

Speech by

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The Role of Islamic Financial Institutions in Economic Development

Your Excellencies, Distinguished Guests, Ladies and Gentlemen – Good Afternoon.

First, let me thank you all for participating at this event. I would like in particular to thank the organisers for inviting me to speak at this important event.

This ^{session} ~~event~~ is of particular significance in terms of its timing, and for the subjects to be deliberated; because Islamic banking institutions are playing a significant role in the financing of development and real estate related projects in the region, they have thus acquired greater importance vis-à-vis economic activities not only in the Arab region, but extended to include other regions. Hence Islamic

banks, takaful companies, investment funds constitute the primary players in steering regional investments, at present.

The global increasing interest in Islamic banking rightfully interprets the increasing scope of impact that this industry sector has on the “roadmap” of global finance. Moreover, Islamic financial institutions have acquired such significance through the application of the basic principles of Islamic Shari’a in transactions: these include; placing emphasis on providing an economic added-value to the concerned parties; also the balancing of benefits and costs away from harmful speculation, and finally to give priority to transactions which serve economic developmental schemes, as well as to achieve equal social opportunities.

Islamic Finance Concept

Islamic finance must be based on real underlying assets; a structure that creates equality in economic benefits and costs free from harmful speculation. Islamic finance is based on four types of contracts; namely

- 1- Trade (buy & sell), transacted through Murabaha,
- 2- Joint venture, transacted through Musharakah,
- 3- Isterbah (or portfolio management), transacted through Mudharabah, and
- 4- Leasing, transacted through Ijara.

Role of Islamic Banks in Economic Development

Islamic banks have so far played a significant role in real estate development, covering both

residential and commercial mortgages, but have yet to explore more of the needs of the low to medium income families or individuals. We have also witnessed their involvement in infrastructure projects, tourism and recreational services, and observe that pharmaceutical, medical and telecommunication sectors are now being targeted.

Cultivation of lands, role of Zakah, micro-finance, and small to medium size projects are also business areas which we see as opportunities for development.

The Kingdom role in supporting Islamic finance

Based on the Government's belief in the important role of Islamic finance in economic and socioeconomic development, the Central Bank of Bahrain took the initiative in the mid 70s to nurture

this industry and facilitate appropriate supervisory and legislative foundations to assist in its growth and development. Since then the regulatory rules, related to Islamic banks operations have developed further corresponding to international supervisory standards requirements on conventional banks. As such, these rules are now assembled in the Islamic banking rulebook.

To more fully realize its commitments to economic development, the Central Bank of Bahrain pioneered the issuance of sukuk (Islamic bonds) in 2001 which have assumed a distinguished status in the governmental borrowing program in the Kingdom of Bahrain, to cover the needs for project financing and governmental transactions.

The CBB has also worked with the Islamic Development Bank and other stakeholders and, in

many cases, spearheaded, efforts to create various support institutions, necessary for the healthy development of the sector. As a result, Bahrain currently hosts 5 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), *and*
- 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. As a result, CBB has actively supported the Bahrain Institute of Banking and Finance (BIBF), in its development as the

premier institute for banking and financial training and education in the region. BIBF's Islamic Banking and Finance Learning Centre, established in 1997 to assist in fostering the growth of the Islamic banking community throughout the Middle East, offers a wide range of diploma programmes and short courses in the area of Islamic banking, with BIBF's Insurance Learning Centre offerings include takaful programmes.

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 programs and other educational and qualification opportunities; organizing discussions and debates on Islamic finance and Shari'a issues; and undertaking other activities that further the mission of the Fund. The CBB has partnered with a number of leading

Islamic banks in Bahrain in the establishment of the Fund, which is the first of its kind in the region. /

And I understand that several initiatives are underway towards achieving these objectives.

Such industry support institutions and initiatives, with their individual mandates, are playing an important role in the development of the global Islamic finance industry and in its sustainable growth in the future.

Last but not least, I wish to renew my thanks and appreciation to all the attendees for taking part in this event.

Thank you