

The Impact of Digital Economy on OIC Member Countries

Dr. Mohamed Damak
Senior Director / Global Head of
Islamic Finance

Copyright © 2018 by S&P Global.
All rights reserved.



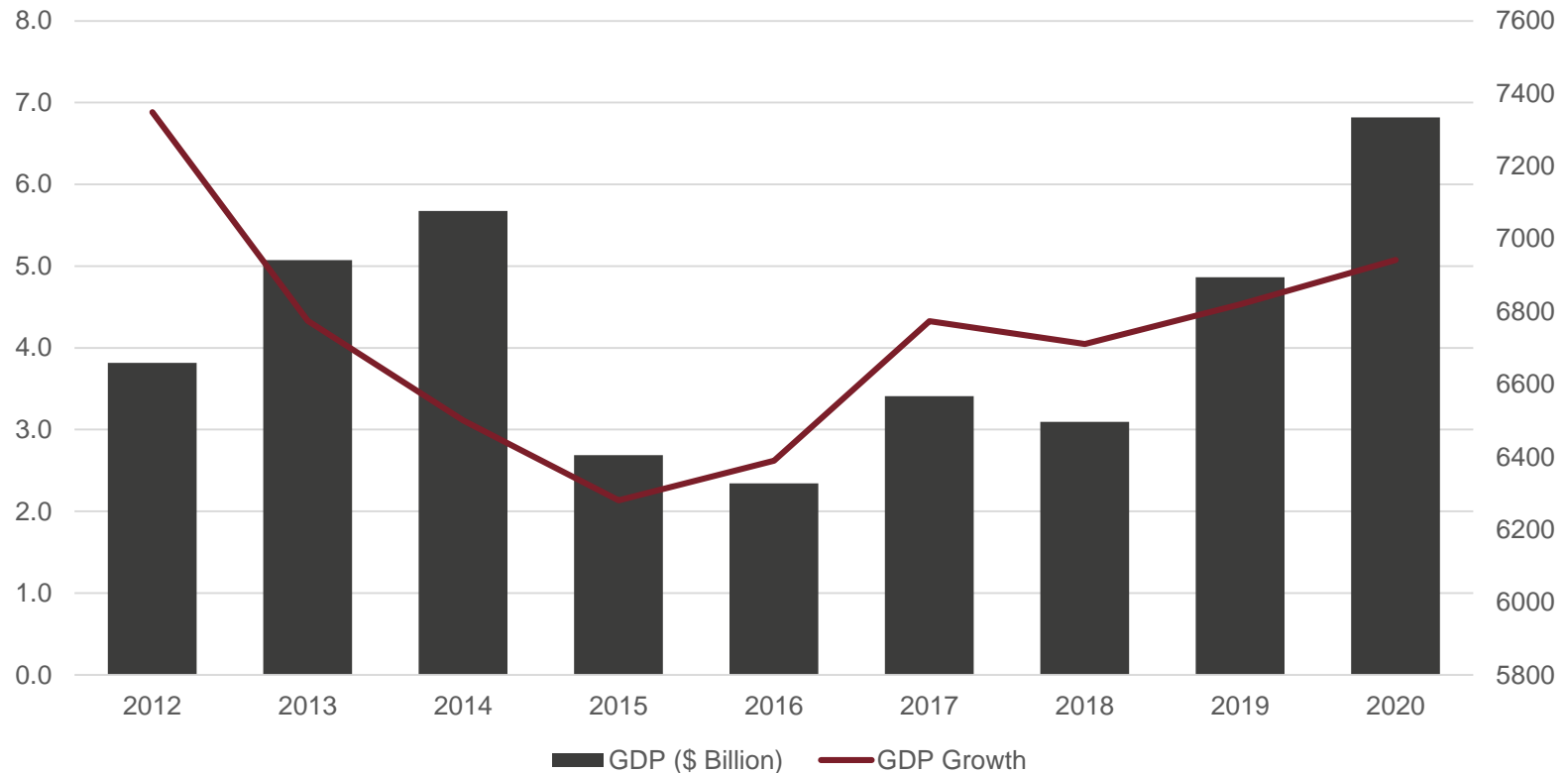
Agenda

- 1 OIC Countries Readiness for the Digital Economy
- 2 Islamic Finance Outlook
- 3 The Role of Fintech As An Accelerator

Agenda

- 1 OIC Countries Readiness for the Digital Economy
- 2 Islamic Finance Outlook
- 3 The Role of Fintech As An Accelerator

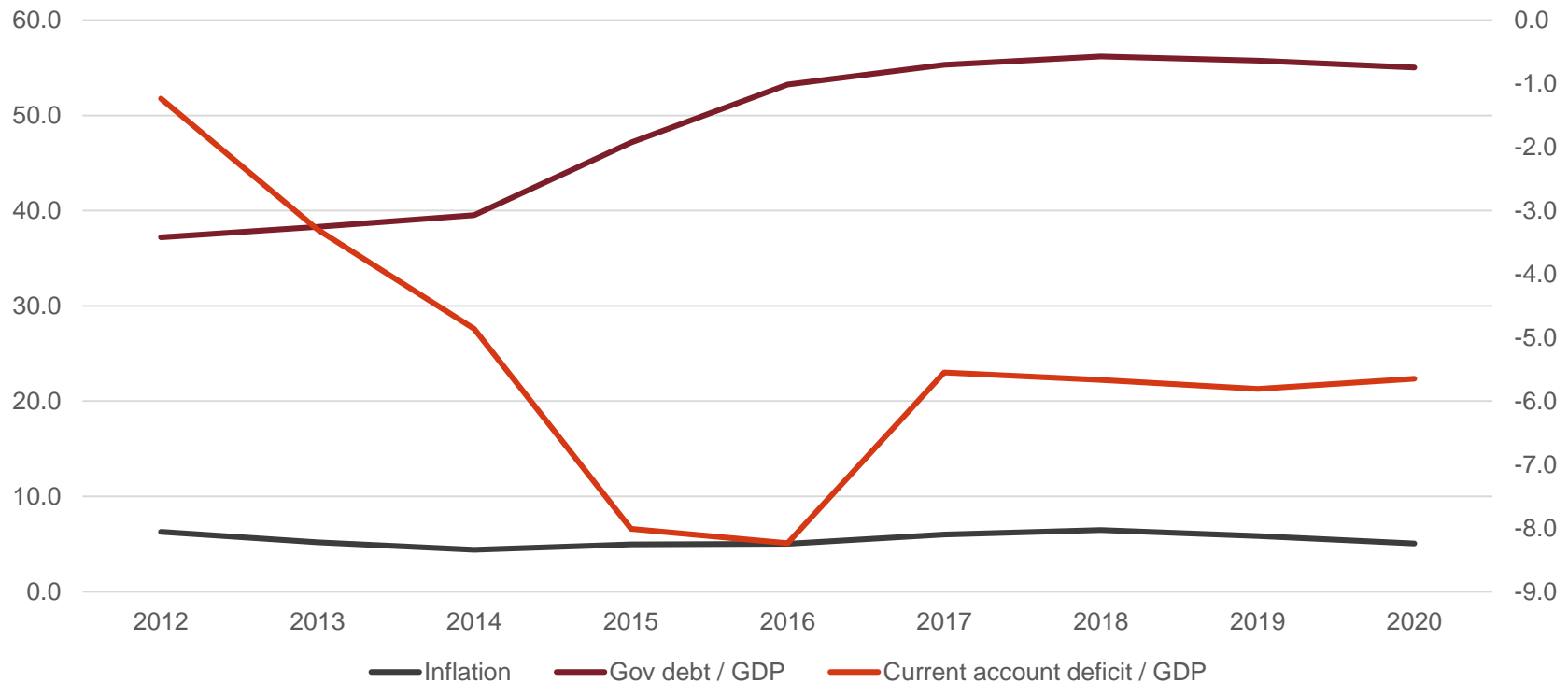
OIC Countries: \$7.3 Trillion Economy by 2020



Source: IMF

- # Size of the OIC economies dropped in 2015 because of the drop in commodities prices and the still high dependence of some OIC economies on commodities.
- # Growth outlook appears more positive for the next three years.

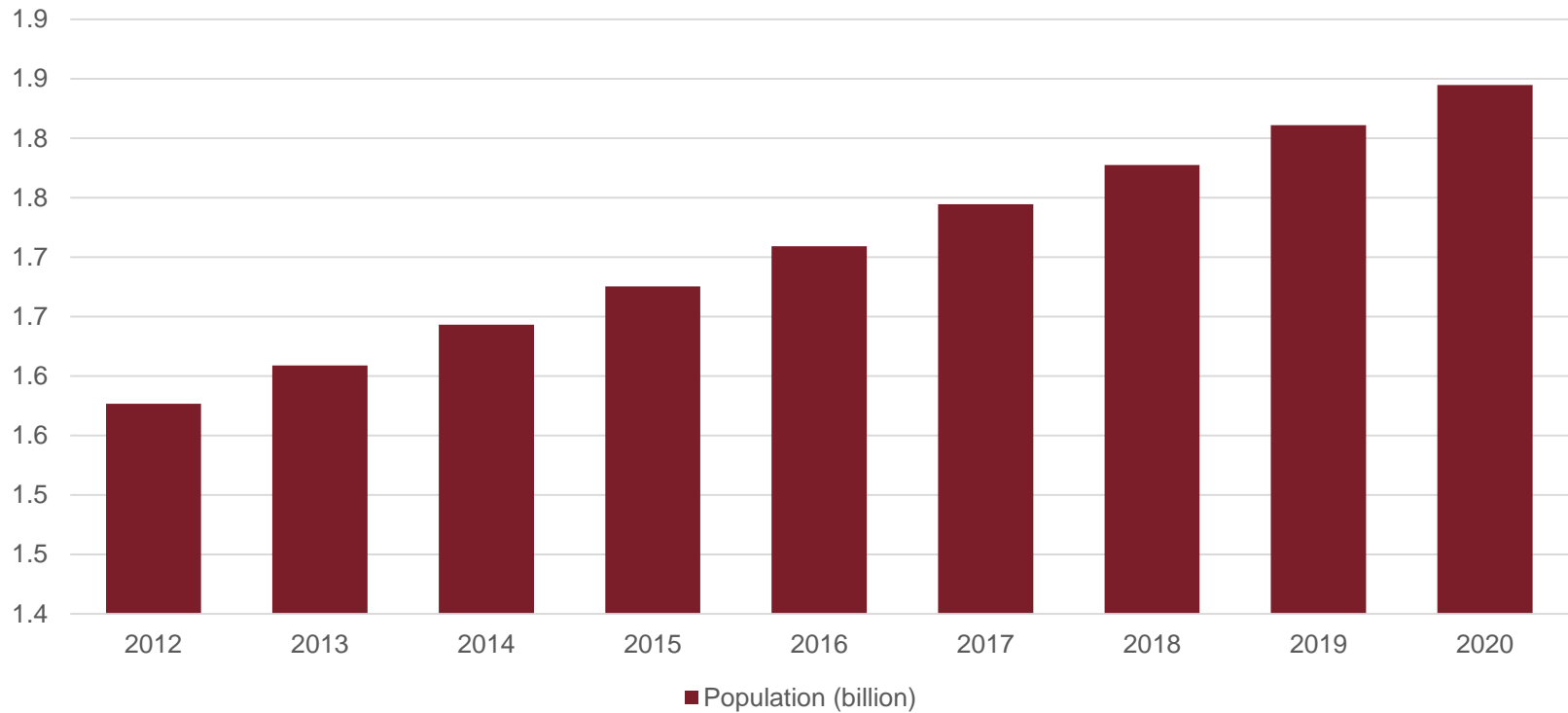
Average Economic Indicators



Source: IMF

Inflation is high, debt burden is growing, and current account deficit is high... On average. The data masks significant differences between the countries.

A population of 1.8 billion by 2020



Source: IMF

Average population growth of 2% over 2012-2020 period.

Readiness For Digital Economy: Ease of Doing Business

Top 10 OIC Countries in Doing Business Index	Ease of Doing Business Rank	Getting Electricity
United Arab Emirates	21	1
Malaysia	24	8
Kazakhstan	36	70
Brunei Darussalam	56	24
Azerbaijan	57	102
Turkey	60	55
Albania	65	157
Bahrain	66	79
Morocco	69	72
Oman	71	61

Bottom 10 OIC countries in Doing Business Index	Ease of Doing Business Rank	Getting Electricity
Algeria	166	120
Gabon	167	170
Iraq	168	116
Sudan	170	110
Syrian Arab Republic	174	153
Guinea-Bissau	176	180
Bangladesh	177	185
Chad	180	177
Afghanistan	183	163
Libya	185	130

Readiness For Digital Economy: Access to Internet / R&D Spending

Top 10 OIC Countries	Internet Penetration
Qatar	92%
United Arab Emirates	92%
Bahrain	92%
Kuwait	80%
Lebanon	76%
Brunei	72%
Oman	71%
Malaysia	69%
Saudi Arabia	65%
Albania	63%

Top Bottom OIC Countries	Internet Penetration
Somalia	2%
Guinea	2%
Niger	2%
Sierra Leone	2%
Chad	3%
Guinea-Bissau	4%
Benin	6%
Mozambique	6%
Afghanistan	7%
Comoros	7%

Source: www.internetlivestats.com

	R&D Spending / GDP	Gross Spending \$ Bil.
Qatar	2.5%	8
Malaysia	1.3%	11
Turkey	0.9%	16
Iran	0.8%	11
Bangladesh	0.7%	5
Egypt	0.6%	7
Pakistan	0.6%	0
Saudi Arabia	0.5%	8
Indonesia	0.3%	9
Global R&D	1.7%	2066

Source: Global R&D funding forecasts 2017

Very few OIC countries appear ready for the Digital Economy
Pre-requisites: reform implementation to ease doing business; infrastructure spending (access to internet; physical infrastructure) and education are key to unlock new opportunities offered by the Digital Economy

Readiness For Digital Economy: Financial Services Penetration



- # 42% on average have a bank account
- # 10% have used internet to pay bills in the past year
- # 12% saved at a financial institution
- # 8% have an outstanding housing loan
- # 26% have a debit/credit card
- # 8% borrowed to start operate or expand a farm/small business
- # 9% borrowed from a financial institution and 29% from a family member or a friend
- # 34% sent or received remittance through different channels (12% through a mobile phone)
- # 65% paid their utility bills in cash
- # 36% made or received digital payment in the last year
- # 15% have a mobile money account

Source: Global Findex

Comparison With Developed World

	OIC	Min - OIC	Max - OIC	OECD	World
Have a bank account	42%	6%	94%	95%	69%
Used internet to pay bills	10%	0%	45%	54%	22%
Saved at a financial institution	12%	1%	38%	56%	27%
Have outstanding housing loan	8%	1%	27%	28%	11%
Have a credit/debit card	26%	2%	83%	84%	48%
Borrowed to start operate or exampld a farm/small business	8%	1%	27%	28%	11%
Borrowed from a financial insittution	9%	0%	24%	20%	11%
Borrowed from a family member or a friend	29%	13%	52%	13%	26%
Sent or received a remittance through different channels	34%	12%	61%	--	--
Sent or received a remittance through a mobile phone	12%	0%	47%	--	--
Paid utility bill in cash	65%	12%	100%	11%	52%
Made or received digital payment	36%	3%	90%	92%	52%
Have a mobile money account	15%	1%	51%	--	--

Source: Global Findex

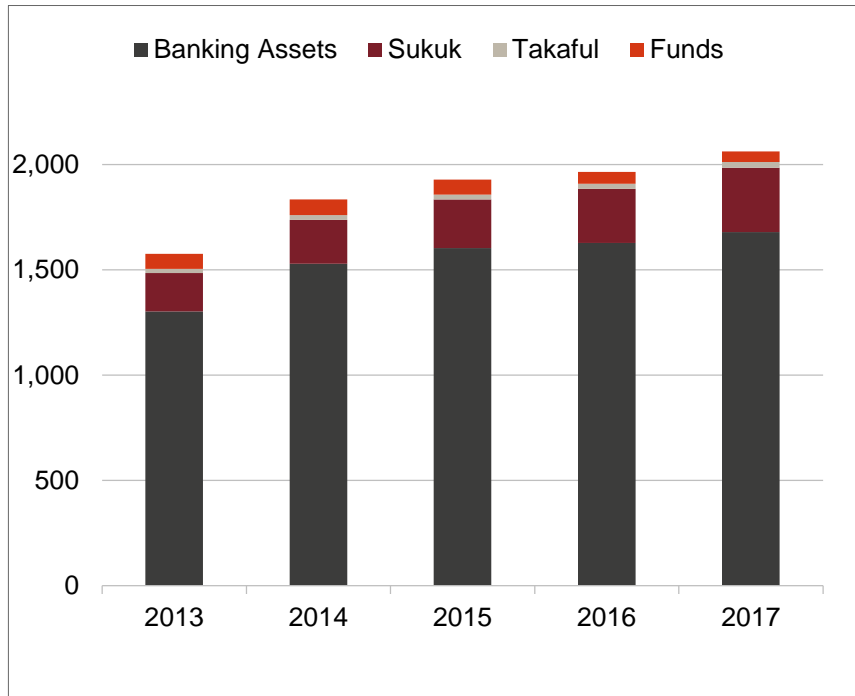
Lack of development of financial services / lack of availability of Islamic finance

Agenda

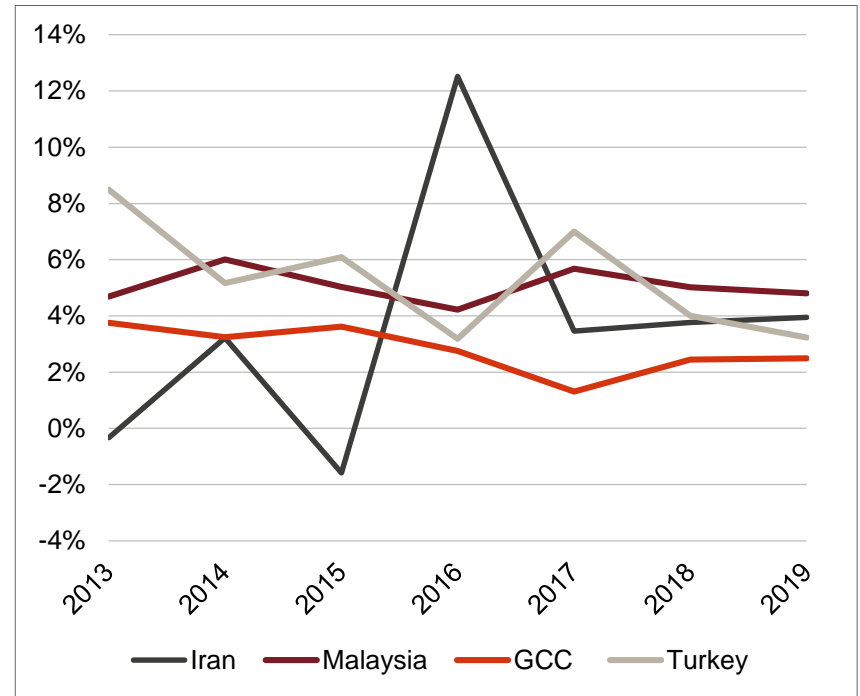
- 1 OIC Countries Readiness for the Digital Economy
- 2 Islamic Finance Outlook
- 3 The Role of Fintech As An Accelerator

Slow Growth Will Continue...

Islamic Finance Assets (\$ Million)



Selected IF countries GDP Growth

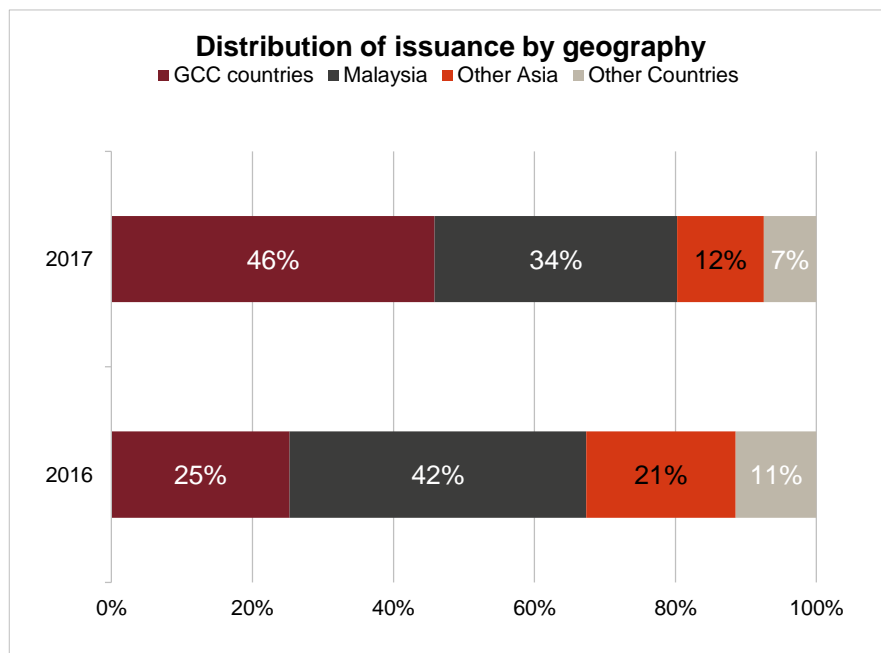
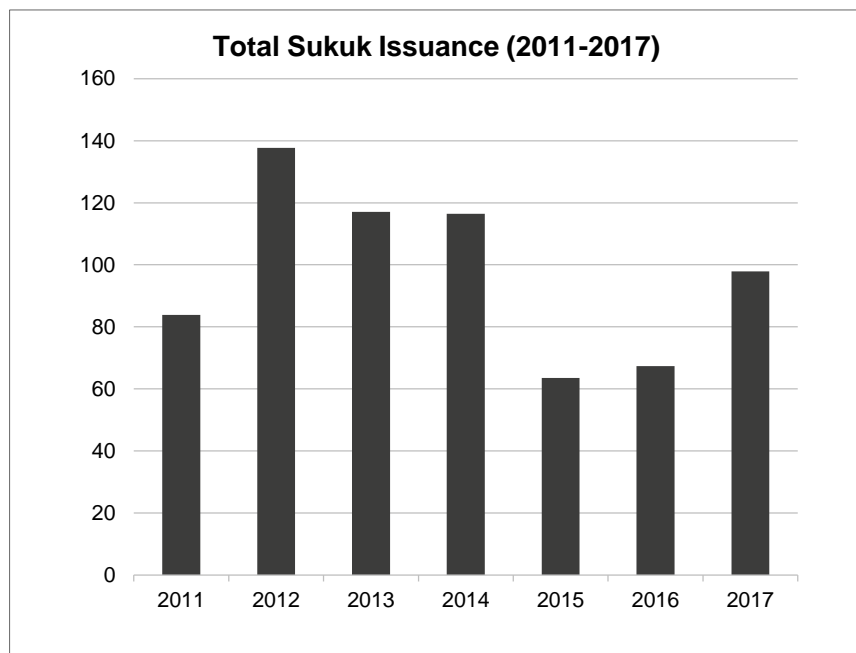


Source: S&P Global Ratings

Expect the industry to continue to grow slowly due to its concentrated nature and the mild economic performance of core countries.

The only exception was in the sukuk market.

2017 Was A Strong Year For Sukuk...

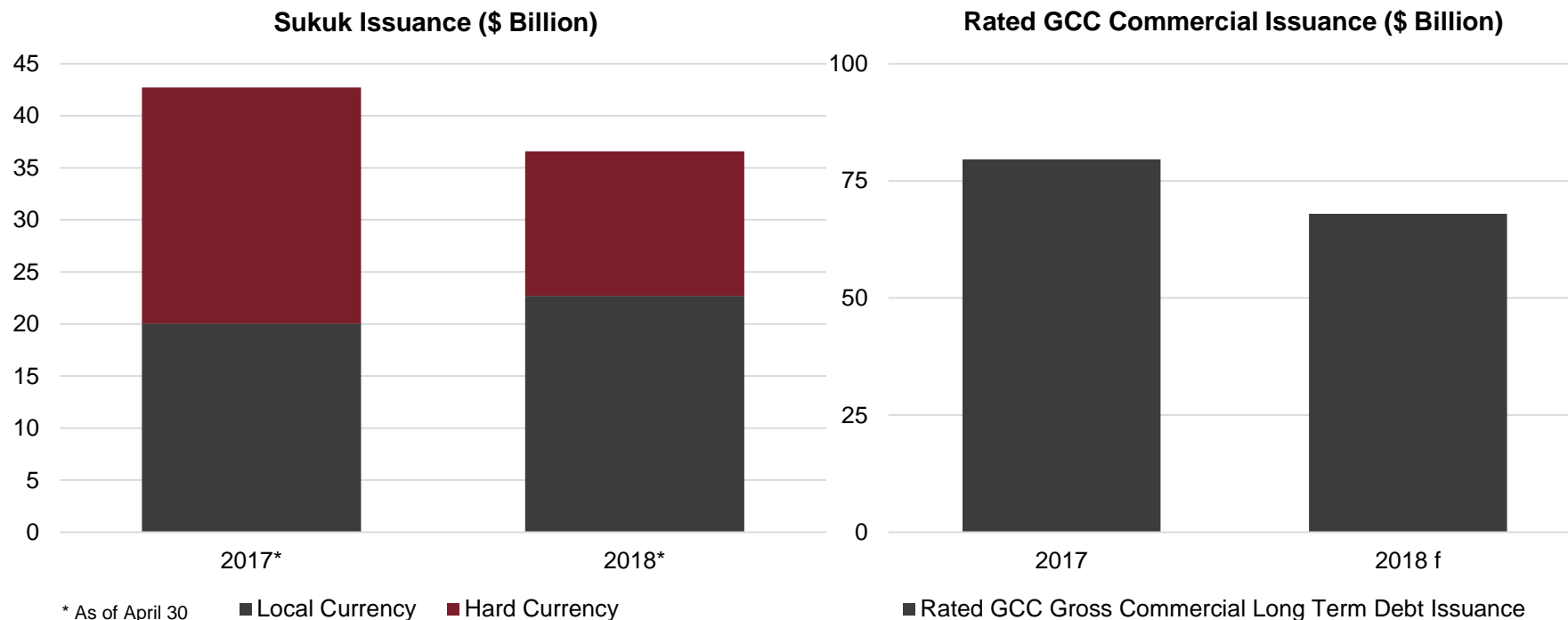


Source: S&P Global Ratings

\$97.9 billion in 2017 vs. \$67.4 billion in 2016 or an increase by 45.3%.

The GCC countries are back with jumbo issuances (Saudi Arabia).

... But 2018 Volume Is Uncertain



Source: S&P Global Ratings

The first four months of 2018 were marked by a drop of around 14% of total issuance and 38% for foreign currency issuances.

The gross commercial long term debt issuance by GCC rated sovereign is expected to decline by 15% in 2018 vs. 2017 thanks to oil price stabilization and fiscal consolidation measures.

Expectations \$70-80 billion in 2018.

Why?

#1 Global liquidity is set to tighten: Fed rate increase and ECB reducing its asset purchase pace. As a result, cost of funding for the issuers will rise and developed markets liquidity channeled to developing markets will reduce.

#2 Lower financing needs for GCC and uncertainty on the mix conventional-Islamic instruments that will be used.

#3 Recent resurgence in geopolitical risks (in Saudi/Qatar) may deter investors' appetite to instruments issued by GCC issuers in case of significant escalation.

#4 The standardization agenda is progressing slowly although standard-setting bodies have spent a significant amount of energy in advancing the standardization agenda.

Dana Gas Case

Dana Gas and its Sukuk are not rated by S&P

No impact on the market so far.

First judgment in favor of investors in the UK / in favor of the issuer in the UAE.

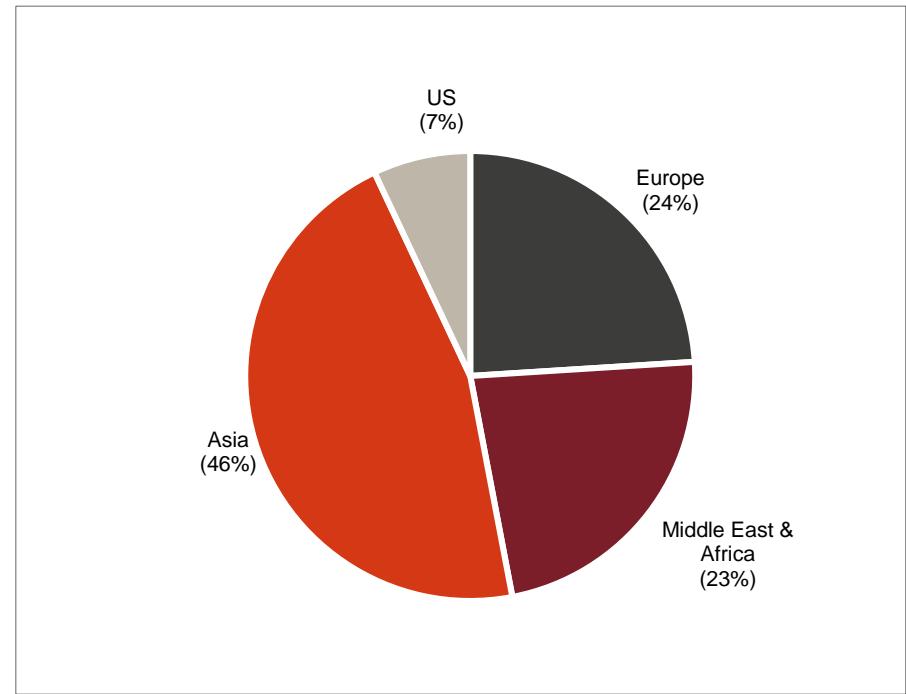
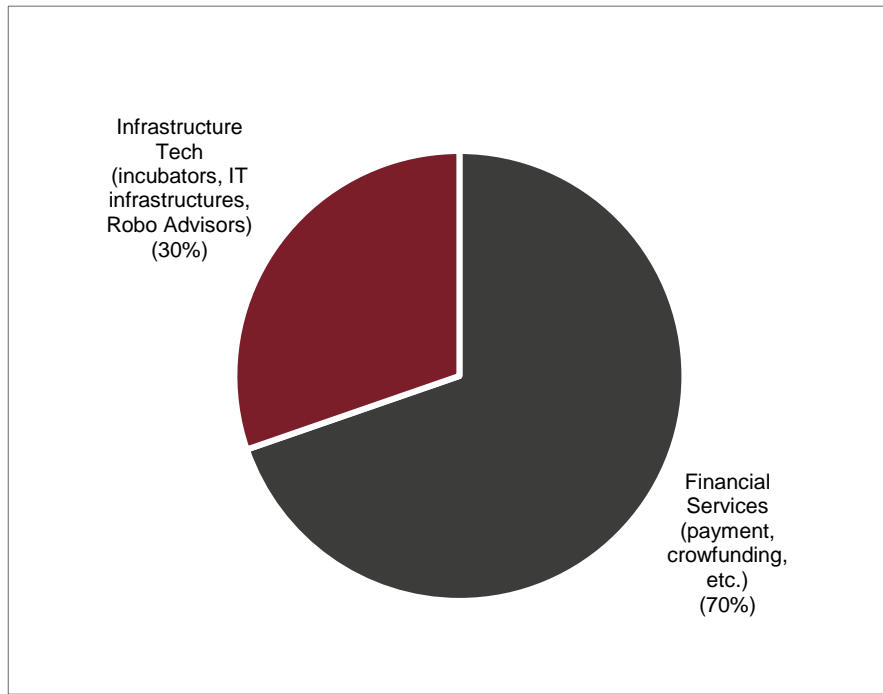
It brought back the debate on standardization on the table (Sharia and legal docs).

Reportedly, Dana Gas and its creditors reached an agreement.

Agenda

- 1 OIC Countries Readiness for the Digital Economy
- 2 Islamic Finance Outlook
- 3 The Role of Fintech As An Accelerator

Islamic Fintech Landscape...



Source: IFN Fintech

- # Around 100 Islamic Fintech with 46% based in Asian countries and 23% in MENA.
- # The vast majority operate in financial services provision (money transfer, crowdfunding, and digital banking) and the remaining are in the technical infrastructure provision.

Fintech As An Accelerator...

Ease and Speed of transactions: particularly for payment services and money transfer. Fintech could also reduce costs and allow the redeployment of staff to higher added value operations.

Traceability of transactions: use of blockchain to reduce risks related to security or identity theft.

Greater accessibility to financial services: particularly relevant for OIC countries with small banking penetration. Mobile banking provision in remote areas for example or crowdfunding solution for business or affordable housing financing.

Improved governance through Regtech: for compliance with regulation and Sharia.

Prerequisites for success: operating environment with a Fintech friendly infrastructure, regulation (through incubators, sandboxes, etc.)

Thank you

Dr. Mohamed Damak
Senior Director / Global Head of Islamic Finance
S&P Global Ratings