

## **8<sup>th</sup> IDB Global Forum on Islamic Finance**

### **Role of Islamic Finance for the Development of IDB Member Countries in Central Asia**

Dushanbe, Tajikistan

Kokhi Somon Palace Conference Center

May 19, 2013 (09 Rajab 1434H)

The IDB Global Forum on Islamic Finance is an annual event that provides an excellent platform for academics, experts and practitioners to participate in a strategic policy dialogue and share the experiences of countries and institutions towards the development of the various segments of the Islamic Financial Services Industry (IFSD). The Forum also aims at identifying key challenges to the industry's development in an integrated manner, promoting cooperation and knowledge sharing, thus enhancing its competitiveness and stability. It is a regular annual event since 2006, organized by IRTI in close collaboration with various international organizations and IDB Group.

This year, the theme for the Forum was "*Role of Islamic Finance for the Development of IDB Member Countries in Central Asia*". Centred on the IDB Group Annual Meeting theme of innovation, the Forum discussed how Islamic finance can become an effective mechanism for central banks and governments to foster economic growth and sustainability. This eighth Forum in the series, was organized in collaboration with the General Council for Islamic Banks and Financial Institution (CIBAFI); the National Bank of Tajikistan; and the State Committee on Investment and State Property Management of the Republic of Tajikistan.

### **Session 1: Opening Session**

The opening session commenced with a welcoming note by Dr. M Azmi Omar, Director General of IRTI, followed by welcoming speech by Dr. Ahmed Mohammed Ali the President of IDB Group. The opening speech was delivered by the H. E. Mr. Davlatali Saidov, Chairman IDB Board of Governors. Dr. Omar

Hafiz presented a statement on behalf of H.E. Sheikh Saleh Kamil, Chairman of CIBAFI. In the inaugural ceremony IRTI Occasional Paper 1434H on the theme of this forum was also launched along with presentation of some IRTI books translated into Russian language. It was followed by a short presentation on IRTI and its programs for development of Islamic economics and finance.

The key note addresses were given by Mr. Neil D. Miller and Dr. Zamir Iqbal. Mr. Neil D. Miller explored the meaning of 'development' in the financing context; considered the role of 'for profit' organizations, as opposed to governmental or 'not for profit' organizations in economic development; and examined whether the ethical imperative embedded in Islamic finance demands a substantively different approach. He emphasized that the role that 'law' might play in helping stakeholders enforce different behavior. He suggested an alternative *modus operandi* is needed to achieve the objectives of Sharī'ah.

Dr. Zamir Iqbal spoke on the aspect of financial inclusion or access to finance as an essential contributor to economic development. Islam's perspective on financial inclusion is based on a balanced approach through risk-sharing in business transactions complemented by the redistributive instruments targeted at the poor segments of the society. Policy makers in IDB member countries can take certain steps to enhance the inclusion.

The final presentation in the Session 1 was made by Mr. Khaled Al-Aboodi, CEO of ICD who spoke on the ICD's role and experiences in Central Asia and Caucasus.

## **Session 2: Role of Islamic Finance for the Development of IDB Member Countries in Central Asia**

### *Role of Islamic Finance for the Development of IDB Member Countries: A Case Study of Kyrgyz Republic and Tajikistan*

The IRTI Occasional Paper for 1434H on this title authored by Dr. Salman Syed Ali, Dr. Nasim Shirazi and Dr. Mahmoud Sami Nabi was presented. This paper seeks to explain how Islamic finance can promote equitable and sustainable development of IDB Member countries. It specially focuses on Kyrgyz Republic and Tajikistan by firstly reviewing their socioeconomic development and analyzing the binding constraints on their sustainable economic growth. A broader approach has been followed in the study for highlighting the underlying issues and indicating how Islamic finance can address them to alleviate some of the identified

constraints. The paper also discusses some specific sectors, in the countries under study, where Islamic finance can make a difference. It concludes that Islamic finance can play a great role in promoting inclusive growth and enabling the considered countries to follow a more equitable development path with the objectives to achieve high income and social cohesion simultaneously. Since Islamic finance is not currently practiced in these countries, the study also explains the nature of Islamic finance before pointing to the ways in which it can help address the challenge of alleviating the development constraints.

### *Islamic Social Finance Report*

Key findings of the study on Islamic Social Finance sector in South Asia and South East Asia were presented by Dr. Mohammed Obaidullah and Dr. Nasim Shirazi. The findings primarily related to comparative analysis of regulatory framework for *Zakāt*, *Awqāf* and Islamic microfinance sectors. Findings also included good practices e.g., efficiency, transparency and governance in selected successful entities. The countries covered were Indonesia, Malaysia, Brunei Darussalam, India, Pakistan and Bangladesh. It examines the broad regulatory and policy environment at the macro level as well as good practices at the micro level to facilitate policy dialogue.

### **Session 3: Role of Islamic Finance for the Development of IDB Member Countries in Central Asia – Practitioners Perspective**

#### *Proposed Suitable Islamic Financial Instruments for Central Asia Countries*

Dr. Akram Laldin of ISRA made a presentation about the different options available to kick start Islamic finance in Central Asia region taking into account the experience of other jurisdictions, which have embarked on the journey of Islamic finance. It focused on the different instruments of banking, Islamic insurance and capital market that are available and which are the priorities in Central Asia. In addition, the challenges in developing a comprehensive legal, regulatory, taxation and Shari‘ah governance framework for Central Asia region were also discussed.

#### *Capital Market Development in IDB Member Countries of Central Asia*

Mr. Faheem Ahmad, CEO of IIRA focused his presentation on the importance of a well-developed capital market to a balanced and inclusive financial system. The presentation highlighted the role of rating agencies and particularly national scale ratings in the development of the same. The presentation also comprised a

section on the contribution of the SME segment to various developed economies, its relevance in developing economies and how improving their access to capital markets through ratings can play a role in the economic development of Central Asia countries.

*Role of Islamic Finance in the Development of IDB Member Countries in Central Asia - Opportunities and Challenges*

Dr. Adalet Djabiev of Badr Finance and Investment said that at the time of independence of CIS countries, a population of approximately 300 million was fraught with a mixture of fears, uncertainty and at the same time, hopes for a better life, prosperity, development, political and socio-economic sovereignty. Since that time much has been achieved, however, a lot more needs to be done in terms of socio-economic development. It is, therefore, feasible for these countries that in addition to the current economic and financial models, they should also adopt the Islamic finance model, which entails fairness and results in a just society.

*IDB's Contribution to the Development of Islamic Finance in Central Asian Member Countries*

Mr. Wasim A. Abdulwahab, IFSD, IDB Group said that one of IDB's main strategic thrusts as identified in the 'Vision 1440' is the "Expansion of the Islamic financial services industry". In this context, IDB Group is working in Tajikistan, Kyrgyzstan and Kazakhstan to develop the Islamic financial sector. The presentation highlighted IDB's global achievements in the development of Islamic finance in general and elucidated the work being carried out in the Central Asia countries in particular.

*Summarized by Salman Syed Ali*

## **9<sup>th</sup> International Conference on Islamic Economics and Finance**

### **"Growth, Equity and Stability: An Islamic Perspective"**

The 9th International Conference on Islamic Economics and Finance (9<sup>th</sup> ICIEF) was held during 9-10 September 2013 in Istanbul, Republic of Turkey on the theme of "Growth, Equity and Stability: An Islamic Perspective". The conference was jointly organized by the International Association for Islamic Economics (IAIE), Statistical, Economic and Social Research and Training Centre

for Islamic Countries (SESRIC), Center for Islamic Economics and Finance (CentIEF) at the Qatar Faculty of Islamic Studies (QFIS) of the Hamad Bin Khalifa University, and the Islamic Research and Training Institute (IRTI) of the Islamic Development Bank Group.

It is an important academic and policy discussion event with a long tradition. The First Conference in the series was held in Makkah Al Mukaramah, Kingdom of Saudi Arabia in 1976. Since then the conferences of this series have been held in Islamabad, Pakistan, in 1983; Selangor, Malaysia in 1992; Loughborough, U.K in 2000; Bahrain in 2003; Jakarta, Indonesia in 2005; Jeddah, Saudi Arabia in 2008; and Doha, Qatar in 2011. IRTI-IDB and IAIE are the permanent partners in organizing this series of conferences.

The 9<sup>th</sup> Conference provided a distinct opportunity to discuss the diverse issues in Islamic economics and finance through plenary sessions and five parallel streams that accommodated 32 sessions where more than 130 papers, in English and Arabic, were presented and discussed. The authors came from over 29 countries. The conference focused on theory, practice and policy issues facing the world in its quest for equitable economic and financial development with stability. It was well attended by academics, professionals and policy makers.

All papers of the conference along with the program are now available for free download from the net at <http://9icief.sesric.org/agenda.php> while the other details of the conference can be seen at <http://9icief.sesric.org>

### *Some Highlights of the Conference*

- Plenary Session-1 was focused on the ‘State of Islamic Economics’. A number of pioneers of Islamic economics participated as panelists in this session. The Panelist were: Dr. Umer Chapra, Prof. Dr. Nejatullah Siddiqi, Prof. Nevzat Yalçıntaş, Prof. Dr. Monzer Kahf, Dr. Volker Nienhaus, and Dr. Adam Esen.
- Plenary Session-2 was on ‘Islamic Finance for Inclusive Development’ in which two IRTI reports were presented, namely, the Islamic Social Finance Report and the IRTI Occasional Paper on Role of Islamic Finance in Economic Development. Both were policy oriented documents that highlighted policy and possible applications of Islamic finance while identifying further questions for pursuit in future.

- A Symposium on ‘Islamic Economics and Finance Education’ was also held during the conference. It was participated by INCEIF (Malaysia), IIUI (Pakistan), IIUM (Malaysia), Durham University (UK), Sabahattin Zaim University (Turkey), Sakarya University (Turkey), HPIF (USA), MIHE (UK), QFIS (Qatar). These institutions not only introduced their education and research programs but also highlighted the challenges they face in development of Islamic economics and finance as academic disciplines. Some also discussed the ways they are attempting to solve these challenges. The floor discussion and sharing of information helped in generating ideas and strategy for future.
- Presentation of 130 papers in 32 sessions held over two days covering various aspects of Islamic economics and finance. The sessions showcased the research efforts but also provided opportunity to new and old researchers in the area to share ideas and network. This is one of the most important contribution of IRTI and other co-organizers of this conference series over the years that have helped in keeping the pursuit of research in the area active and bringing in new thoughts and new people in the fold of Islamic economics and finance.
- Promotion and information stalls in the exhibition area were set up by many educational and financial institutions. These were visited by many participants.
- The conference ended with a formal concluding session where the speakers highlighted the importance of actionable and policy oriented research in Islamic economics and finance and urged the community of researchers and practitioners to focus on putting the concepts into practice. The President IDB also reaffirmed IDB’s support for the future conferences. The Conference Communique issued on the occasion also highlighted the need for policy oriented research and confirmed that the next conference in this series (10th ICIEF) will be organized during 2014-15 in Doha Qatar.
- The conference was followed immediately by the International Forum on Financial Systems (IFFS) on 11 and 12 September, 2013 at the same venue. All participants of the 9ICIEF also participated in this extended event. The President of the Republic of Turkey, the President of IDB and other heads of institutions also delivered speeches in the inaugural session.

### *Conference Communique*

The 9th International Conference on Islamic Economics and Finance (9ICIEF) was organized on 9-10 September 2013 in Istanbul, Republic of Turkey on the

theme “Growth, Equity and Stability: An Islamic Perspective”. The Conference was jointly organized by the Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRIC), Islamic Research and Training Institute (IRTI) of the Islamic Development Bank Group, Qatar Faculty of Islamic Studies (QFIS) of the Qatar Foundation’s Hamad Bin Khalifa University, and the International Association of Islamic Economics (IAIE).

The participants in the 9ICIEF thank SESRIC for the excellent organizational arrangements made for ensuring the success of the event and for the generous hosting and hospitality. They also thank and appreciate the leadership of the Republic of Turkey, the host country of the event, for their support and encouragement of innovation, education, development of knowledge-based economy and promoting Islamic economics and finance. The participants also thank all the co-organizers, sponsors, and all those who worked for the success of the Conference.

The Conference provided a distinct opportunity to discuss many and various pressing issues in Islamic economics and finance through plenary sessions as well as parallel sessions where more than 130 papers, in English and Arabic, were presented and discussed.

The participants believe that Islamic economics and finance, as a modern scientific discipline, has recently showed a high potential as a new paradigm, particularly in the aftermath of the latest global financial crisis and given the current economic and political changing environment in the Muslim countries.

Through policy-oriented research, Islamic economics and finance must be ready more than ever before to align the vision of the urgent need for more justice, fairness, and equitable and sustainable development. In this context, as a platform for dialogue and discussions between academics, researchers, graduate students, policy-makers, and practitioners, the Conference contributes significantly to the process of mobilizing quality policy-oriented and basic research in the field of Islamic economics, banking and finance, with a focus on issues related to inclusive economic growth, equity, poverty alleviation and macroeconomic stability.

By doing so, the Conference plays a significant role in enriching the literature and the agenda for contemporary research in Islamic economics and finance and thus promotes the official global recognition of Islamic economics and finance as a modern scientific discipline.

The participants believe that while a significant progress has been made over the last four decades, the focus of research has moved primarily to Islamic banking and finance, and there is a need to work more on economic theory and its applied and practical applications from an Islamic perspective.

In this connection, the participants emphasised the role of educational institutions in enriching the literature and the agenda for contemporary research in Islamic economics, as well as their role in promoting and enhancing the production of basic and applied research to support the Islamic financial industry.

Similarly, there is a need to highlight the role of Islamic finance in economic development and the potential of *zakāt*, *awqāf* and voluntary sectors in promoting financial inclusion and contributing to policy discourse on poverty alleviation.

On the other hand, the participants are cognizant of the fact that there is currently a growing demand for significant reforms in the global economic and financial system, particularly in the aftermath of latest financial crisis. In this connection, they believe that a financial system based on Islamic principles could avoid the fundamental problems and shortcomings of the conventional financial system that led the world into crisis.

Although, the contemporary practice of Islamic banking and finance has rapidly transformed in the last decade to become internationally recognised and accepted as a competitive and robust form of financial intermediation by all communities, the expansion of Islamic finance industry and its integration into the global financial system, are still to be tested by the risks and developments in the international financial system.

In this context, it is argued that in order to enhance its capacity to address the increased risks and vulnerabilities in the newly evolving international financial environment, Islamic financial services industry should continue thriving to achieve higher levels of growth and greater integration into the international financial system.

On the other hand, the participants believe that, in practice, serious efforts should be made to ensure the realization of the institutional and policy aspirations of the original Islamic economic thinking. In particular, to ensure that the basic fundamentals of Islamic economics and finance support the process of mobilisation and allocation of funds to generate productive real economic activity based on the profit-loss sharing principle.



Overall, the participants are cognizant of the need to review and evaluate what has been done so far over the last four decades since the 1st ICIEF, which was held in Makkah al-Mukarramah in 1976. In particular, the need for a critical evaluation of what went wrong, especially in the emerging field of Islamic banking and finance, as an alternative paradigm to the conventional economic and financial system.

In this connection, the participants recommended that the upcoming 10th ICIEF should focus on areas where more efforts should be made in the spirit for setting an agenda for future action, and should deliberate, among other issues, on how we can develop a framework for facilitating the Islamic financial system to take its deserved place in the global financial arena.

The participants welcomed the offer of the Qatar Faculty of Islamic Studies (QFIS) of the Qatar Foundation's Hamad Bin Khalifa University, and the International Association of Islamic Economics (IAIE) to organize and host the 10th ICIEF in Doha during December, 2014.

*Summarized by Salman Syed Ali*

## **Mid-Term Review of the Islamic Financial Services Industry Development: Ten-Year Framework and Strategies**

In March 2007, the Islamic Financial Services Board (IFSB), in collaboration with the Islamic Research and Training Institute (IRTI), published *The Islamic Financial Services Industry (IFSI) Development: Ten-Year Framework and Strategies (Framework)*. In light of the increasingly challenging economic and financial environments as well as the significant developments taking place in the international financial landscape post-crisis, the IFSB and IRTI are collaborating on a project to review the Framework to ensure that it remains relevant in serving as a guide for various Islamic finance jurisdictions to assist them in charting the future direction of the industry.

Following this, a draft report of the Mid-Term Review (MTR) of the Framework has been prepared and circulated by the IFSB-IRTI Drafting Committee to the Review Committee, taking into consideration the following:

- a) Feedback received in the MTR Roundtable on the progress and development of the global IFSI, including the four segments of the industry (held on 6 April 2013 in Doha, Qatar);
- b) Feedback received in the MTR Forum on the initial findings of the progress of the recommendations made in the 2007 Framework (held on 14 May 2013 in Kuala Lumpur, Malaysia);
- c) Comments and feedback received from the Review Committee members on the first draft of Sector-level Assessments, which is the main section of the report (circulated on 2 August 2013); and
- d) Findings from an industry-wide survey undertaken in mid-June to end-July 2013 in various jurisdictions of Islamic finance to gather information on the progress of various segments of the IFSI, in particular with respect to the institutional and infrastructure developments of the industry.

The Review Committee meeting, which was part of the initiatives identified for the MTR project, aimed to obtain further comments and inputs, as well as suggestions for further improvement on the draft Report (if any), on the following key areas (as per the mandate of the Review Committee):

- (a) Key observations of the existing Ten-Year Framework which include, but not limited to the:
  - (i) Current status of the existing recommendations and the progress of its implementation; and
  - (ii) Relevance of the Ten-Year Framework, given new challenges post-crisis; and
- (b) Findings and recommendations which include, but not limited to: (i) key issues identified in meeting recommendations in the Ten-Year Framework; (ii) proposed measures to close the gaps; and (iii) new recommendations.

In the first session, the lead consultant from Fajr Capital provided the background and shared with the Review Committee Members an overview of the mid-term review of the Framework, including commentary on:

- The development of the Islamic financial services industry since 2007
- Objectives and methodologies of the mid-term review

- Overall progress and assessment on framework recommendations, and
- Salient issues and questions raised in Review Committee feedback to date

Sector level assessment was discussed in the second session which also explored the outlook on various sectors and infrastructure institutions of the IFSI. The consultants and IRTI representative presented their findings and views with respect to, among others, progress on earlier recommendations, opportunities and challenges ahead, additions or amendments to framework recommendations, initiatives to support implementation, and immediate sector priorities.

The key areas which were discussed comprised the strategic questions and salient issues raised by the Review Committee on the first draft of the Sector-level Assessments, which also consist of the following:

- The diversity of prevailing regulatory models, their relative benefits and drawbacks;
- The merits and drawbacks of “standardization” of regulations, Shari‘ah guidelines, products, and services;
- The merits and drawbacks of setting Key Performance Indicators (KPIs) for the development of the industry;
- How the opening of new markets to the Islamic finance industry affects its strategic roadmap

Having identified the status and progress of each segment of the IFSI, the last session was aimed to synthesize the outcomes of the previous discussions, with particular focus on the following:

- Amendments to the framework recommendations and key performance for measuring the progress of the recommendations over the next five years
- Initiatives undertaken at various levels to implement the recommendations
- Key drivers for successful implementation of the recommendations: On-going review and commitment by the various stakeholders of the IFSI

