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ESCWA

# Workshop on Islamic Finance in the National Accounts

## 24 – 26 October 2017
## Beirut, Lebanon
## UN House - Mezzanine Hall

## Final Report

## Summary

ESCWA Statistics Division and the UNSD have been undertaking methodological work over the last few years on issues on the implementation of the 2008 System of National Accounts' (SNA). Recommendations for Islamic Finance were raised during several meetings in the Arab region organized by ESCWA. Islamic finance in some countries is large enough to affect the quality of their national accounts, monetary and financial statistics, and indicators of the structure and soundness of national financial systems. The SNA has not provided guidance to national compilers on methods to compile national accounts statistics for Islamic banking and finance.

The issue of Islamic Finance was also discussed by the Advisory Expert Group (AEG) on National Accounts at its 10th meeting from 13 to 15 April 2016 in Paris. ESCWA presented a paper "Islamic Banking in SNA2008 "Proposals by various experts" The AEG agreed that further research on the statistical implications of Islamic finance in the national accounts is required and that practical guidance on the treatment of Islamic finance transactions needs to be developed. To this end, ESCWA and UNSD established a task Force on Islamic Finance[1] and organized a Workshop on Islamic Finance in the National Accounts 24 – 26 October 2017 in Beirut, Lebanon. 33 experts from 17 Arab, African and Asian countries discussed various issues related to Islamic Finance and exchanged their expertise in this field in a meeting that was held by ESCWA in coordination with the United Nations Statistics Division of the Department of Economic and Social Affairs (UNSD) at the UN House in Beirut from 24 to 26 October 2017. 8 experts representing international organizations also took part in the meeting.

[1] https://unstats.un.org/unsd/nationalaccount/docs/TF_IF_Minutes_8June2017.pdf

The results of the workshop were presented in a paper at the 11th Meeting of the Advisory Expert Group on National Accounts, 5-7 December 2017, New York, USA and presented a paper for Agenda item: 5.1 “Islamic finance in the national accounts”.

# Recommendations

The Workshop resulted in a number of key conclusions and recommendations:

## 1. Relevance of the 2008 SNA framework

- The 2008 SNA provides the overarching integrating framework to measure the activities of Islamic finance
- The accompanying international classification schemes such as ISIC Rev. 4 and CPC Ver. 2.1 are meant to provide general guidance and recommendations
- Thus, they should not be amended to specifically accommodate the various elements of Islamic finance
- Rather, compiling agencies can consider disaggregating the relevant categories in international classification schemes to the relevant Islamic finance sub-categories in the national reporting of data

## 2. Use of income statements and balance sheets of Islamic banks

- There are important differences between the income statements and balance sheets of Islamic banks and conventional banks
- A thorough understanding of these differences is needed to determine how to use the income statements and balance sheets of Islamic banks in the compilation of national accounts
- The Islamic bank framework of the IFSB potentially provides a good source of information for compiling Islamic finance statistics in the national accounts
- There is a need to determine whether Islamic banks or its clients are the economic owners of the non-financial assets related to sales, lease and equity financing which are reported on the balance sheets of Islamic banks
- There is a need for worked examples to illustrate how to make use of these income statements and balance sheets to calculate the various elements of Islamic finance such as property income and output in the national accounts
- Solutions to obtain separate data on Islamic windows need to be developed as such data are typically not collected by regulatory or supervisory authorities

## 3. Sectorization of Islamic financial corporations

- Islamic financial corporations can be allocated to the subsectors of the financial corporations sector as outlined in the 2008 SNA
- However, the allocation of Islamic financial corporations to the deposit-taking corporations except the central bank subsector will need to be reconciled with the consequent classification of at least one of their financial instruments on the liabilities side as deposits and the corresponding property income payable as interest
- Sovereign wealth funds if they are institutional units and provide financial services on a market basis to the government are allocated to the captive financial institutions and moneylenders subsector
- Islamic insurance corporations should be allocated to the insurance subsector given that the nature of their economic activity is no different from that of conventional insurance corporations

## 4. Classification of Islamic financial instruments

- The existing sectorization of Islamic financial corporations and classification of Islamic financial instruments for compiling monetary and financial statistics using the classification schemes in the 2008 SNA are intended to obtain major macroeconomic aggregate indicators such as money supply (broad money) and credit
- There is a need to reconcile the existing sectorization and classification with the perceptible shift to second era Islamic finance such as profit and loss sharing accounts, Islamic financial instruments with hybrid features and the classification of the associated property income in the national accounts
- The reconciliation exercise will also need to assess the impact on the measurement of debt and money supply arising from classifying Islamic financial instruments as equity and non-equity in the 2008 SNA framework

## 5. Classification of corresponding property income

- There is a need to assess whether the current concept of interest in the 2008 SNA can be interpreted to include the property income associated with Islamic financial instruments that are classified as deposits, loans or debt securities
- There is a need to reconcile the classification of the investment income payable to holders of unrestricted profit-sharing investment accounts and the subsequent reinvestment of a portion of this investment income in the profit equalization reserves

## 6. Output and value added of Islamic financial services

- There is a need to assess whether it is appropriate to calculate the output of the financial intermediation services provided by Islamic financial corporations which are classified as deposit-taking corporations using the FISIM formula, and if yes, determine the appropriate reference and financing rates to be used in the calculation of these services
- There is a need to develop practical guidance on how to calculate the quarterly output of Islamic financial services whose returns are only known ex-post annually
- There is a need to develop methods to estimate the intermediate consumption of Islamic financial corporations and Islamic windows in order to calculate their value added

## 7. International initiatives to collect data on Islamic finance

- There is a need for regional and international organizations which are collecting data on Islamic finance to explore collaborative efforts in order to reduce duplication and respondent burden
- Links to the databases of these international organizations should be included on UNSD's Islamic finance website to enhance user accessibility to the data which are collected
- There is a need for regional and international organizations which are collecting data on Islamic finance to consider standardizing their data collection and dissemination methods using internationally-endorsed standards such as Statistical Data and Metadata eXchange (SDMX) protocols

## 8. Two working groups should be formed to streamline the work to tackle the issues which were raised during the workshop

- **First working group will work on**

- Use of income statements and balance sheets of Islamic banks for compiling national accounts
- Sectorization of Islamic financial corporations
- Classification of Islamic financial instruments
- Classification of the corresponding property income associated with Islamic financial instruments
- Calculation of output and value added of Islamic financial services

- A corporation-by-corporation and instrument-by-instrument analysis of the characteristics of Islamic financial corporations and Islamic financial instruments and their transactions will be summarized in a matrix in order to determine the
- Appropriate sectorization of Islamic financial corporations
- Classification of Islamic financial instruments
- Recording of these transactions in the integrated national accounts framework
- Development of a standard questionnaire to collect the input data
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- **Second working group will**

- Assess how to coordinate the work of regional and international organizations which are collecting data on Islamic finance to maximize synergies and minimize duplication and respondent burden
- Assess the data can be used to compile Islamic finance statistics in the national accounts
- Explore how to standardize their data collection and dissemination methods using internationally-endorsed standards such as SDMX protocols

- The two working groups should coordinate their activities to ensure the development of recommendations in an integrated approach
- The development of recommendations and guidance of these two working groups should include inputs from stakeholders including central banks, compilers of monetary and financial statistics, regulatory and supervisory authorities, Islamic accounting standards setting agencies and practitioners in the Islamic finance industry
- These stakeholders be invited to future workshops if they are organized.

## Issues for consideration and Discussion

The meeting was opened by UNSD Chief of National Accounts Section Mr. Herman Smith and Statistics Division Director at ESCWA Mr. Juraj Riecan by welcoming the representatives from 17 countries and 7 regional and international organizations. The opening words indicated the need to review the work on Islamic Finance given the difficulties in compiling data for national accounts and stressed on the importance of the partnership between UNSD and ESCWA in working on this issue in the research agenda for the Interagency Expert Group on National Accounts as well as the establishment of task force in this context. The sessions were chaired by Mr. Herman Smith and Ms. Wafa Aboul Hosn, Chief Economic Statistics Section of the Statistics Division at ESCWA. Mr Russel Krueger, expert in Islamic Financial Services in the Islamic Financial Services Board (IFSB) was participating via Webex during the meeting, he followed all the presentations and discussions and provided his own presentations.

The agenda was adopted and the presentations and draft recommendations were made on:

- Use of income statements and balance sheets of Islamic banks for compiling national accounts
- Sectorization of Islamic financial corporations
- Classification of Islamic financial instruments
- Classification of corresponding property income associated with Islamic financial instruments
- Calculation of output and value added of Islamic financial services
- International initiatives to collect data on Islamic finance
- Country practices in compiling Islamic finance statistics, challenges involved and solutions to overcome these challenges

# Day 1 Discussions

The first presentation was conducted by UNSD Statistician Mr. Benson Sim who addressed the steps required to properly integrate and understand Islamic finance in the System of National Accounts. This was followed by a presentation by Mr. Alick Mjuma Nyasulu from the UN Statistical Institute for Asia and the Pacific (UN SIAP) who tackled some of the conceptual issues and in measuring Islamic finance national accounts. During this session participants discussed if an Islamic Bank can be considered an investment fund, to which many participants responded that based on the activities it undertakes it should be considered much more than that. Mr. Krueger added that Islamic finance is a complex social arrangement and should not be simply compared to commercial banking. Mr. Artak Harutyunyan from the IMF considered Islamic Banks to be a deposit taking institutions.

Mr. Omar Hakouz, Regional advisor on National Accounts from UN-ESCWA, then presented a revision of the treatment of Islamic versus conventional bank products in national accounts. This entailed a comparison between Islamic and commercial bank activities and roles. He also tackled issues concerning ownership responsibilities, cash flows and types of service and how they should be treated in national accounts. Discussions addressed several matters such as the Profit Equalization Reserve (PER) ownership and accrual versus cash basis accounting. A representative from UN-ESCWA's Economic Development and Integration Division (EDID) asked how can Islamic banks mobilize resources and prevent capital outflow when they provide lower saving rates. ESCWA consultant, Mr. Al Moghrabi, noted that the difference in saving rates is about 25 basis points and customers tend to choose their banks accordance to access and security.

Mr. Krueger also noted that in "Mudaraba", other instruments existed and did not agree with the idea that in Islamic banking type of service for the client nothing is indirectly measured. He added that he would be interested in a greater exploration of the monetary policy dynamics, impact and role in Islamic Banks as well as their inter-mediation role. It was also mentioned that this has been recently explored in an IMF paper in 2016. ESCWA added monetary policy be will addressed in the paper being prepared.

Discussions continued regarding the treatment of Islamic Windows in National Accounts (NA). It was noted that the Islamic Financial Service Board (IFSB) continues to hold to statistical convergence, except in the case of a subsidiary that is considered standalone. It was also mentioned that it would be ideal to advocate for collecting separate data. A representative from the United Arab Emirates asked if data on windows is being reported to which Mr. Russel Krueger responded that for the survey IFSB conducted only seven countries provided data. The representative from Morocco added that there is a difficulty in the treatment of Islamic windows as they cannot be disaggregated with break downs in sub sectors.

Representatives and experts examined FISIM activities as their issues remain prominent. Palestine's delegate considers FISIM 70% of the bank's output while the representative from the United Arab Emirates considers its use an impediment given that the interest component associated with it does not allow for the use of FISIM in Islamic Banking measures. Participants also discussed if FISIM can be applied when there little clarity on Islamic Banking products and whether they represent shares or deposits. Among other concerns the Profit Sharing Investment Accounts (PSIA) continue to be cited in terms of how its gains are measured in products such as "Musharaka" and "Ijara". Moreover, the treatment and measurement of income from a pooled fund as well as fee income have not been settled.

After some deliberations participants began their country presentations to share their experiences and practices in Islamic Banking. Afghanistan began by presenting their national accounts reporting practices and their experience with Islamic Finance. The country representative mentioned that measuring Islamic Finance activities has only been recently introduced to national accounts compilation and that they are eager to learn from other country experiences. Afghanistan also mentioned a survey designed to gather information on the status on Islamic Banking activities and offered to share it with participants.

Bangladesh's presentation followed where the representative also delved into the country's experience in measuring Islamic Banking in national accounts and Islamic Finance. Bangladesh mentioned that they receive data on a quarterly basis from their Central bank but not from other institutions.

Participants asked the representative from Bangladesh what he considered as banks and banking activities. Bangladesh also mentioned that micro-finance and small accounts are considered among banking activities and highlighted that the lack in Islamic Insurance is constraint to Islamic finance.

A side issue on competitiveness of Islamic Banking vis a vis traditional banking in the Middle East was raised; This is in terms of market penetration in number of firms, AUMs and even the competitiveness of rates. Another question addressing financial intermediaries involved in microfinance such as Grameen and why it has grew more than Islamic Banking. Bangladesh and Afghanistan also highlighted the lack of advocacy and training for Islamic banking. Mr. Russell Krueger then mentioned that a study has uncovered that more than 400 million people don't have access to finance like student loans or mobile loans which in turn poses a great opportunity for microfinance.

In summary, the main issues that came out of the first day discussion were the following:

1.1. Unlike conventional finance, Islamic finance does not use the concept of time value of money. This makes it hard to get a proper valuation of Islamic financial instruments

1.2. There are significant differences between the income statement and balance sheet of Islamic banks and conventional banks

1.3. A thorough understanding of these differences is needed to determine how to use the income statement and balance sheet of Islamic banks in the compilation of national accounts

1.4. The Islamic bank framework of the IFSB potentially provides a good source of information for compiling Islamic finance statistics in the national accounts

1.5. There is a need to reconcile the treatment of the investment income accruing from unrestricted profit-sharing investment accounts as interest and the treatment of the distribution of net profits to profit equalization reserves as equity

1.6. There is a need to determine whether Islamic banks or its clients are the economic owners of the non-financial assets related to sales, lease and equity financing which are reported on the balance sheet of Islamic banks

1.7. Solutions to obtain separate data on Islamic windows need to be developed as such data are not collected by regulatory or supervisory authorities

1.8. The statistical implications of classifying the funds received by Islamic banks as deposits or investment funds on the measurement of debt will need to be assessed

1.9. Practical guidance will need to be developed on how to calculate the output of Islamic financial services whose returns are only known ex-post

1.10. An instrument-by-instrument approach describing the characteristics of Islamic financial instruments and their transactions in matrix should be developed in order to enhance understanding of how to record these transactions in the national accounts

1.11. In general, Islamic financial corporations can be allocated to the subsectors of the financial corporations sector in the 2008 SNA but there should be better understanding of the function of the subsectors and the instruments to properly classify them

1.12. Sovereign wealth funds if they are institutional units and provide financial services on a market basis to the government are allocated to the captive financial institutions and moneylenders subsector

1.13. The nature of economic activity of Islamic insurance corporations is no different from that of conventional insurance corporations, Thus, Islamic insurance corporations should be allocated to the insurance subsector

## Day 2- Discussions

The second day also focused on sharing country experience and listening to expert feedback on the various subjects related to Islamic banking and National accounting. The day began with continued discussions and questions about the last session of the first day regarding Islamic bank's income statements and balance sheets as well as the sectorization of Islamic financial corporations and its treatment.

Some of the points raised in these discussion included identifying the similarities and differences in the characteristics of profit payments and interest and how the return rate is seen as an investment profit and not interest. Profit sharing investment accounts are similar to the type of payments banks give and have a rate of return, however they are not considered as interest. It was added that the concept of interest in the 2008 Standard of National Accounts (2008 SNA) should include similar investment payment flows and to be studied case by case.

Morocco asked about the sectorization of Islamic Banking which is usually merged with conventional banks. The representative from Morocco stressed on the importance of show Islamic Banking activities independently across sectors to understand its value in each and classification. Mr. Krueger the clarified that he was not proposing that Islamic corporations be included in the conventional frameworks and recommended that they should be separate sector. Morocco continued that for windows it was difficult to apply the definitions and capture information because they are not institutional sectors especially that conventional banks are allowed to have Islamic windows. Islamic windows in conventional banks are deposits or investments (Ijar, Morabaha or Mocharaka) activities but because they are handled by conventional banks they are different and should be segregated

|Mr. Krueger recommended that windows should be treated as virtual branches. Some countries report segregated windows but in some there is no segregation. Mr. Krueger added that countries

review the IFSB recommendations for Islamic accounts. The IMF representative also recommends to separating Islamic Banking activities and devise peer groups of Islamic institutions so they can be compared to other central bank recommendation to deconsolidation or sub-consolidation.

Participants discussed the importance of calculating output and added that estimating income is easier than output. Participants also discussed how monetary statistics treats all banks as a whole along with their money stock and monetary policy impact. It was added that some research and academic dissertations are trying to understand how Islamic Banks behave differently. The Malaysian representative suggested to change ISIC and CPC classification in order to separate Islamic Banking from Commercial Banking activities and products. It was also proposed to have a case study for income statements as Mr. Krueger had presented. The delegate from the United Arab Emirates proposed that money supply be redefined and to reach an agreement on how to classify different instruments. UNSD representative responded by reminding participants that reviewing and changing the classifications is a lengthy process and that it is preferable to start with empirical studies and peer groups discussions.

Participants discussed how the country presentations conducted by Egypt, Indonesia, Kuwait, and Jordan clearly showed the essential role of the central bank in providing information as well as how their roles may vary from country to another. In the case of Palestine for example the user producer dialogue is institutional and the survey of the financial sector is coordinated with the Palestinian Monetary Agency, whereas in Kuwait and Jordan the Statistical Office conducts the survey independently and don't get the data from their Central Banks.

In case of Egypt the Central Bank provides the data but does not distinguish between Islamic Banks and Conventional ones. Other countries like UAE and Afghanistan also indicated in their presentations the different means for exchanging data with the Central Bank. Palestine also presented the questionnaire they used for the financial sector survey and provided examples on the report that is produced by PCBS and that is available on their website.

UNSD also took the opportunity after the presentations by the Malaysian delegate to inquire more about how two rates for FISIM, one for Islamic Banking and another for Commercial Banking, can be calculated for the same currency and the same economy. Bangladesh then asked the Malaysian delegate how they deflate for the two different rates of FISIM.

Following these inquiries, the delegate from the Islamic Development Bank's Islamic Research and Training Institute presented their project for developing a database on Islamic Banks in order to aggregate information at the establishments, country and regional levels. To that ESCWA noted that if a Bank has branches outside the country how would they be separated and identified as the bank reports are consolidated and don't show the branches separately. The UAE delegate from Ras Al Khaimah Center for Statistics and Studies noted that there needs to be a time table and groupings of banks to enable comparability. Mr. Krueger mentioned that the ITRS database project is important and that the problem of consolidated reports have been the most contentious problem when he was working on financial soundness indicators.

Ms. Rima Bizri, Chairperson of the Department of Management Studies at Rafik Hariri University then presented the results of a study she undertook that provides an assessment of the degree to which Islamic Bank earnings can be compiled and reported according to the 2008 SNA. She mentioned that there are two aspects which may challenge the use of the 2008 SNA, in its current form, for compiling Islamic Bank earnings: First, the advent of a second generation of Islamic banks which will likely focus on Profit and Loss Sharing (PLS) modes of finance which will in turn generate earnings of a fluctuating and unstable nature, and second, the incompatibility, in principle, between the 2008 SNA conventional, deposit-based system of fixed payment flows and the Islamic investment-based system of unfixed payment flows. Ms. Bizri also proposed that for the proper treatment of Income earned by Islamic banks, it should be treated for what it is: a Profit, as unpredictable and fluctuating as the word conveys. Under the paradigm of the second generation of Islamic banks, the income statement will be as unstable and unpredictable as ever, and the Broad approach would be irrelevant.

In summary, the main issues discussed in day 2 were the following:

2.1. There is a need for worked examples to illustrate how to make use of Islamic financial statements and balance sheets to calculate various elements of Islamic finance such as property income and output
2.2. International statistical standards and their various classifications schemes are meant to provide general guidance and recommendations. Thus, they should not be amended to accommodate various elements of Islamic finance. Rather, compiling agencies can consider disaggregating the relevant categories in international classifications schemes to the relevant Islamic finance sub-categories
2.3. Methods to obtain better measures of intermediate consumption of Islamic financial corporations will need to be developed so as to calculate their value added
2.4. If the FISIM is calculated for Islamic financial intermediation, there is a conceptual need to assess whether to calculate separate reference rates for Islamic and conventional financial intermediation
2.5. The existing sectorization of Islamic financial corporations and classification of Islamic financial instruments in monetary and financial statistics are intended to obtain various measures of money supply. There is a need to reconcile the existing sectorization and classification with the perceptible shift to second era Islamic finance such as profit and loss sharing accounts, Islamic financial instruments with hybrid features and the classification of the associated property income in the national accounts. The reconciliation exercise will also need to assess the impact on the measurement of debt from classifying Islamic financial instruments as investment funds
2.6. There is a need to assess whether the current concept of interest in the 2008 SNA can be interpreted to include the property income that accrues from holding Islamic financial instruments that are classified as deposits, loans or debt securities
2.7. The development of recommendations and guidance on the treatment of Islamic finance in the national accounts should include inputs from stakeholders including central banks, compilers of monetary and financial statistics, regulatory and supervisory authorities and Islamic accounting standards setting agencies

## Day 3 Discussions

The Morning session started with an overview of the project on developing an Islamic finance banking database for OIC member countries presented by the Director of Statistics and Information Department at OIC Ankara Centre. This was followed by two country presentations by Uganda and describing the accounting for Islamic finance in the national accounts of Uganda. The United Arab Emirates delegate from the Federal Competitiveness and Statistics Authority followed by presenting the “Processing of Islamic finance instruments in the estimates of national accounts” with a comprehensive proposal on how each instrument should be considered. Another presentation for UAE was also conducted by the Executive Director at Ras Al Khaimah Center for Statistics and Studies and discussed the relationship between Islamic finance and value added.

The presentations were followed by a discussion session, during which Mr. Krueger noted that the different country presentations conducted convey a need for guidance and technical assistance at the national level. He mentioned that countries can seek assistance from International Organizations such as: UNSD, ESCWA, IMF, IFSB, GCC-STAT and others. He suggested that data comparison for sector sizes in countries should be done using SDRs as well and not only dollars.

Mr. Smith, Chief of the National Accounts Section at UNSD, added that this workshop provided a clearer picture for what needs to be done in order to support countries in this area. He added that financial instruments in Islamic Banks should be tackled based on what they mean and whether they are truly comparable to other instruments of a Conventional bank. In addition, instruments of Islamic banking should be better understood and more studies and work should be done in this area.

During the afternoon, Ms. Siew Koon Goh Senior Statistical Analyst at the Bank for International Settlements (BIS) joined the session through WEBEX and provided a detailed presentation on the reporting practices of Islamic financial institutions in the BIS locational banking statistics. The information provided included a chart showing the percentage share of global Islamic banking assets for each country, as a result of a questionnaire on reporting practices of Islamic financial institutions, and some of the classification of financial institutions and institutional sectors. Following this session, a country presentation was conducted by Mr. Alshargabi from Yemen who discussed the inclusion of Islamic finance in national accounts for Yemen. Finally, Mr. Krueger shared his experience and views on how to calculate the output of Islamic financial services.

The presentations were followed by a discussion session, which began with Mr. Gulomov from the Islamic Development Bank who talked about the difficulties faced in the data collection process entailing the collection of income statements and balance sheets from Islamic and conventional banks with Islamic windows. Participants also discussed the project initiated by Islamic Development Bank Group to create a platform linking Islamic banks to a portal where they can directly upload data. It was also flagged however that banks might shy away from the extra burden associated with this mechanism. SESRIC representative followed on the point of data collection and shared the experience SESRIC had which confirms the difficulty in convincing banks to upload data, which pushed them to focus on focal points in order to collect data. In addition, knowing that it is difficult to keep records of statistical data in hard circumstances the extra efforts of Yemen were also appreciated during the discussions.

UNSD noted the difference existing in defining financial instruments and reporting, for example some countries treat equity as deposits and others do not. UNSD also advised that detailed financial statements should be introduced in order to know the source of the income for Islamic banks. A standardized methodology of practice should be agreed on and then adopted by the countries.

Experts also mentioned that calculating FISIM for Islamic banks should be established, but there are difficulties in the classification of instruments and the income source. As heterogeneous items cannot be compared, a standardized definition would help us calculate the output of Islamic financial institutions. It was also discussed if it is possible to stop comparing Islamic banks to conventional banks and start treating them as a separate financial institution.

It was agreed that the instrument-by-instrument approach presented by Mr. Krueger is the most feasible approach on how to deal with Islamic financial instruments. UNSD and ESCWA also suggested the establishment of a voluntary focus group in order to assess instruments of Islamic

Banks. It was added that the work done by international organizations should be taken as a guide for countries on how to address data on Islamic Finance in National Accounts.

The Malaysian delegate mentioned that Islamic Finance Instruments are unique by nature simply because of the religious elements. Since matters involving Shariah-compliance is a very religious matter, its advisable to have views from the authorized and accredited bodies as for example the Shariah Advisory Council in Islamic banking as practiced in Malaysia. He also praised the outcome of the workshop as a great effort and opportunity to enhance cooperation between Islamic finance community, National Accountants as well as international key stakeholders such as UNSD, UN ESCWA, IMF, SESRIC, IDB, OIC, IFSB and other agencies.

The final discussions in the session included a summary review by the Malaysian delegate who concluded a set of priority issues to follow-up on:

- Collection and compilation of data is very costly and time consuming for the regulatory bodies and banks themselves as a commercial entity. Since there are several organizations working on collecting data and developing databases on Islamic Finance, it is required that some strategic collaborations can be formed internationally and regionally. This will ensure productive usage of resources and to set uniformity of data and statistics collected.
- In reference to the presentation about the contribution of Islamic Banks and Islamic finance to the economy and to the financial sector, we acknowledged some terminology and coverage issues occurs which may affect the benchmarked statistics such as Total Assets and Total Financial Assets of Islamic Banking and Islamic Finance as a whole. This may lead to inaccurate or unfit data for the decision-making processes especially on the macro economy and monetary policy. Malaysia strongly supports any efforts to establish a standard set terminology of Islamic finance Instruments amongst countries and with close matching to conventional banking terms.
- Malaysia as one of the pioneer countries in the Islamic banking framework has sufficient and detailed data to be used in the calculation of Output and Value Added of Islamic Finance. The session on the proposed framework of recording Islamic Finance Instruments from Income Statement and Balance Sheet as well as the proposed treatment of property income transactions for Islamic financial instruments is also very useful to the national accountants. It also very useful if the proposed framework would come with some numerical example.
- On the calculation of Output of Islamic banks, Malaysia shared the experience of computing the Islamic Banking Output in National Accounts as well as some important Islamic Financial statistics. In the case of Malaysia, the current practice is in line with the method proposed by Mr. Krueger. The decisions taken were based on the rational point that these banks are market producer and have something to offer from which the output consist of FISIM and Fee Based Income. In the case of Malaysia, data permits the estimates of FISIM and Fee Based Income. On the decision to take a mid-point as a reference rate we learned a lot from a paper produced by Japan that cautioned the National Accountants about negative FISIM that may occur if the effective reference rate has been used.
- Finally, on estimation of output, estimates must be conducted for any significant economic activity. Part of the follow-up work should be to study and to do some mapping and estimates based on an instrument-by- instrument approach. Priority will be given to estimate output and value added of Islamic Finance Services based on Russell's proposed framework. Malaysia also offered their willingness to cooperate and work with organizers and other countries for participating in any case study on the usability of the proposed framework that will be based on available data

During the closing session Mr. Herman Smith Chief of National accounts section at UNSD highlighted the vital role of ESCWA in the success of this workshop and thanked the participants for their efforts and contribution. Then Ms. Wafa Aboul Hosn Chief of Economic Statistics Section at UNESCWA in her turn thanked the experts from participating countries and Organizations for their role in the success of the workshop. She added that this proves our ability to come together as a group and discuss the issues of Islamic finance, share experiences and bring recommendations to the production of economic statistics and national accounts. Moreover, this workshop highlighted the difference between Islamic and conventional banking and how these differences should be addressed in both classification and reporting. This workshop also shed a light on the road still ahead of us regarding Islamic finance in national accounts. Finally, Mr. Juraj Reican Director of Statistics Division at ESCWA closed the workshop by thanking all the participants and the organizing team for their efforts and contributions in the success of the workshop.

**Workshop on Islamic Finance in the National Accounts**
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UNSD

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ESCWA

**Workshop on Islamic Finance in the National Accounts**

**24 – 26 October 2017**
**Beirut, Lebanon**
**UN House - Mezzanine Hall**

**Draft Agenda**

| **Tuesday, 24 October 2017** | | |
|---|---|---|
| 08.30 – 09.00 | Registration of participants | |
| 09.00 – 09.30 | **Opening session**<br>• Welcome statements<br>• Getting-to-know-you<br>• Objectives of the workshop<br>• Mandate of Islamic Financial Services Board and relation of its work to the SNA | Mr. Juraj Reican, ESCWA/Mr. Herman Smith, UNSD<br>Mr. Russell Krueger |
| 09.30 – 10.00 | Islamic finance in the SNA: What needs to be done? | Mr. Benson Sim, UNSD |
| 10.00 – 10.45 | Conceptual issues in Measuring Islamic Finance National Accounts | Mr. Alick Mjuma Nyasulu, SIAP |
| 10.45 - 11.00 | Discussion | |
| 11.00 – 11.30 | Coffee break | |
| 11.30 - 12.15 | A review and treatment of Islamic versus conventional bank products in national accounts | Mr. Omar Hakouz, ESCWA/Ragheed Al-Moghrabi, Rafik Hariri University |
| 12.15 – 12.45 | **Country presentations**<br>• Afghanistan Islamic Banking Service<br>• Islamic finance in Bangladesh: Current practice and challenges | Mr. Mohammad Ibrahim Naimi, Afghanistan<br>Mr. Md. Shahabuddin Sarker, Bangladesh |
| 12.45 – 13.00 | Discussion | |
| 13.00 – 14.00 | Group photo & lunch | |

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|---|---|---|
| 14.00 – 14.30 | **Country presentations**<br>• Title to be confirmed<br>• Compilation of the production of banking activity, case of Côte d'Ivoire | Mr. Youssouf Ibn Ali, Chad<br>Ms. Koto Ehou M'Boya, Côte d'Ivoire |
| 14.30 – 15.15 | Islamic bank income statement and balance sheet | Mr. Russell Krueger |
| 15.15 – 16.00 | Sectorization of Islamic financial corporations and treatment of Islamic windows in national accounts | Mr. Russell Krueger |
| 16.00 – 16.30 | Discussion | |
| **Wednesday, 25 October2017** | | |
| 09.00 – 10.00 | **Country presentations**<br>• Title to be confirmed<br>• Development of Islamic Financial Institution in Indonesia<br>• The approach of dealing with Islamic banks within the national accounts<br>• Islamic finance in Kuwait's national accounts | Mrs. Amany Abdel Khalek, Egypt<br>Mr. Suswandi, Indonesia<br>Mr. Mahmoud. Abudalou, Jordan<br>Ms. Mona Bin Ghaith, Kuwait |
| 10.00 – 10.45 | The project on developing an Islamic finance industry database for OIC Member Countries: Results of the survey | Ms. Zehra Zumrut Selcuk, SESRIC |
| 10.45 – 11.00 | Discussion | |
| 11.00 – 11.30 | Coffee break | |
| 11.30 – 12.00 | **Country presentations**<br>• Compilation and estimation of Islamic finance statistics: The Malaysia's experience<br>• Islamic finance: Inclusion in national accounts (Moroccan experience) | Mr. Mohd Yazid Kasim, Malaysia<br>Ms. Bouchra Farghsaoui, Morocco |
| 12.00 – 12.45 | Islamic Financial Industry Information (IFII) Project | Mr. Aziz Gulomov, Islamic Development Bank Group |
| 12.45 – 13.00 | Discussion | |
| 13.00 – 14.00 | Lunch | |

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|---|---|---|
| 14.00 – 15.00 | **Country presentations**<br>• Title to be confirmed<br>• Islamic Finance in National Accounts – Palestine<br>•<br>• Islamic finance in national accounts in Sudan<br>• National accounts in Suriname with a special focus on the banking sector | Mr. Hamoud Mohamed Alsuraye, Saudi Arabia<br>Ms. Amina Khasib, State of Palestine<br>Ms. Sanaa Abdalla Omer Zaroug, Sudan<br>Mrs. Denise Sjahkit-Wigiman, Suriname |
| 15.00 - 15.30 | A study of Islamic banks in the non-GCC MENA region: Evidence from Lebanon | Ms. Rima Bizri, Rafik Hariri University |
| 15.30 – 16.00 | Classification of Islamic financial instruments | Mr. Artak Harutyunyan, IMF |
| 16.00 – 16.30 | Classification of property income associated with Islamic financial instruments | Mr. Russell Krueger |
| 16.30 – 17.00 | Discussion | |
| **Thursday, 26 October 2017** | | |
| 09.00 – 09.30 | **Country presentations**<br>• Accounting for Islamic finance in the national accounts of Uganda<br>• Title to be confirmed | Ms. Solomy Bamanya, Uganda<br>Mr. Abd El Shafi El Ashmawy, United Arab Emirates |
| 09.30 – 10.15 | The relationship between Islamic finance and value added | Mr. Abd El Shafi El Ashmawy, United Arab Emirates/Mr. Ibrahim Akoum, RAK Center for Statistics and Studies |
| 10.15 – 10.30 | Discussion | |
| 10.30 – 11.00 | Coffee break | |
| 11.00 – 11.45 | Reporting practices of Islamic financial institutions in the BIS locational banking statistics | Ms. Siew Koon Goh, BIS |
| 11.45 – 12.00 | **Country presentation**<br>• Inclusion of Islamic finance in national accounts | Mr. Hamdi Ali Alshargabi, Yemen |
| 12.00 – 12.30 | Discussion | |
| 12.30 – 13.30 | Lunch | |

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|---|---|---|
| 13.30 – 14.15 | Calculation of output of Islamic financial services | Mr. Russell Krueger |
| 14.15 – 15.00 | Discussion | |
| 15.00 – 16.00 | Future steps<br>Evaluation<br>Closing | ESCWA, UNSD |

**Summary of participants' evaluation of the workshop**

Participants were requested to complete an evaluation form at the end of the workshop. More than half of the participants rated the quality of the materials, timeliness of distribution of invitation/agenda/materials and quality of the meeting facilities as excellent. The below table provides a summary of the evaluation of the participants on the various aspects of the workshop.

| | Excellent | Good | Adequate | Poor | Very Poor | Not Applicable | Average | Responses |
|---|---|---|---|---|---|---|---|---|
| | 5 | 4 | 3 | 2 | 1 | NA | | |
| **A. Content and conduct of the meeting** | | | | | | | | |
| 1) Quality of materials | 13 | 5 | 0 | 0 | 0 | 0 | 4.7 | 18 |
| 2) Quality of presentation | 7 | 8 | 3 | 0 | 0 | 0 | 4.2 | 18 |
| 3) Adequate time for discussion and participation | 5 | 9 | 2 | 2 | 0 | 0 | 3.9 | 18 |
| 4) Balance between topics | 4 | 11 | 3 | 0 | 0 | 0 | 4.1 | 18 |
| 5) Clarity of conclusions reached | 3 | 11 | 2 | 1 | 0 | 0 | 3.9 | 17 |
| 6) Extend to which meeting objectives were achieved | 3 | 10 | 4 | 0 | 0 | 0 | 3.9 | 17 |
| 7) Overall value of the meeting | 6 | 12 | 0 | 0 | 0 | 0 | 4.3 | 18 |
| **B - Organization of the meeting** | | | | | | | | |
| 9) Timeliness of distribution of invitation/agenda/materials | 11 | 7 | 0 | 0 | 0 | 0 | 4.6 | 18 |
| 10) Satisfaction and timeliness of travel/DSA arrangements | 7 | 8 | 0 | 1 | 0 | 2 | 4.3 | 16 |
| 11) Duration of meeting | 3 | 12 | 1 | 0 | 2 | 0 | 3.8 | 18 |
| 12) Quality of meeting facilities | 11 | 5 | 2 | 0 | 0 | 0 | 4.5 | 18 |
| 13) Quality of interpretation | 4 | 9 | 4 | 0 | 0 | 1 | 4.0 | 17 |
| 14) Overall planning and organization of the meeting | 8 | 10 | 0 | 0 | 0 | 0 | 4.4 | 18 |