

Mohammed Iqbal Belath: Role of Islamic finance in the development of Africa

Address by Mr Mohammed Iqbal Belath, Second Deputy Governor of the Bank of Mauritius, at the opening ceremony of the seminar on the “Role of Islamic finance in the development of Africa”, Balaclava, 6 September 2012.

* * *

Governor Bheenick, Excellencies from the Diplomatic corps, Chief Executives of Banks & Financial Institutions, Chief Executive of the MBA, Mr Jaseem Ahmed Secretary General of the IFSB, Distinguished Guests, Ladies & Gentlemen,

A very good morning to you all. It gives me great pleasure to welcome you all at the *Seminar on the Role of Islamic Finance in the Development of Africa*.

Some of you present today have travelled from far to attend this Seminar in this beautiful corner of the island. We hope that the arrangements put in place meet your expectations and wish you a most pleasant stay among us.

This is the second time that the Bank of Mauritius is organizing an event of this scale to promote Islamic Finance in Mauritius. The first time was in May 2009, the Bank successfully co-organised the *Seminar on Islamic Capital Markets* in collaboration with the Financial Services Commission and IFSB.

I hope that this seminar will provide you opportunities to discuss and raise issues in Islamic finance, common to Africa. Although many issues will probably still remain unresolved, you will leave with more fruitful ideas than before. This gathering of new ideas and schools of thought on Islamic finance will intensify awareness on the role of Islamic finance in the development of Africa. Sharing of each-others' experience, enhancing networking and promoting awareness would probably be the main ingredients to make this seminar successful.

In order to access a wider audience from all walks of life and across all communities in Mauritius, I mean those non-experts who are interested but not closely acquainted with *Takaful, Mudarabha, Ijarah*, to name a few of the jargon, the Bank is hosting a Public Forum on this Friday, to demystify Islamic Finance. I hope that the Public Forum will reach a larger mass and help to create more awareness around Islamic finance as an alternative way of doing banking in our society.

Ladies and gentlemen, I am not an expert in the field of Islamic Finance, so I will not venture to make any comparison between Islamic finance and conventional banking, or to dwell over the merits of one system over the other. I would rather say that we can all learn from each other and explore different approaches for the benefit of all stakeholders.

Two important aspects of Islamic Banking that I would like to safely highlight today are that Islamic finance encourages profit and risk sharing, thus involving greater participation of both banker and customer, a notion that could easily be adopted by conventional banking and of course the proscription of Usury or Riba in Islamic Finance. In fact usury has also been condemned in the Vedic texts as well as in religious texts from Buddhism, Judaism, Christianity and Islam. At times many ancient nations, such as, China, Greece and Rome, have outlawed loans with interest. The pivotal change took place in 1545 in the English-speaking world through “An Act Against Usurie” promulgated during the reign of King Henry the VIII. While others followed suit, the Muslims kept to their traditions alongside conventional banking.

Allow me, Ladies and Gentlemen, to share with you our views on Islamic Banking in Mauritius. One participant Dr Manfred had a comment yesterday on how we are promoting Islamic Banking when Muslims are modestly represented here. First of all, we should be

clear in our mind that IB is not reserved for Muslims only. There is no such tag on IB products either in Mauritius or in any other part of the world. The products are designed according to defined principles and are vetted by learned scholars. If you like the product, you adopt it. Mr Jaufeerally, our first speaker yesterday, referred to a very basic example, that of chicken briani. All of you may know that Briani is a very popular dish for local Muslims. I would go further by saying that as Muslims (again I am not a scholar here) there can never be any harm to share a halal product. The reverse may not be permissible. Our objective at the Central Bank is to offer an alternate mode of finance to local stakeholders and also to enlarge our offerings in the offshore financial domain.

The tendency to focus on profits alone may not always be socially desirable. Of course, we do not dispute the fact that banks should be profitable, but in these crisis times where customers' rights are being propelled in the forefront, banks should also consider to share the burden of customers.

Islamic finance in Africa

Modern Islamic finance was born in Egypt when a commercial bank opened its Cairo branch to process the financial transactions relating to the construction of the Suez Canal in 1890 and the notion of interest or *riba* was criticized by the then Islamic scholars. Consequently, the Muslim world witnessed the establishment of its first Islamic commercial bank. Islamic finance extended quickly to other parts of the world, most of which during the past thirty years or so.

Other Maghreb countries, Morocco and Tunisia began the experience of Islamic finance by allowing conventional banks to offer certain Islamic products but these institutions are faced with strong competition from the region's conventional banks. Remarkably, Sudan only established its first Sharia-compliant bank in 1977 and the country's Islamic economic system has since then been continuously developing. Sudan is the only country in this part of the world to have a wholly Islamic financial sector.

Within Sub-Saharan Africa, South Africa led the way, with one of the largest international Islamic banking conglomerates namely Al-Baraka Banking Group having been present there for the last 20 years alongside other institutions conducting Islamic finance in the country. More recently, other countries have joined the league namely Kenya, Tanzania, Botswana and Nigeria. Governments of Ghana, Uganda, Ivory Coast, Somalia, Malawi and Zambia are working towards introducing Islamic banking in their respective countries.

Presently, the African continent hosts over 250 Islamic financial institutions that offer Islamic financial services including Islamic banks, Takaful companies, Islamic funds, Mudarabahs and Islamic microfinance. Noteworthy also is that over the last two years, the African continent has demonstrated interest in creating an Islamic capital market via initiatives for issuance of Sovereign *Sukuks* in a few countries including Nigeria, Kenya, South Africa and Senegal. As of date, two countries have successfully issued their Sovereign *Sukuks* namely Sudan and Gambia.

The rapid pace of the development of Islamic finance leaves no doubt among policy makers all over Africa including Mauritius that Islamic finance presents many prospects for development. Considering Africa's population of nearly one billion people, half of which are of Muslim faith, and the numerous hurdles to financial access on the continent, Islamic finance could become a key factor in the promotion of financial inclusion by appealing to a large Muslim population in certain parts of Africa.

The Mauritian experience

Ladies and Gentlemen, over the past three years, The Mauritian Authorities took some initiatives towards the promotion of Islamic banking and finance in our jurisdiction.

- The banking legislation has been amended to enable banks to conduct Islamic banking business exclusively or through a window;
- Fiscal reforms were brought in to eliminate tax disadvantages that would otherwise have materialised in the Islamic mode of finance;
- We joined the IFSB to facilitate the rapid development of Islamic finance in the country;
- In 2010 the Bank of Mauritius became one of the founder members with 11 other countries, the International Islamic Liquidity Management Corporation, a supranational body engaged in the issue of high-rated Islamic liquidity instruments;
- We have also initiated work on the development of an Islamic Interbank Money Market that will provide a platform for interbank dealings and facilitate liquidity management for Islamic banking institutions.
- We are presently finalizing the framework to undertake Commodity Murabahah transactions with commercial banks in the domestic market, as part of our Open Market Operations and as an instrument for the management of liquidity in the domestic system.

Our jurisdiction presently incorporates window operations by an international banking institution, and one entity that conducts Islamic banking business exclusively. We have also one large conglomerate that offers *Ijarah* and *Takaful* within its group entities.

Concluding remarks

As things stand now, I can confidently say that the Mauritian financial sector has crossed the initial stage of accommodating Islamic financial services, however much remains to be done. We are yet to issue our first Sovereign Sukuk which will take us one step nearer to our objective to project Mauritius as a reputable destination for the parking and transit of Islamic capital flows.

Sustainable prosperity in Africa may be achieved with the inclusion of Islamic finance. Africa will however have to face the daunting task of increasing awareness and gradually building customer allegiance. It is acknowledged that the speed at which Islamic banking will grow will hinge – to a large extent – on how far depositors and investors are well informed about the philosophy underlying Islamic finance, its inherent risks and opportunities, as well as on whether it is perceived as a transparent and soundly regulated financial activity.

Before concluding, I would like to thank Mr Jaseem Ahmed, the Secretary General of the Islamic Financial Services Board (IFSB) and his Team for their support in organising this event in Mauritius together with my colleagues from the Bank. I would like also to take this opportunity to thank Bramer Banking Corporation, Century Bank, HBL and HSBC for having kindly sponsored specific part of the seminar. You will appreciate that their contributions have indeed enabled us to offer you this world-class seminar at no extra costs.

Ladies and gentlemen, thank you for your kind attention. I wish you all fruitful deliberations over these two days.