

Halim Alamsyah: Inclusive Islamic financial sector development

Opening remarks by Dr Halim Alamsyah, Deputy Governor of Bank Indonesia, at the 3rd International Conference on Inclusive Islamic Financial Sector Development, Jakarta, 28 August 2014.

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His Excellency: Prof. Dr. Didin Hafiduddin, CEO of National Zakat Authority;

Representative of IRTI-IDB: Prof. Dr. Abdul Ghafar Ismail;

His Excellency: Associate Prof. Dr. Ahmad Zaki Hj Abd Latiff, Director of Institut Kajian Zakat Malaysia;

Prominent speakers; and,

All participants,

Assalamualaikum Wr. Wb, and good morning to all of you.

It is a great pleasure for me to welcome you in this conference on Islamic financial sector development in Jakarta and welcome to Bank Indonesia's building.

I am pleased to see that the development of Islamic financial industry could take place in many frontiers including asset size, products and services, and also financial sectors. This conference proves the industry's ability to move towards better quality in servicing the market.

Supported by internationally qualified experts, it is not overdo if I expect at the end of the session, this conference will produce **strategic initiatives** and **measures** to give the Islamic Finance a greater and significant role in the economic development.

Distinguished Guests, Ladies and Gentlemen,

The 2007/2008 *Global Financial Crisis* (GFC) has taught us a **valuable lesson** that merely depending on monetary policy alone is insufficient to achieve macroeconomic and also financial system stability. We learned that the source of crisis has shifted from macro side (fiscal and monetary) to micro side (financial agents). Therefore, it is necessary to **complement** monetary policy with microprudential policy and macroprudential policy.

Indonesia has a specific experience on this matter, as we have also been a **severe economic crisis** in 1997/1998 that brought a wide-range impact with an expensive cost to the economy, social and politics. At the time, we had to do a very tough effort to regain credibility and resources to pursue our target of social welfare and prosperity. This experience has fortunately brought us to be more alert to financial disturbances, leading us to come through the GFC **relatively unscathed**.

Considering those facts, we are very grateful that, as a mandate from G-20 summit, the Financial Stability Board (FSB), the Basel Committee on Banking Supervision (BCBS) and other standard-setting bodies are now working hand-in-hand to **design a better institutional arrangement, tools and instruments** to promote effective monetary and **macro-prudential policy**. In line with that, it is also agreeable that the High Level Committee of the Islamic Financial Services Board (IFSB) members called for the Islamic Financial System to **strengthen regulatory and liquidity infrastructures** as well as building a **healthy and beneficial linkage** to the real sectors.

Excellencies, Ladies and Gentlemen,

Besides all the advances in monetary and macro-prudential policies to strengthen financial stability, we are at the stance that **structural policies** is also crucial in supporting **financial system resilience**. Lesson from the 1997/1998 crises, we learned that micro and small enterprises were relatively resistant to economic shocks, giving significant contribution to financial and economy recovery. Hence, structural policies need to be promoted to **advance wealth distribution** to more people, particularly low-income class.

In regard to this concept, Islamic social sector that covers **Zakat and Awqaf systems** can play very important role in **accelerating economic development** and supporting financial stability. In Indonesia, as studied by Bank Indonesia's researchers in 2012, total of all zakat potential from various sources is approximately Rp217 trillion or equivalent to USD22.6 billion. This number is equal to 3.4% of Indonesia's 2010 Gross Domestic Product (GDP). However, the realisation of those potential zakat is still below our expectation. Recent data recorded only Rp2.7 trillion or 1.2% of total zakat potential has been received. This is our home-work to explore ways to boost this number.

Unlike the other commercial sources of fund, the zakat funds would never cause unnecessary burden to the economy since the type of the funds is not commercially claimable, and hence, no excessive social cost will occur. The same also goes to the Awqaf sector where, as a matter of fact, more people are endowed with low cost assets. Again, potential benefits from those assets **has not been materialized yet**, because most of the assets are still poorly managed. Based on data from Indonesian Awqaf Board, Awqaf land has now reached not less than four billions of meter square, a very significant source if we can optimized them.

With this huge potential of Zakat and Awqaf land, we can expect a **significant drive to economic development**. I personally believe that these ideas are in-line with those of the governments, as well as multilateral development banks (MDBs). For this reason, it is not surprising if central banks and other regulatory bodies put their attention to **enhance zakat and awqaf system**. One of the areas to be improved is the regulatory aspect, which includes **zakat core principles** to provide reference for the establishment of zakat system in the OIC member countries. **Financial deepening program** in many countries should also promote product innovation and enhancement to give a wider access to broader segments of people, which is in line with the program of Islamic Development Bank, African Development Bank, Asian Development Bank and the World Bank. This in turn will bring **substantial benefits** to support national poverty alleviation program.

Distinguished Guests, Ladies and Gentlemen,

Please allow me to close my speech by expressing my appreciation and sincere gratitude to all speakers and participants for the willingness to join this event. I also would like wish you all a fruitful discussion and deliberation in this important event. As I mentioned before, I believe that with the support of internationally reputable academics and market players, we can reach significant outcomes to promote zakat and awqaf system.

Finally, I am delighted to officially open "*the 3rd International Conference on Inclusive Islamic Financial Sector Development*", enjoy the discussion and the rest of session at Bank Indonesia Museum in the evening. Thank you very much, wassalamualaykum warahmatullah wabarakatuh.