

ISLAMIC DEVELOPMENT BANK



Speech of Dr. Abdul Aziz Mohamed AL-Hinai

The Vice President (Finance) of the Islamic Development Bank

**First Working Committee Meeting of
the OIC Member States' Stock Exchanges Forum**

06 May 2009, Tehran, Iran

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Dr. Hasan Ghalibaf Asl,

Mr. Huseyn Erkan,

Distinguished Guests, Ladies and Gentlemen,

It is indeed a great privilege and honor for me to participate in this very special gathering organized by the Tehran Stock Exchange as a follow-up of the resolution of the 2nd Meeting of OIC Member States' Stock Exchanges Forum. On behalf of the Islamic Development Bank (IsDB), I would like to express my deep appreciation and gratitude to the Tehran Stock Exchange for inviting me to speak about the "Islamic Development Bank's Activities on Financing Companies through Islamic Capital Markets Instruments".

Ladies and gentlemen,

Let me begin by reminding ourselves of the importance of working together and collectively solve the development challenges facing our member countries. The unfolding global financial crisis has vividly demonstrated the critical need for us to open up and adopt collective measures to address our regional and global challenges, be it financial, economic, environmental, political or social in nature. I personally believe that it is hard to imagine the process of economic development if the capital markets are suppressed and this important Working Committee Meeting could provide a platform to discuss and formulate effective ways and means to facilitate developing Islamic capital markets and enhancing cooperation among the stock exchanges of the OIC member countries.

Ladies and Gentlemen,

As you are aware, the Islamic Financial Services Industry has witnessed significant expansion globally and has emerged as a viable system and acceptable alternative to traditional finance for mobilizing savings and financing investment. For example, the establishment and expansion of the Dow Jones Islamic

Market Index and the FTSE Global Islamic Index Series is testimony of the international recognition of the tremendous potential represented by the Islamic capital market. Currently, the Dow Jones Islamic Market Index (DJIM) is used by asset managers in 16 countries, including few IDB member countries (Turkey, Pakistan, Malaysia) for a variety of financial products that are incompatible with Islamic investment guideline. I personally think that this working group should also see the possibility of launching the DJIM at country level in more OIC member countries with the experience of Turkey, Malaysia, and Pakistan.

Brothers and Sisters,

I am pleased to inform you that the IDB has been active in several of these important spheres. The Bank's activities in this area are mainly conducted through (i) Financing Activities; (ii) Resource Mobilization; and (iii) Expanding the frontier of Islamic Capital Market. A brief description of IDB's activities relating to supporting companies through Islamic capital market instruments is presented below.

I. Financing Activities

As you are aware, the IDB was established nearly 35 years ago with the aim of promoting economic development and social progress in its member countries and Muslim communities in non-member countries. In line with its overall objective, IDB has been providing catalytic initiatives in innovating new financing modes and methods to expand its financial activities as it strove to contribute to the development efforts of its member countries spread over various regions of the world. At the end of 2008, about 90 percent of the IDB financial activities were through the project financing in the form of loans, equity participation, leasing, instalment sales, profit sharing and istisna'a, which is amounting to US\$23.5 billion.

Furthermore, in order to expand its mandate to support private sector, the Bank established the Islamic Corporation for the Development of the Private Sector (ICD) in 1999. The ICD provides a variety of financial products such as direct financing through equity participation, lines of financing to commercial banks and National Development Financing Institutions, short-

term corporate finance, asset management, structured financing, and advisory services to private and public companies. Over the period 2000-2008, the ICD has financed 132 projects for 28 member countries, amounting to US\$ one billion utilizing both equity and project financing. IDB also established two other new Funds to expand further its role in economic growth of member countries:

One, the Unit Investment Fund (UIF) established in 1989 to mobilize resources to promote investment in member countries. The UIF provides Shari'ah compliant financing to companies, and complements the resources of the IDB through the securitisation of its lease and instalment sale assets. In cumulative terms, up to the end of 2008, the UIF had committed \$2.2 billion in 225 operations.

Two, the IDB Infrastructure Fund (IIF) established in 2001 to focus on the infrastructure development in member countries. The Fund objectives are to: seek long-term capital appreciation by making equity and equity-related investments in infrastructure projects and promote the use of Islamic finance in infrastructure projects. By the end of 2008, the Fund had

invested a total amount of \$785 million in 20 projects in 12 member countries. IDB is also in the process of launching the second Infrastructure Fund with an amount reaching US\$2 billion.

In addition, IDB established the Islamic Corporation for Insurance of Investment and Export Credit (ICIEC) in 1994 and the International Islamic Trade Finance Corporation (ITFC) in 2005 to facilitate intra-trade among OIC member countries using Shari'ah-compliant instruments. IDB is very active in providing Shari'ah compliant export credit and reinsurance facilities to exporters, banks, trade financiers and export credit agencies. Last year, alone, the IDB Group total trade financing operations amounted US\$2.6billion.

II. Resource Mobilization

Ladies and Gentlemen,

Let me now turn to Resource Mobilization activities of the Bank. The IDB has traditionally relied on its capital resources to finance operational activities. However, in 2003, the IDB launched \$400 million Ijara Sukuk as a new source of funds. In

addition, the Bank raised US\$500 million in 2005 through an innovative Sukuk structure called “Medium Term Note” to finance development projects in member countries. IDB has also issued 400 million local currency Sukuk in Malaysia for financing projects in local currency with the view to mitigate the currency risks.

This year, IDB is planning to start raising funds through Sukuk worth US\$5 billion over the coming 5 years.

III. Expanding the Frontier of Islamic Capital Market

At this juncture, I would like to dwell on the invaluable role that the Bank has played in expanding the frontier of Islamic capital market. I wish to inform you that the Bank organized 19th IDB Symposium on “Enhancing Capital Market Cooperation among IDB Member Countries” in conjunction with the 33rd Annual Meeting of the Board of Governors in June 2008. The Symposium recommended member countries to initiate measures to diversify investments across various asset classes and encourage the shift from individual-based investments to the growth of mutual funds industry as well as to identify measures and provide incentives which both broaden and deepen the

universe of Shariah-compliant stocks and products in order to reverse capital flight.

The Symposium introduced new Islamic capital markets instruments (such as Islamic Depository Receipts and Islamic Mutual Fund for investing in both listed and non-listed stocks) to facilitate financing companies in member countries and recommended to think of:

1. ways for promoting greater issuance of depository receipts (DRs) for energizing the development of Islamic capital market;
2. the possibility of issuing tradable papers against the balance sheet of Islamic Solidarity Fund for Development (ISFD) to raise additional resources and also generate returns through appropriate investment policy;
3. developing capacity building programmes aimed at developing Sukuk; addressing legal and fiscal impediments; assisting both sovereigns and corporates in listing, clearing and settlement systems; and supporting joint training and staff exchange.

As you are aware the outcome of the Symposium was presented in the second meeting of the “OIC Member States’ Stock Exchanges Forum”, held in Istanbul in October 2008. The Forum appreciated the organization and recommendations of the Symposium and called upon the IDB to forge greater collaboration in the area of promoting Islamic capital markets in member countries.

Ladies and Gentlemen,

IDB also played an invaluable role in institutionalization and consolidation of the Islamic Financial architecture by helping to establish international regulatory institutions such as the Accounting and Audit Organization for Islamic Financial Institutions (AAOFI), the International Financial Services Board (IFSB), the Islamic Rating Agency (IRA), and Liquidity Management Center (LMC) to facilitate the trading of Sukuk.

The IDB, through its dedicated efforts, has helped greatly Islamic Banking and Finance not only to gain wide-spread implementation, respectability and strength in the Islamic

World, but also to become recognized as a viable competitive option in global financial markets.

Distinguished Guests, Brothers and Sisters,

The potential for the growth of Islamic finance is clear. It is essential for all of us to look beyond the current global financial turbulence and treat the development of Islamic finance as an investment for the future. With this in mind, I would like to encourage all of you to look critically at the opportunities that lie before us. Islamic finance is a new asset class that has the potential to bring new economic growth to our member countries.

I hope this event contributes to the creation of a favorable environment for promoting Islamic capital market cooperation among OIC member countries. In full accordance with the outcome of this important event, the IDB is ready to cooperate with regional and international Islamic financial institutions to develop comprehensive short, medium, and long-term technical and legal action plans for building up a common set of

regulations to realize the full benefits of Islamic capital markets.

Distinguished Guests, Brothers and Sisters,

I would conclude by saying that IDB Group will continue to support all initiatives at national and regional levels aimed at (i) periodic policy dialogue on capital market development and exploring possibilities of cross-border listings; (ii) building a sound transparent institutional set up with proper governance structure; and (iii) harmonization of legal and regulatory regimes.

Once again, I would like to thank you for giving IDB the opportunity to participate in this important meeting of the OIC Member States' Stock Exchanges Forum.

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