

Rasheed Mohammed Al Maraj: The role Islamic financial institutions play in financing development projects

Speech by His Excellency Rasheed Mohammed Al Maraj, Governor of the Central Bank of Bahrain, at the Regional Forum on the Role of Islamic Financial Institutions in Financing for Development, Manama, 4 September 2007.

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Your Excellencies, Distinguished Guests, Ladies and Gentlemen – Good Morning. It is a great pleasure for me to welcome you all today, and to help inaugurate this important Regional Forum on the Role of Islamic Financial Institutions in Financing for Development.

First, let me thank you all for participating at this event today. In particular, I would like to thank the officials of the United Nations Economic and Social Commission for Western Asia (ESCWA) for their cooperation and work in putting on this conference with the Central Bank. I would also like to thank the sponsors for their kind assistance in staging this event.

Islamic financial institutions have become increasingly involved in structuring and financing development projects in the region. Since Islamic financing must be based on real underlying assets, and preferably in the form of equity participation to create an equitable distribution of wealth, the opportunity for Islamic banks to participate in projects relating to infrastructure, industry and housing is unlimited.

This conference is particularly significant in terms of its timing, and the subjects to be deliberated; because Islamic banking institutions are playing an increasingly important role in the global financial industry. In fact, Islamic banks, takaful companies, and investment funds that conform to the principles of Shari'a are attracting more interest from outside the region due the potential they represent in terms of capturing market share and mobilizing finance.

The increasing international interest in Islamic banking is a reflection of the success that this industry has achieved over a short period. Moreover, Shari'a principles which place emphasis on providing economic added-value to stakeholders and aim to create equivalence in benefits and costs free from harmful speculation are gaining more attention and better understanding globally.

The increasing demand for Shari'a compliant products has attracted the interest of conventional international financial institutions, which have started their own activities in this field.

I note that many foreign supervisory bodies are incorporating amendments to their supervisory and regulatory legislation to allow for Islamic institutions and Shari'a compliant products which will reinforce the role of Islamic finance globally.

Based on our recognition of the importance of the Islamic banking industry in financing development projects, the Central Bank of Bahrain has provided the requisite supervisory and legislative foundation that corresponds to international best standards to facilitate further growth and development of this industry. As such, these standards were incorporated into our prudential regulations that were issued from 2001 onwards. As a result, Bahrain became the first country in the region to develop and implement regulations specific to the Islamic banking industry.

The Central Bank of Bahrain also pioneered the issuance of sukuk (Islamic bonds) in 2001 and since a rolling programme of monthly issuance of the short-term Sukuk Al-Salam was put in place. Later that year, we started issuing medium and long term Ijara (leasing) sukuk.

Among new developments that the CBB expects to bring to market is an Islamic sell and buy back agreement (Repo). The Islamic repurchase agreement, which is in an advanced stage of development, will enable the simultaneous sale and repurchase at a future date of CBB's

Ijara sukuk. This product will enable financial institutions to liquidate the Government sukuk for a short term in order to meet their liquidity needs.

In its endeavours to create more opportunities and investment alternatives for Islamic financial institutions, the CBB has also entered into strategic agreements with London Metal Exchange (LME) and The Tokyo Commodity Exchange (TOCOM) to facilitate trading by Islamic financial institutions in international markets. To facilitate these agreements, the CBB has asked the International Islamic Financial Market (IIFM) to develop contracts and documents that could be used by Islamic Financial Institutions for conducting transactions through commodity murabahas. And I understand that a significant progress has been achieved towards this goal.

The CBB has also worked with the Islamic Development Bank and other stakeholders to create various support institutions, necessary for the healthy development of the sector. As a result, Bahrain currently hosts 4 major Islamic supporting institutions, namely:

- The Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI),
- The international Islamic Financial Market (IIFM),
- The Islamic International Rating Agency (IIRA),
- The Council for Islamic Banks and Financial Institutions (CIBAFI),

The CBB is also cognizant of the need for skilled professionals for the long term development of the Islamic banking industry. Bahrain Institute for Banking Finance offers a wide range of diploma programmes and short courses in the area of Islamic banking and takaful.

Other recent developments have included the establishment of a special Waqf Fund in 2006 to finance and publish research, studies and surveys; making available specialist training workshops and other educational opportunities;

Undoubtedly, the increase in regional economic growth, coupled with economic reforms, and restructuring of the economies of the region have allowed for a bigger role to be played by the private sector. These developments in turn serve to increase investment opportunities in the Region for both Islamic and conventional financial institutions.

I am confident that the gained intellectual capital residing in Islamic financial institutions shall contribute in bolstering regional economic development.

In conclusion, I wish to repeat my thanks to you all for participating in this conference, and wish you success in your deliberations and discussion over the next two days, which I hope shall yield constructive and fruitful dividends.

Thank you.