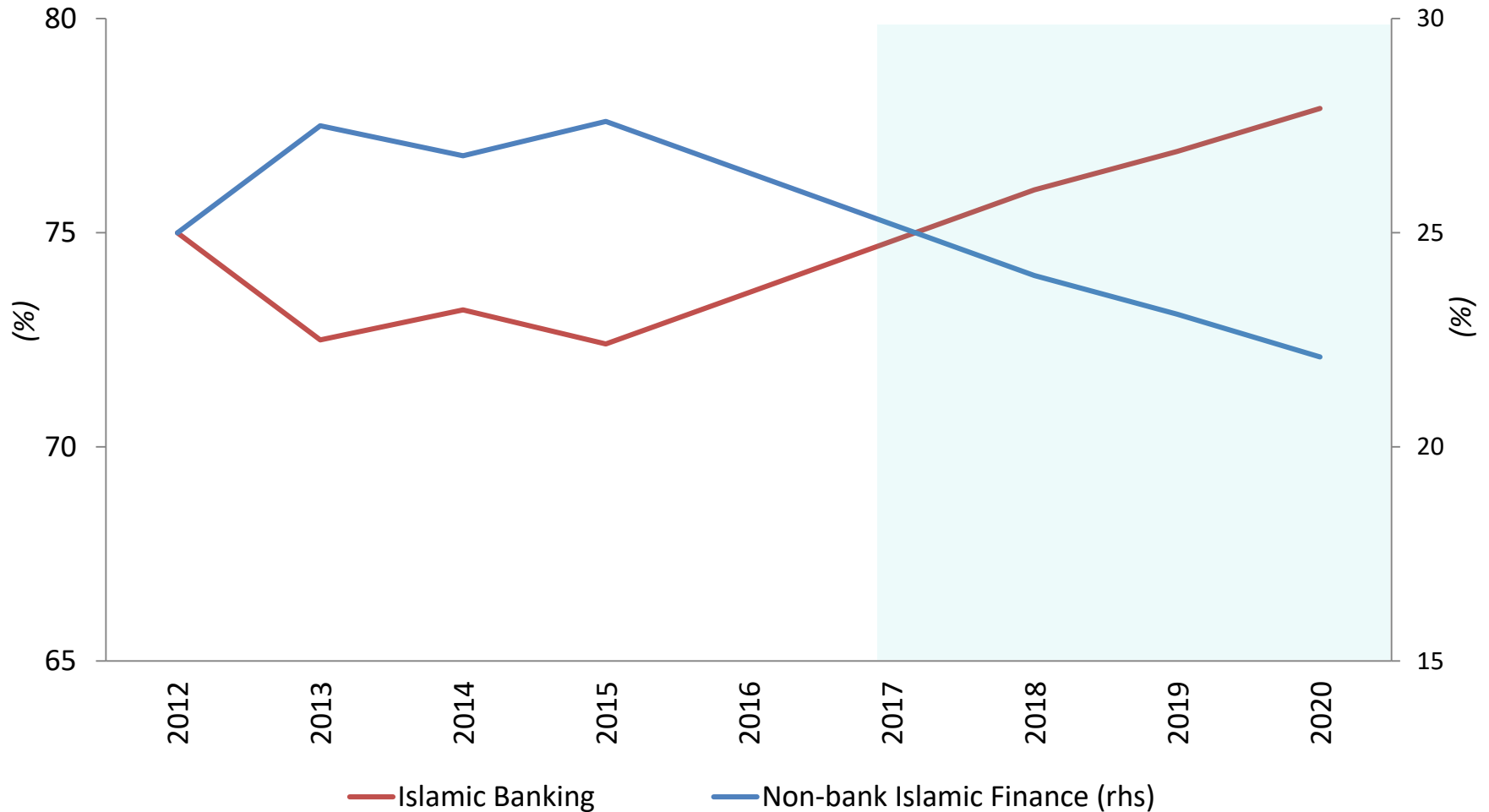
## *...Stagnant sukuk market accounts for the recent underperformance of non-bank Islamic finance...*

Contributions to Annual Growth of Non-bank Islamic Finance (%)



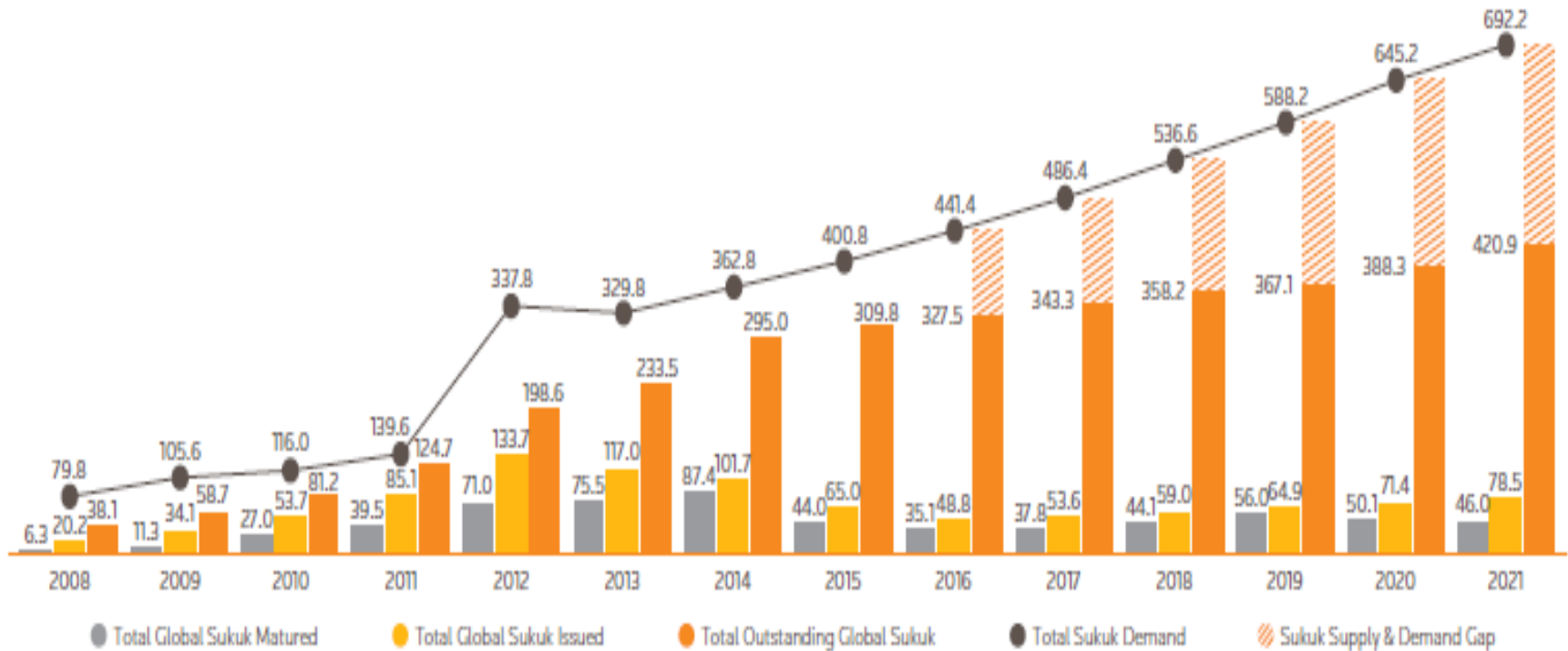
*...Having outperformed in recent years, the non-bank segment is expected to decrease its share in the global Islamic finance industry...*

Global Islamic Finance Assets (US\$ Billion)



# *The Sukuk market is growing fast...*

Global Sukuk Supply & Demand (US\$ Billion)

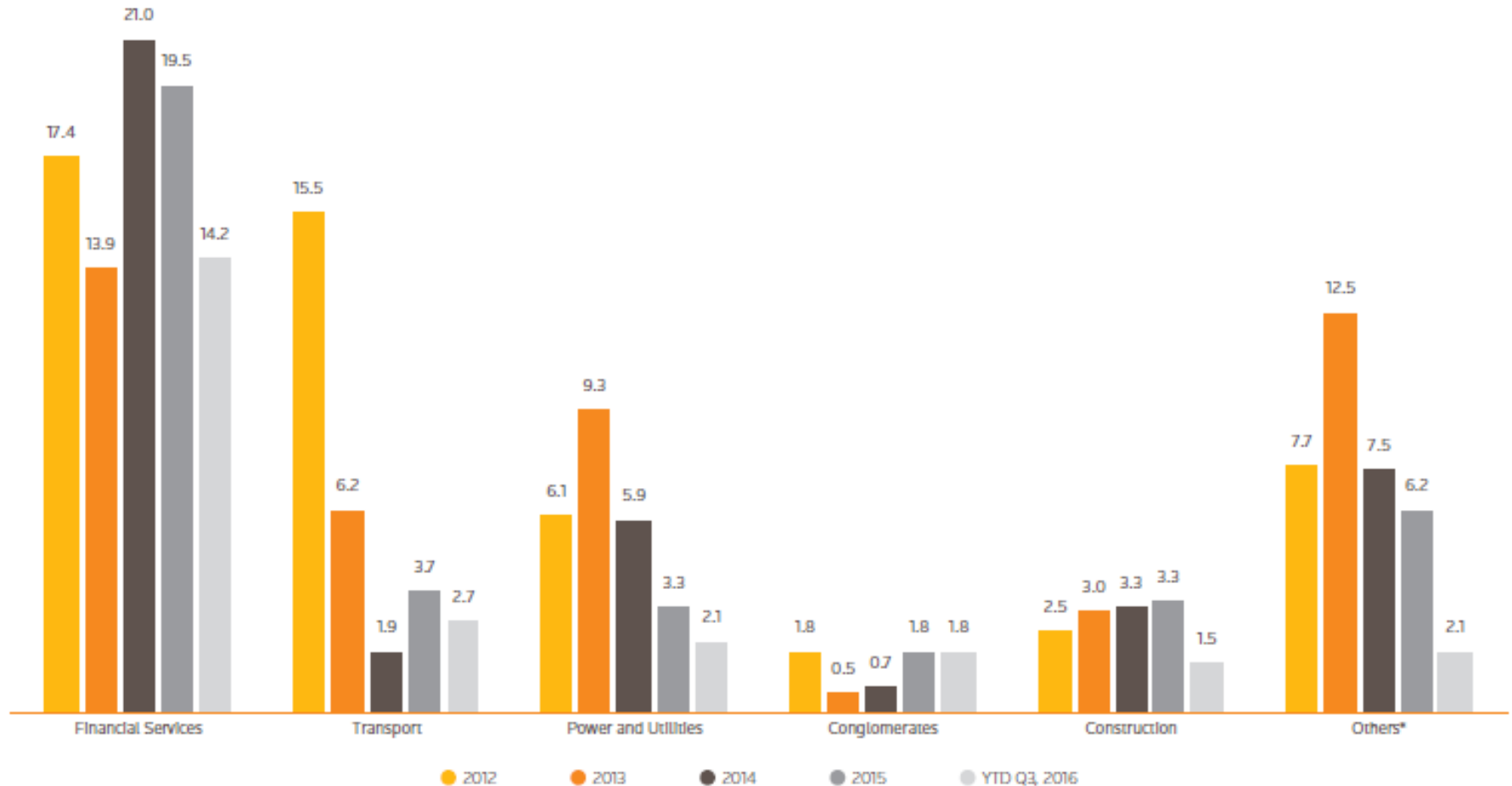


Demand for *sukuk* has been surpassing the level of *sukuk* issuances worldwide.



# Global Sukuk Issuance by Sector

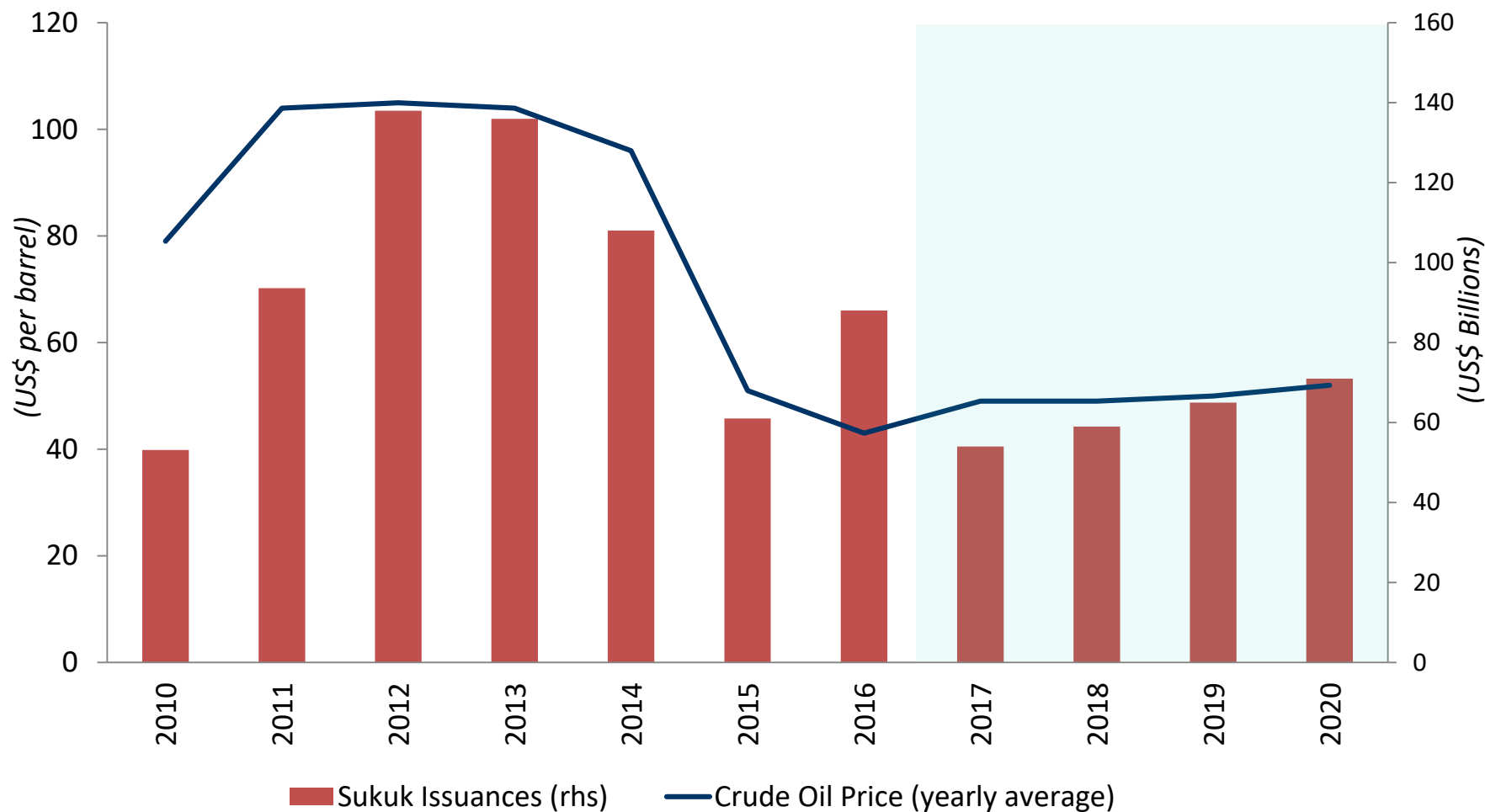
GLOBAL SUKUK HISTORICAL TREND BREAKDOWN BY SECTOR (US\$ BILLION, 2012 – YTD Q3, 2016)



\* Others Include Oil and Gas, Real Estate, Retail, Telecommunications, Services, Agriculture, Industrial Manufacturing, Health Care, Information Technology, Food and Beverages, Education, Consumer Goods and Mining and Metals  
Source: Thomson Reuters

*...Stagnancy in sukuk market may be attributed to the low course of oil price...*

Crude Oil Price vs Sukuk Issuances

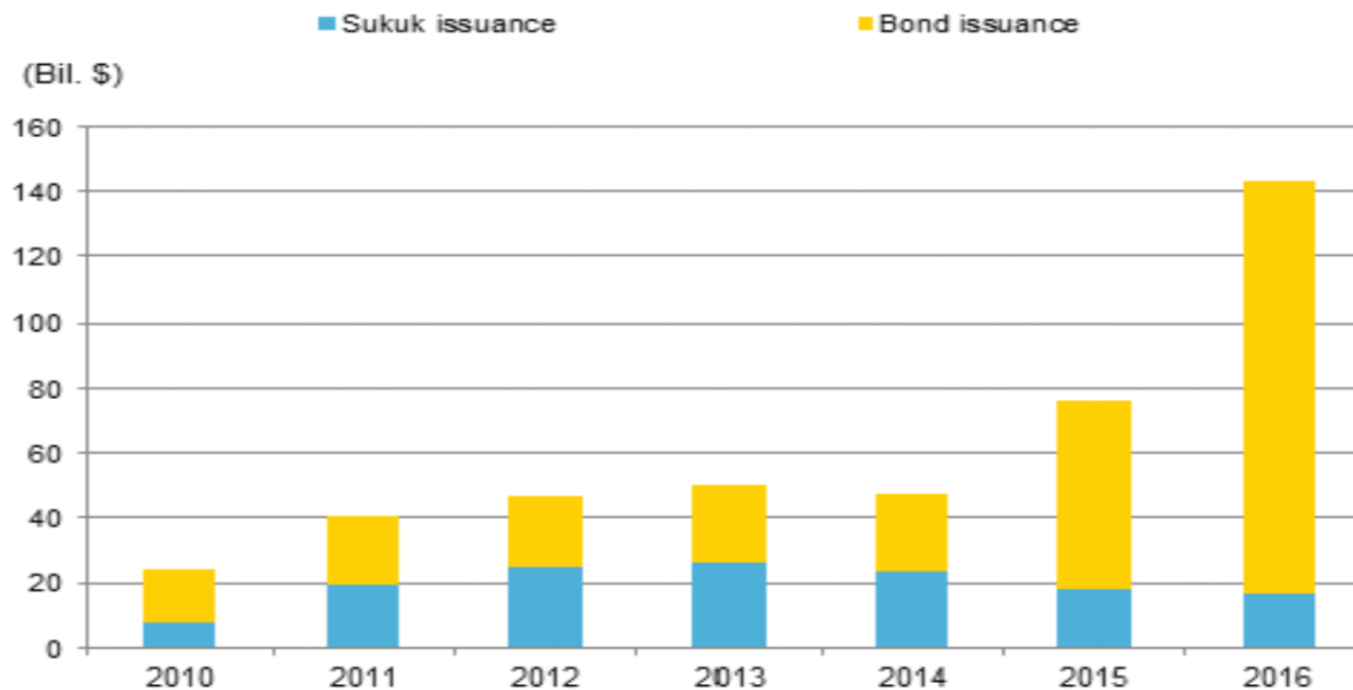


*...Preference of GCC countries for conventional bond issuance constrains global sukuk issuances...*

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### GCC Sukuk Issuance vs GCC Bond Issuances

#### Sukuk Versus Bond Issuance In The GCC



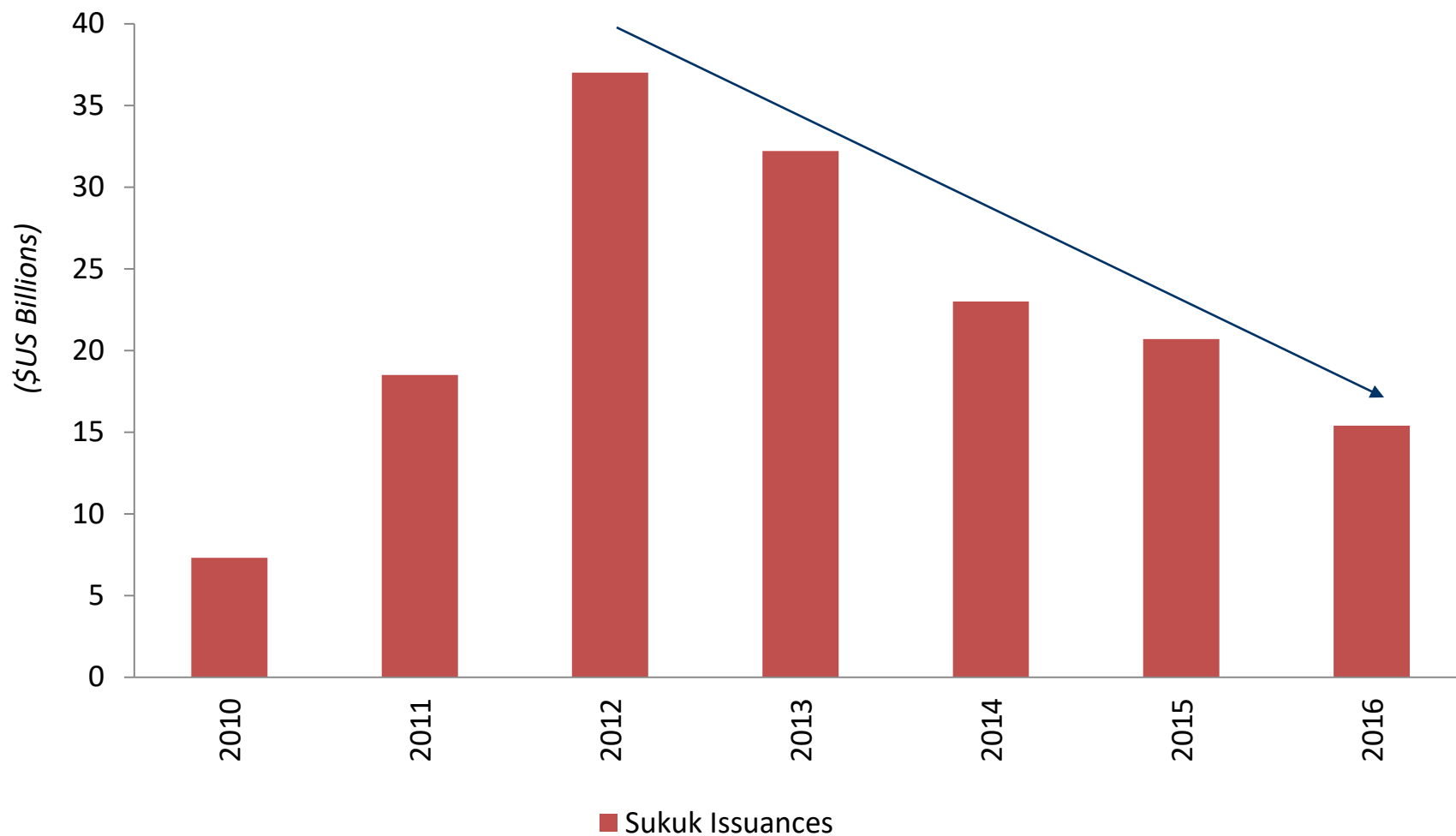
Sources: Eikon and S&P Global Ratings.

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*...Weakening global corporate sukuk issuance is another aspect of the recent sluggish performance of sukuk market...*

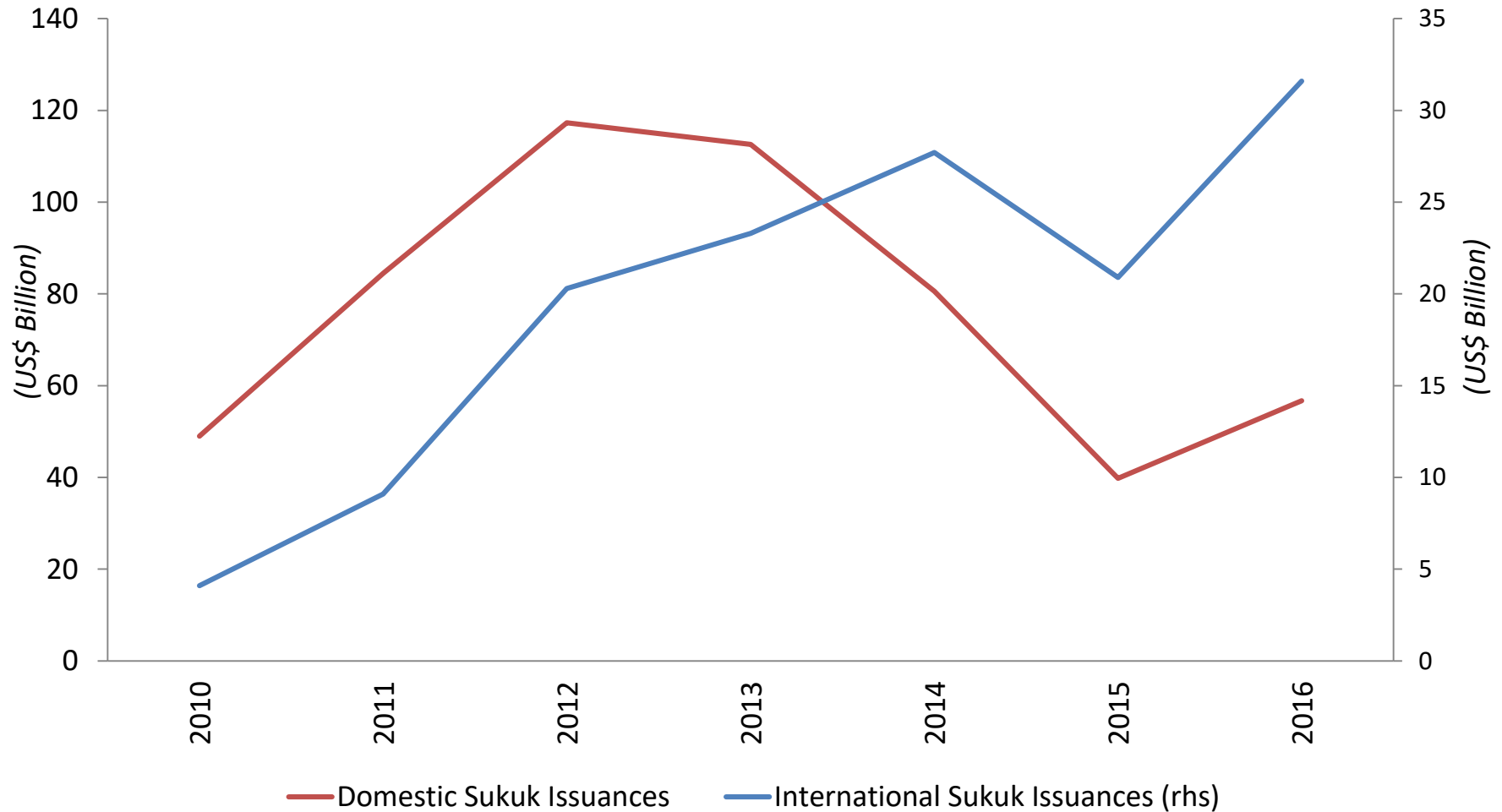
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Global Corporate Sukuk Issuances

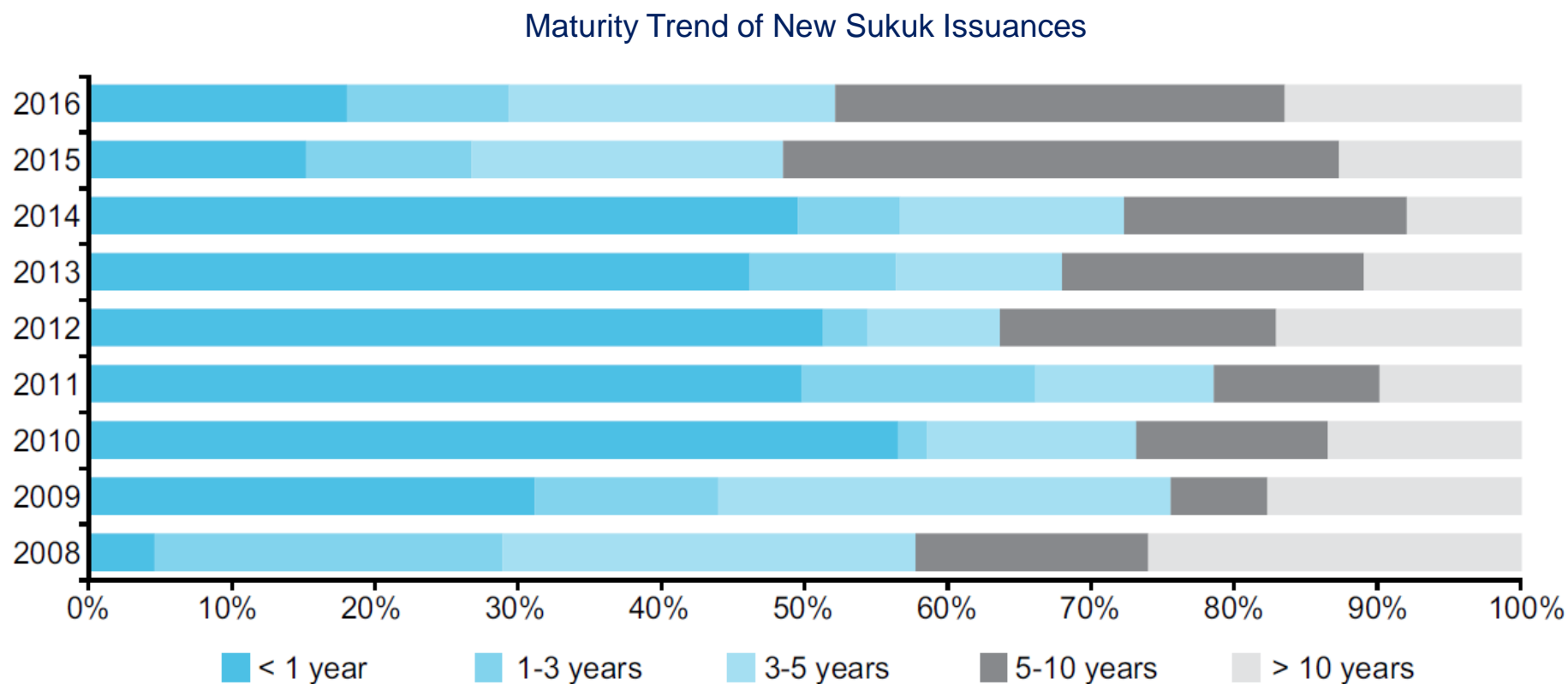


*...Underperformance has been relatively severe in domestic sukuk issuances partly due to weakening local currencies...*

Total Domestic Sukuk Issuances vs Total International Sukuk Issuances

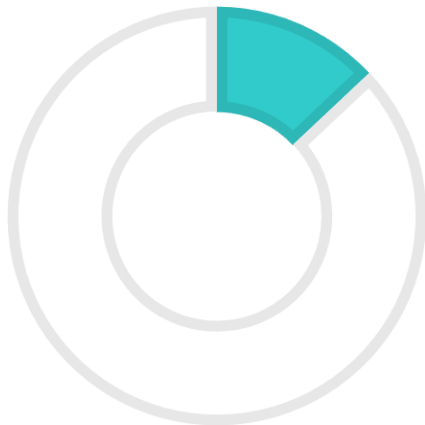


*...In recent years, the maturity profile of sukuk issuances has been improving in favor of longer maturities compared to the post global crisis period...*



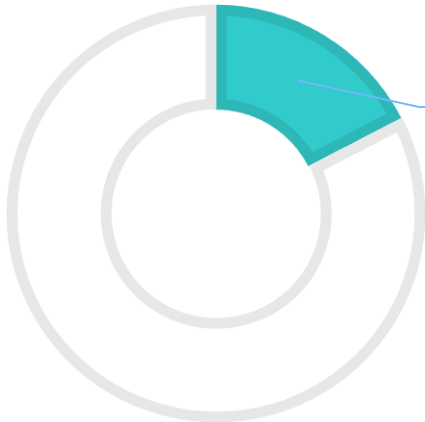
# Infrastructure *Sukuk* Issuances

Infrastructure *Sukuk* as % of Total *Sukuk* Issuances (2009 -2011)



Infrastructure *Sukuk* :  
\$20.8 Billion;  
13%

Infrastructure *Sukuk* as % of Total *Sukuk* Issuances (2012 – 3Q2015)

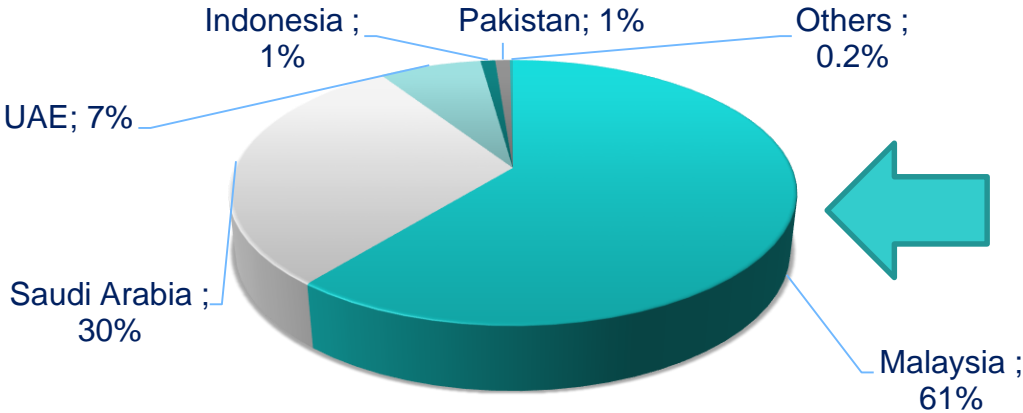


Infrastructure *Sukuk* :  
\$73.1 Billion;  
17%

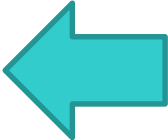


Total *Sukuk* Issuances: \$160 Billion (2009 -2011)

Total *Sukuk* Issuances: \$420 Billion (2012 – 3Q2015)

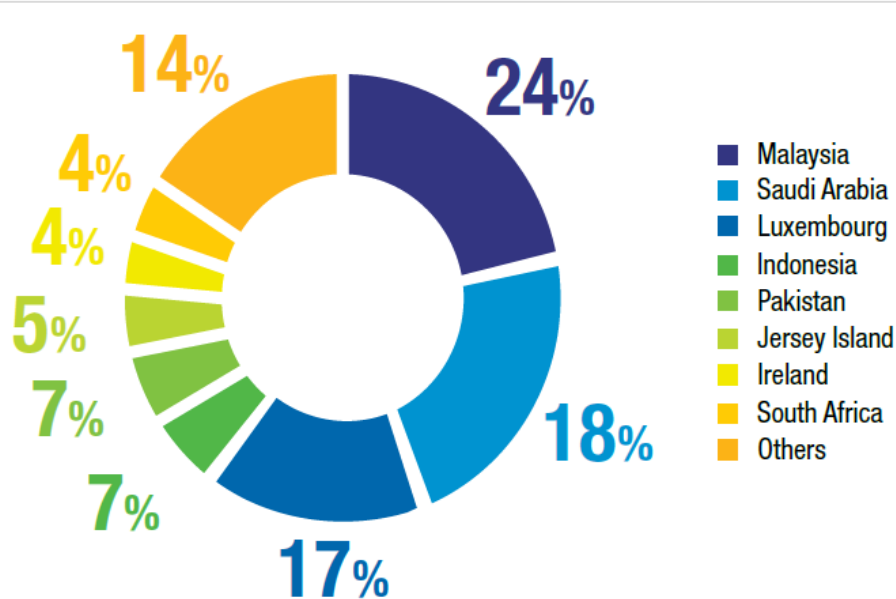


Infrastructure *Sukuk* Issuances by Country (2012 – 3Q2015)



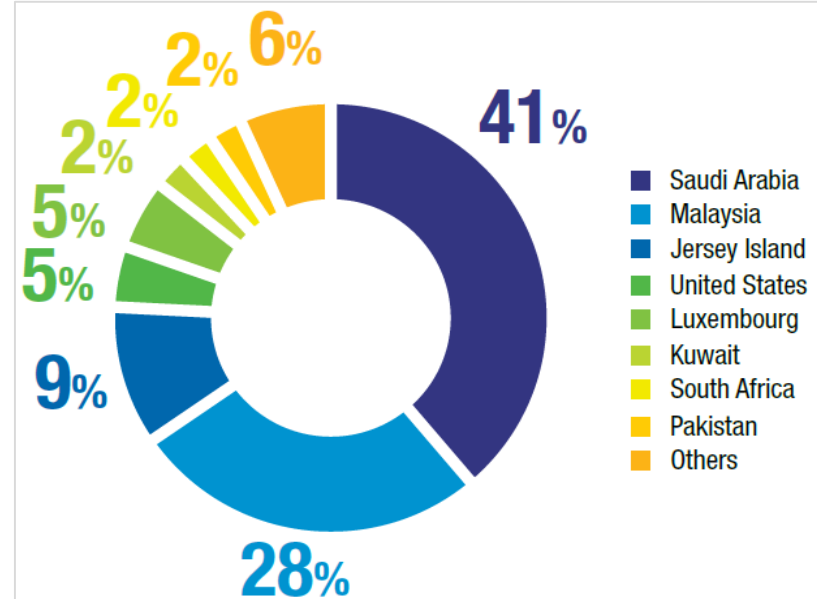
# The Rise of Islamic Funds

Number of Islamic Funds by Country  
(3Q2015)



Source: ISRA' & Zawya, 30 September 2015

Global Islamic Assets under Management  
(AuM) by domicile (USD billion) (3Q 2015)

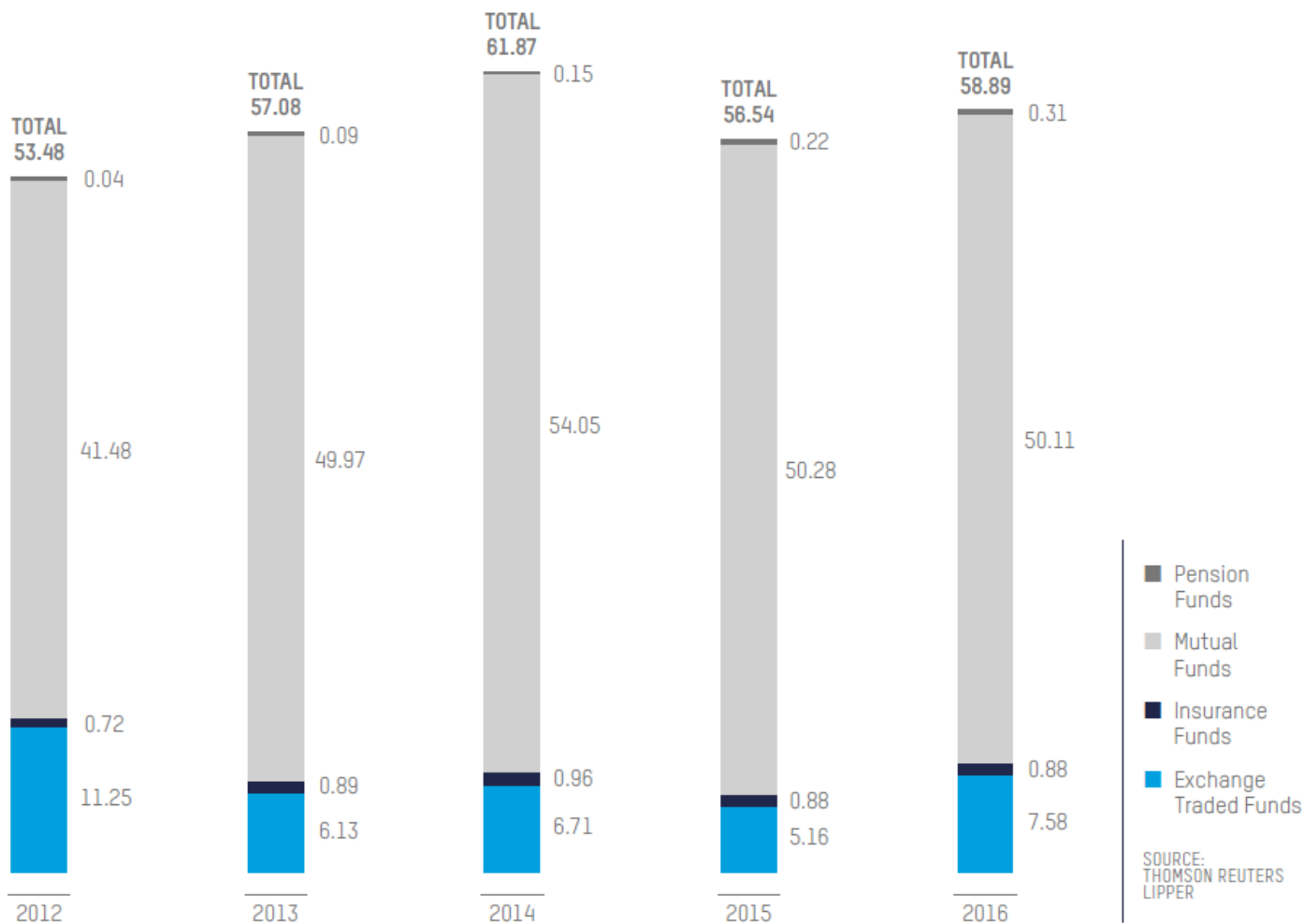


Source: ISRA' & Zawya, 30 September 2015

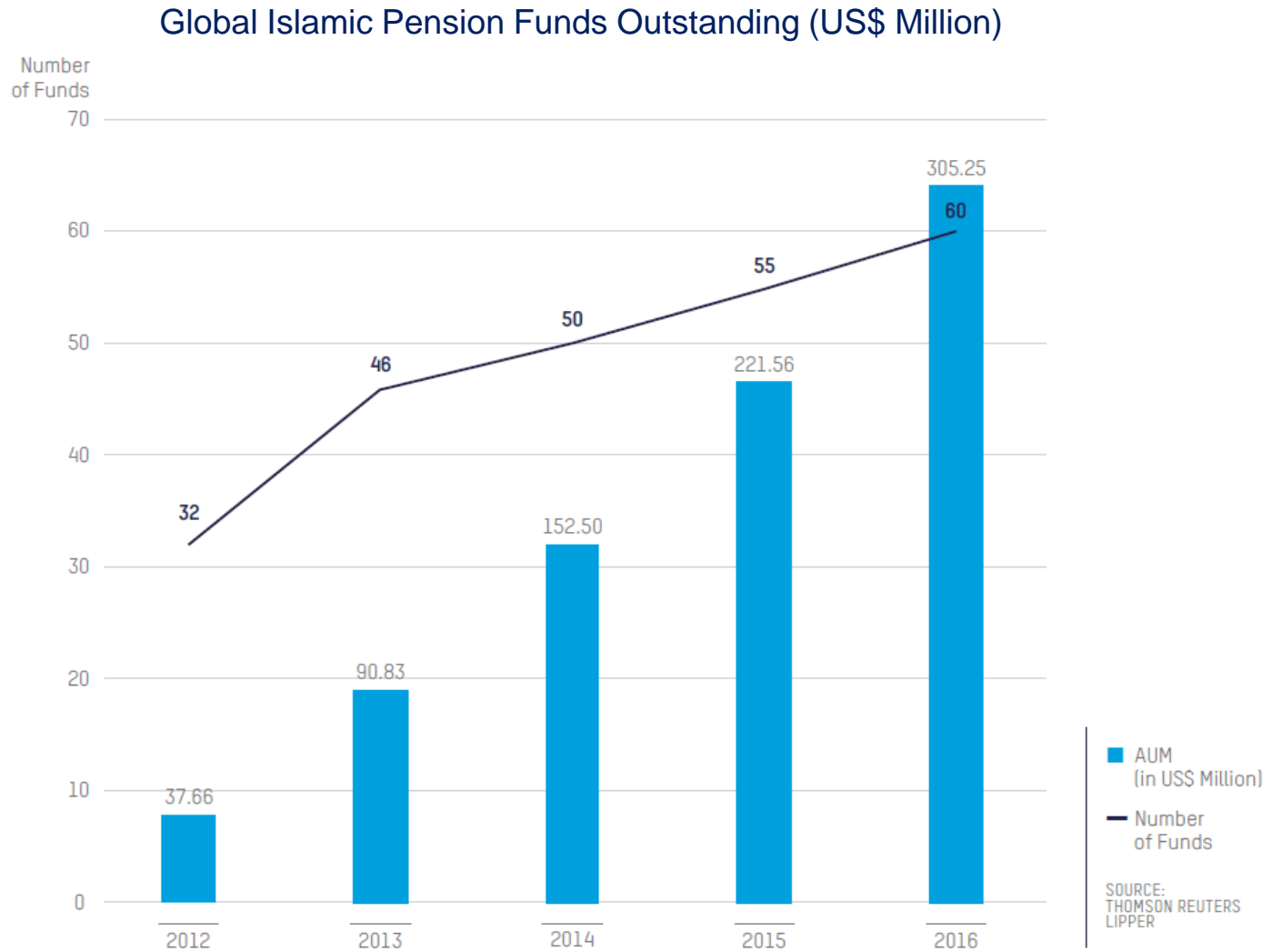


## *Global Islamic funds exhibit a stable performance amid increased challenges...*

AUM of Global Islamic Funds Outstanding (US\$ Billion)



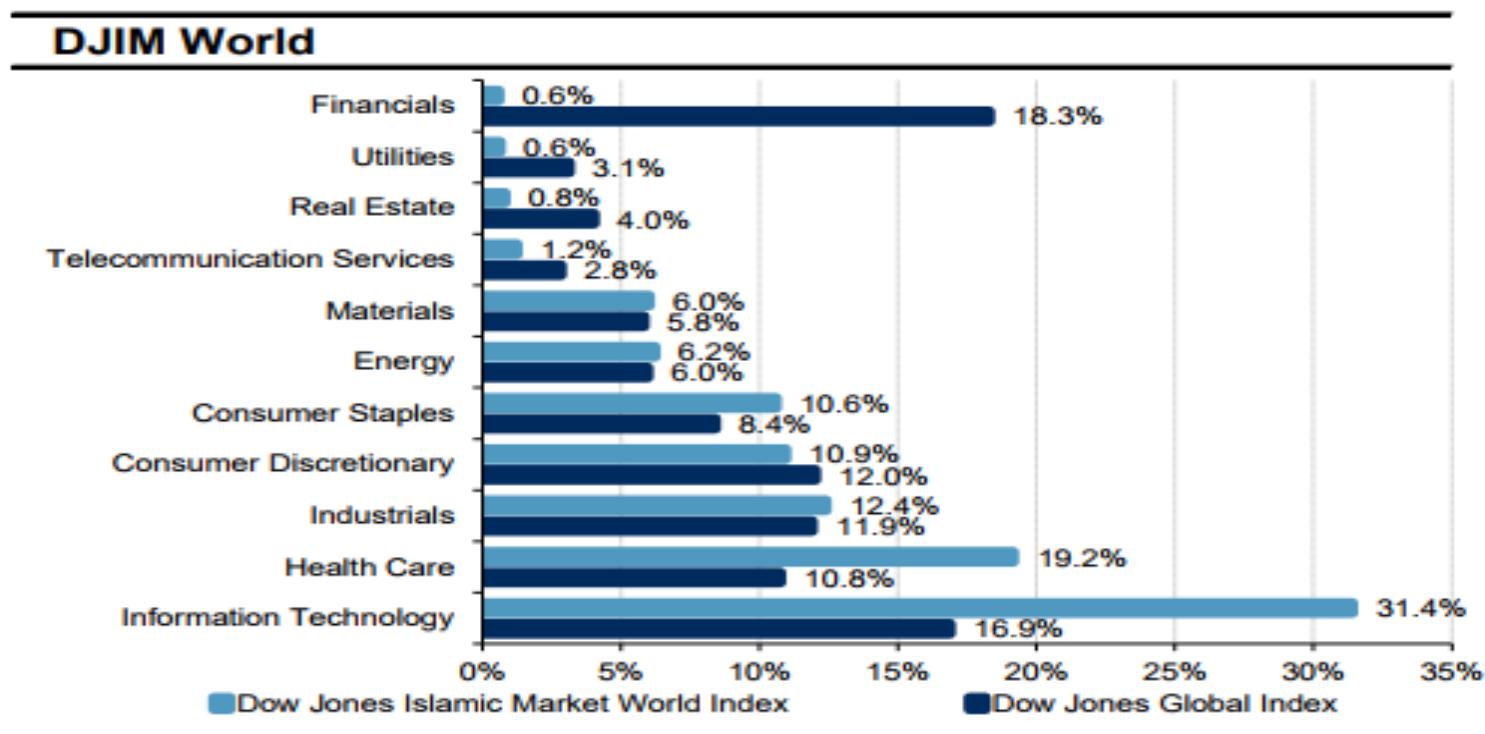
*...Global Islamic pension funds maintain rapid growth while rising from a low base...*



# Shariah-Compliant Equities

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## *Dow Jones Islamic Market Indices Sector Composition Comparison September 29, 2017*



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## **II. Islamic Capital Markets-Economic Growth & Development Nexus**

# *Islamic finance principles may be finely linked to the sustainable development goals...*

## Islamic Finance Principles

Prohibition of Riba

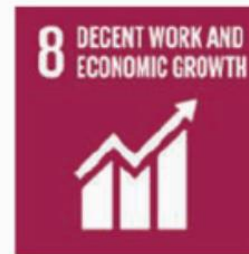
Prohibition of Speculation

Prohibition of Financing Illicit Sectors

Profit and loss sharing principle

Asset backing principle

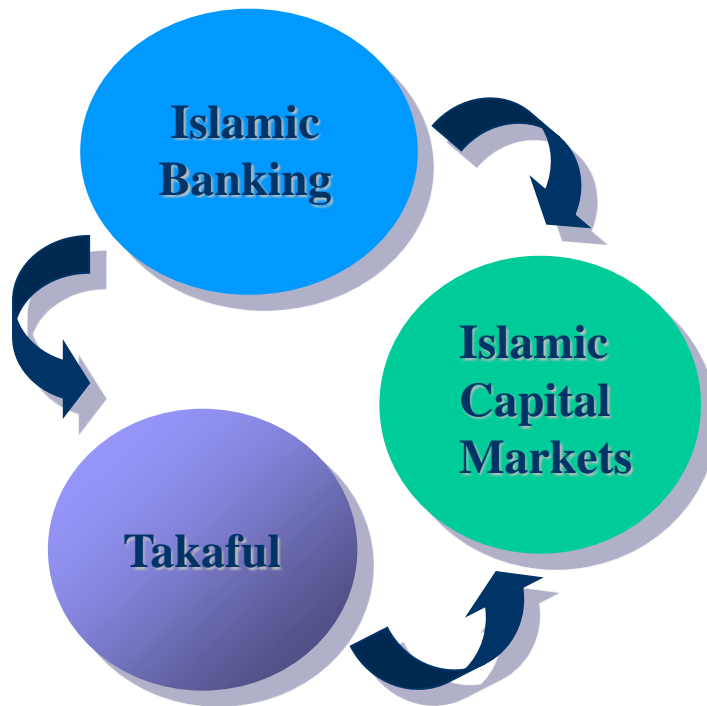
## Sustainable Development Goals



# Islamic Capital Markets

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*Islamic Capital Markets (ICM) refer to a market where the capital market transactions, operations and activities are carried out in ways that do not contravene Shari'ah principles and requirements.*



ICM provide long term fund raising and investment and enhance depth & liquidity of the Islamic financial system

*...Islamic finance can contribute directly to boosting economic growth, reducing inequalities and enhancing the sustainability of growth...*

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Financing business enterprises, including SMEs and innovative entrepreneurs

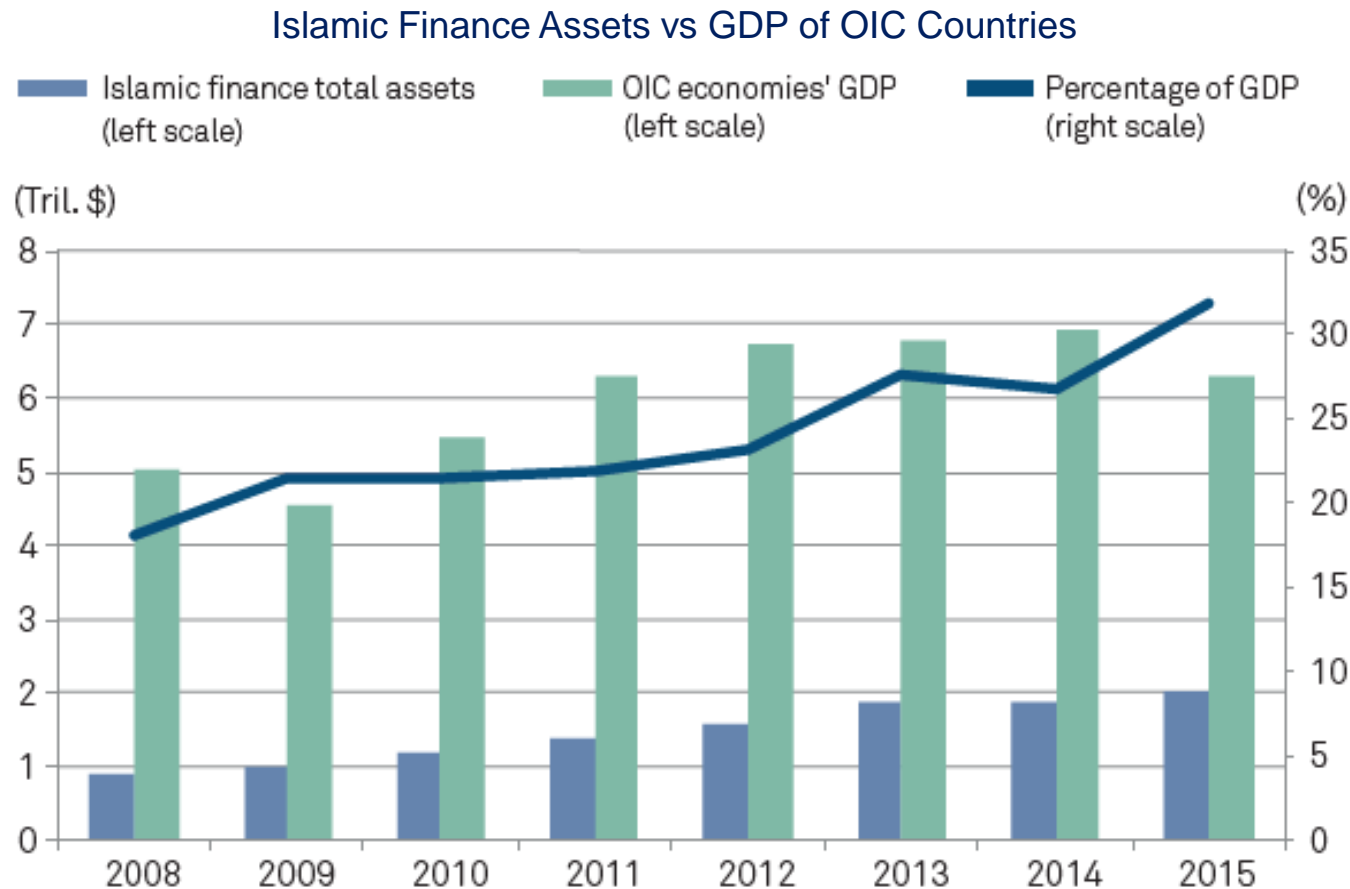
Financing infrastructure projects

Improving the poor's access to financial services

Supporting social investments in education and health

Supporting “green” investments to address climate change

*Relative to the scale of economy in its authentic territory, the size of Islamic finance is quite low as an indication of huge potential...*



OIC – Organization of Islamic Conference Economies.  
Sources: International Monetary Fund and Standard & Poor's.



# Sukuk: Value Proposition

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Broadens the investor/subscriber base thus providing more competitive pricing for issuers

Enhances inclusiveness thus promoting more equitable wealth distribution/sharing

Contributes to development and growth of the Islamic finance sector as well as SRI business and economy

Provides more options for issuers and investors – facilitates diversification and reduces concentration risk

# Role of Sukuk in Economic Development

Usage	Example
Fiscal support	<b><u>Sudan</u></b> : Over \$100 million of Sukuk issued in 2012 to raise funds for the government
Liquidity management	<b><u>Bahrain, Gambia and Brunei</u></b> : Short-term Sukuk as tools of liquidity management
Education	<b><u>Osun State, Nigeria</u></b> : Local currency, sub-sovereign Sukuk issue (\$62 million equivalent) for the construction and rehabilitation of 24 schools in 2013
Health	<b><u>World Bank, 2014</u></b> : Global Sukuk for \$500 million raised by International Financial Facility for Immunization to fund the supply of vaccines to some of the world's poorest nations
Infrastructure	<b><u>Saudi Arabia</u></b> : Global Sukuk for \$1.7 billion to finance electricity projects in 2010. <b><u>Malaysia</u></b> : Global Sukuk for \$300 million to finance the Klang Valley Rapid Mass Transit Project
Environment	<b><u>Malaysia</u></b> : The World's first green sukuk launched in 2017 to finance sustainable, climate-resilient growth

# Islamic Investment Funds: Value Proposition

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Enables pooling of resources to invest in diverse range of Shariah-compliant securities & instruments

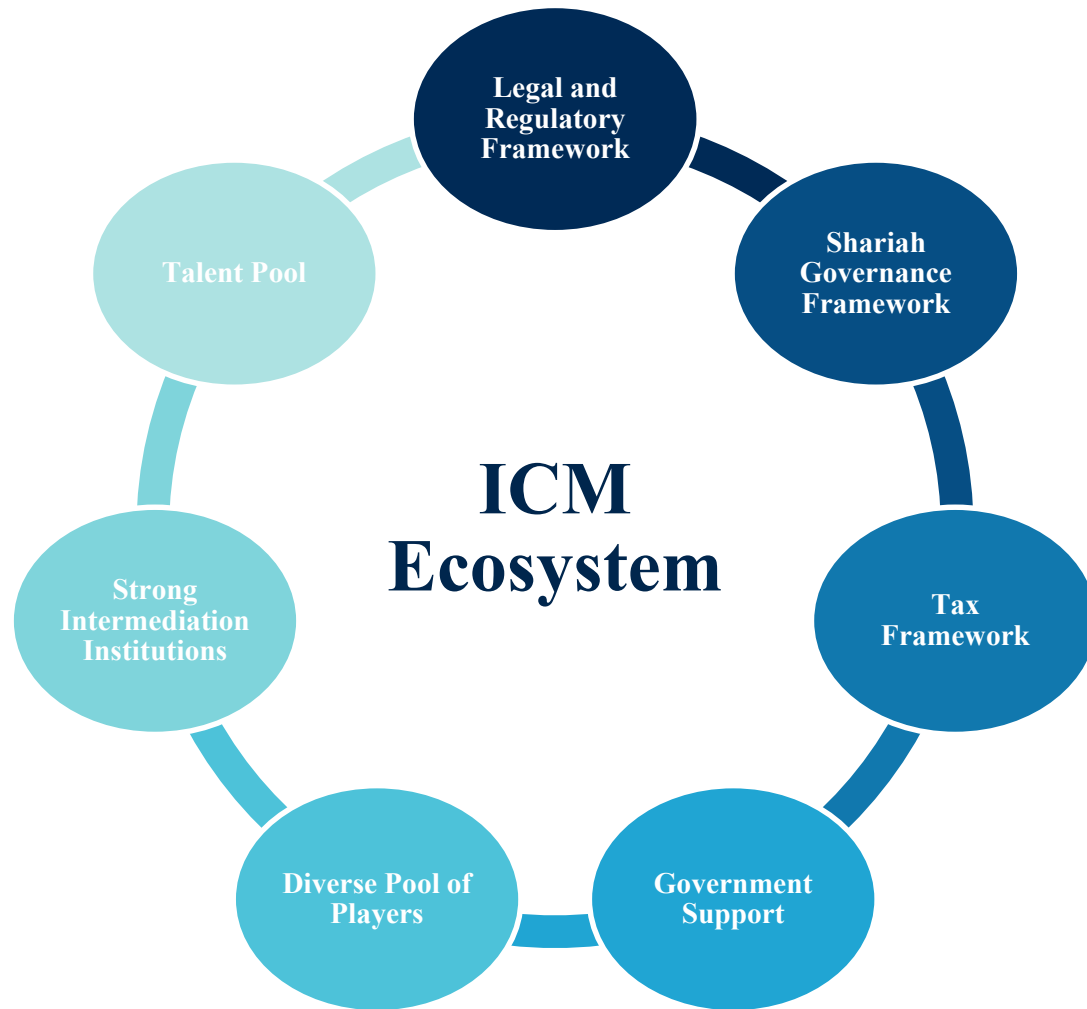
Facilitates effective mobilization of funds to participate in various sectors & create more wealth in the economy

Provides different fund structures to suit specific needs, requirements and preferences

Creates opportunities for cross border linkages and businesses

# Building Blocks for an Effective Islamic Capital Market

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*...The opportunity to expand Islamic finance is promising and concerted action is required in several areas...*

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Enhancing corporate governance and risk management

Enhancing the regulatory and supervisory framework

Promoting standardization of products and documentation

Strengthening bankruptcy and insolvency frameworks

Raising public awareness (financial literacy)

Increasing the number of skilled professionals

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THANK YOU