

# DEVELOPMENT OF IF: SUPPORT BY MULTILATERAL INSTITUTIONS



The development of Islamic finance is a joint effort of many different initiatives. With the support of multilateral institutions, it enables the Islamic finance industry to thrive even further. By providing multiple channels to the Islamic finance industry, they are creating a global bridge that enables Islamic finance to access multinational attention.

**MALAYSIA**  
WORLD'S ISLAMIC FINANCE  
MARKETPLACE

## ROLE OF MULTILATERAL INSTITUTIONS IN THE DEVELOPMENT OF ISLAMIC FINANCE

Islamic finance has exhibited an exciting development over the last three decades, indicating one of the fastest growing sectors in the global financial system. To date, total global financial assets of the Islamic financial industry is estimated to be around USD2tn and expected to reach USD5tn in the next five years.<sup>1</sup> The active and dynamic role manifested by various governmental and regulatory agencies in promoting the development of Islamic financial market in their respective countries are one of the main drivers in widening the outreach of

the Islamic financial services industry from the supply side.<sup>2</sup> On the demand side, the increased awareness of both Muslim and non-Muslim investors toward Shariah compliant and ethical instruments are one of the main catalyst for its growth. Of more importance, the growth of Islamic finance has also been supported by the concrete and continuous effort and role played by the global multilateral entities namely World Bank, Islamic Development Bank (IDB) and International Monetary Fund (IMF).

### Multilateral Development Banks (MDB), Multilateral Financial Institutions (MFIs) and Multilateral Institution

Over Multilateral Development Banks (MDB) are institutions that provide financial support and professional advice for economic and social development activities in developing countries.<sup>3</sup> The term commonly refers to the World Bank Group and their four Regional Development Banks, namely the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development and the Inter-American Development Bank Group.<sup>4</sup>

Apart from MDB, there are Multilateral Financial Institutions (MFIs) that provide financing/loan to developing countries. These include among others Islamic Development Bank (IDB), International Fund for Agricultural Development and the OPEC Fund for International Development.<sup>5</sup> Likewise, there

is a multilateral institution, like the International Monetary Fund (IMF), which is established to promote international monetary cooperation, expand the balance growth of international trade, facilitating exchange rate stability, eliminate restriction on the international flow of capital, ensure confidence by making the general resources of the fund and adjust balance-of-payment imbalances in an orderly manner.<sup>6</sup>

Four main multilateral institutions that have played significant roles in the development of Islamic financial industry will be further delineated in the following paragraph, namely Islamic Development Bank (IDB), Islamic Corporation for the Development of the Private Sector (ICD), International Monetary Fund (IMF) and World Bank.

<sup>1</sup> ISRA estimates

<sup>2</sup> ADB-IFSB, 2015

<sup>3</sup> World Bank, 2013

<sup>4</sup> World Bank, 2013

<sup>5</sup> World Bank, 2013

<sup>6</sup> Congressional Research Service, 2014



## Multilateral Institutions – Islamic Finance



Source: World Bank; ISRA, 2016

### Islamic Development Bank (IDB)

Islamic Development Bank (IDB) is a multilateral development financial institution established in 1975 with the objective to foster economic development and social progress of member countries and Muslim communities individually,<sup>7</sup> and to promote a comprehensive human development with the focus of alleviating poverty, improving health, promoting education, improving governance and prospering people.<sup>8</sup>

IDB participates in equity capital and grant financing for productive projects and enterprises as well as financial assistance to member countries in other forms for economic and social development.<sup>9</sup> The bank also establishes and operates special funds for specific purposes including a fund for assistance to Muslim communities in non-member countries, in addition to setting up trust funds.<sup>10</sup> In addition, the bank is authorized to accept deposits and to mobilize financial resources through Shariah compliant instruments.<sup>11</sup>

The development of Islamic financial sector is one of the key strategic thrusts of the IDB.<sup>12</sup> In this regard, IDB has been actively involved in a number of initiatives, including developing the requisite enabling environment for Islamic finance, establishing and supporting Islamic financial institutions, developing Islamic microfinance sector from the financial sector perspective and enhancing awareness about Islamic finance through organization and participation in awareness creation events.<sup>13</sup> In such endeavours, IDB has established strong partnerships with governments, private sector institutions, multilateral development banks and donor institutions. In addition to that, the bank also works for the development of waqf sector. During the period of 2014-2015, IDB has initiated a number of programme to promote Islamic financial sector. These include as follows:<sup>14</sup>

<sup>7</sup> <http://www.isdb.org>

<sup>8</sup> WIFE – AFF, 2015

<sup>9</sup> <http://www.isdb.org>

<sup>10</sup> <http://www.isdb.org>

<sup>11</sup> <http://www.isdb.org>

<sup>12</sup> IDB Annual Report, 2014-2015

<sup>13</sup> IDB Annual Report, 2014-2015

<sup>14</sup> IDB Annual Report, 2014-2015

### 1. Technical Support Programme:

IDB provides technical assistance (TA) for creating an enabling environment for Islamic finance development. This is primarily intended to facilitate the development of legislation, regulation, Shariah governance mechanism, supervisory framework for Islamic banks, sukuk and takaful. In addition, TA also aims to create a high-level strategy for Islamic finance sector development for TA recipient countries. Thus, countries can design an effective road map for an orderly development of Islamic finance sector on a national scale. The expected impact is the creation of a conducive environment for Islamic financial institutions to enable them to grow and prosper. Some examples of TAs provided by IDB among others include assisting the Central Bank of Morocco to develop Shariah regulatory framework for Islamic banking, providing legal and financial adviser to the Sultanate of Oman to assist in issuing sukuk, and assisting government of Azerbaijan to develop the legal framework for Islamic finance.<sup>15</sup>

### 2. IDB Prize in Islamic Economics & Islamic Banking and Finance:

The prize has been established since 1408H (1988) with the aim of recognizing, rewarding and encouraging outstanding contributions in promoting Islamic Economics and Islamic Banking and Finance.<sup>16</sup> 31 scholars (jurists, economics, and bankers) and 4 institutions (research centres or financial institutions) from different parts of the world have been

awarded thus far with this prestigious prize. In 1435H (2014-2015), the Prize in Islamic Banking and Finance was awarded jointly to Shaikh Muhammad Taqi Usmani and Prof. Dr. Rodney Wilson.<sup>17</sup> In 2016, IDB has selected Professor Mohammad Kabir Hassan of the University of New Orleans as the winner of the IDB Prize in Islamic Banking and Finance.<sup>18</sup>

### 3. Islamic Finance Awareness Enhancement:

IDB promotes Islamic finance through awareness programme by organizing or participating in seminars and forums during various international events. This include the 9th IDB Global Forum on Islamic Finance during 39th IDB Annual Meetings held in Jeddah in 1435H, seminar on “Microfinance & MicroTakaful – Regulatory Developments”, and various other seminars and trainings on Islamic finance related topics such as pricing, structuring, risk management, etc.<sup>19</sup>

### 4. Islamic Financial Industry Data Repository –

In 29 February 2016, the Islamic Research and Training Institute (IRTI), a member of the Islamic Development Bank Group, and the General Council for Islamic Banks and Financial Institutions (CIBAFI) signed a Memorandum of Understanding (MoU) for a joint project to establish the first-of-its kind Islamic financial industry data repository.<sup>20</sup> This aims to be a one-stop shop for comprehensive and reliable Islamic financial and non-financial data and information.<sup>21</sup>

<sup>15</sup> IDB Annual Report, 1435 H

<sup>16</sup> ISDB, 19 April 2016

<sup>17</sup> IDB Annual Report, 1435 H

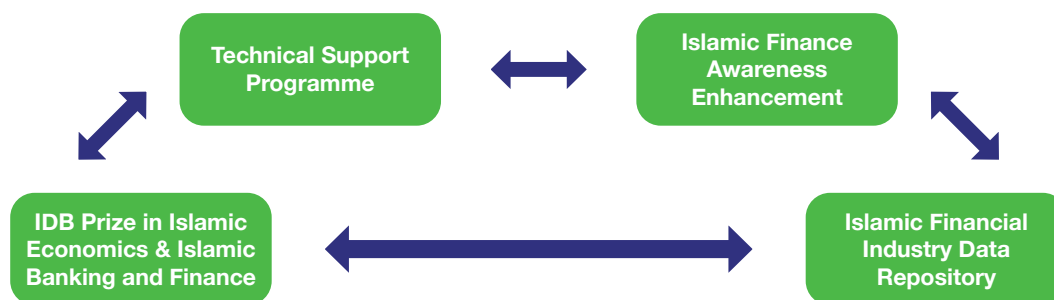
<sup>18</sup> ISDB, 19 April 2016

<sup>19</sup> IDB Annual Report, 1435 H

<sup>20</sup> ISDB, 2 March 2016

<sup>21</sup> ISDB, 2 March 2016

## IDB Key Islamic Finance Related Initiatives (2014-2016)



Source: IDB Annual Report, 1435 H (2014-2015); ISDB, 2016

## Islamic Corporation for the Development of the Private Sector (ICD)

The Islamic Corporation for the Development of the Private Sector ("ICD") is a multilateral development financial institution and is part of the IDB Group.<sup>22</sup> ICD was established in November 1999 to support economic development of its member countries through the provision of finance for private sector projects, promoting competition and entrepreneurship, providing advisory services to the governments and private companies and encouraging cross border investments.<sup>23</sup> It started its operations in July 2000 and has financed projects in agriculture, construction, education, finance, fishing, health care & pharmaceutical, oil & gas, real estate, technology, telecoms, trading, transportation, power generation and has made investments in over 30 member countries.<sup>24</sup>

The ICD aims to identify opportunities in the private sector that could function as engines of growth and to provide them with a wide range of financial products and services and to encourage the development of Islamic financing and capital markets.<sup>25</sup> Its function is to complement the role played by the IDB through the development and promotion of the private sector as a vehicle for boosting economic growth and prosperity.<sup>26</sup> The key activities of ICD are centralized upon four strategic focus areas, namely:<sup>27</sup>

1. Developing Islamic financial channels in order to create multiplier impact.
2. Providing advisory services for establishing Islamic finance windows and converting conventional financial institutes into Islamic organizations.
3. Providing finance for investments in high impact sectors and helping governments by providing advisory services in privatization, sukuk issuance, and structuring project finance deals.
4. Improving its partnership with IDB Group and other MDBs and heavily leverage on internal and external partners to go beyond its own resources.

In particular, to develop and strengthen Islamic finance channels or institutions, ICD established Banking Equity Division under the financial institutions development department, which serves as a leading Islamic equity provider.<sup>28</sup> The division aims to support Islamic banking industry through equity participation.<sup>29</sup> The ICD's current portfolio stands at about USD112mIn spread across seven investments in over 10 member countries.<sup>30</sup> In addition to that, ICD established non-banking

<sup>22</sup> <http://www.icd-ps.org>

<sup>23</sup> <http://www.icd-ps.org>

<sup>24</sup> <http://www.icd-ps.org>

<sup>25</sup> <http://www.icd-ps.org>

<sup>26</sup> <http://www.icd-ps.org>

<sup>27</sup> <http://www.icd-ps.org>

<sup>28</sup> <http://www.icd-ps.org>

<sup>29</sup> <http://www.icd-ps.org>

equities division to create and develop non-banking Islamic financial institutions or “channels”.<sup>31</sup> The division aims to assist and improve access to finance for the private sector in member countries and to maximize benefits and create sustainable development impact and achieve optimal financial returns via financial channel targeting SMEs and

retail sectors.<sup>32</sup> The ICD’s current portfolio stands roughly at about USD102mln spread across 21 investments in over 12 member countries.<sup>33</sup> In particular, theijarah business is valued at USD44.1mln while the remaining USD57.8mln is invested in mortgage, investment and specialized companies.<sup>34</sup>

## Islamic Finance Projects under ICD

Name	Mode of Finance	Country	Project Cost (USD mln)	ICD Contribution (USD mln)
Kazakhstan Ijarah Company	Non-banking Equity	Kazakhstan	28	10
Bidaya Home Company	Non-banking Equity	Saudi Arabia	240	26.66
Zaman Bank	Equity Banking	Kazakhstan	37.5	3.28
Byblos Bank Africa	Equity Banking	Sudan	70.85	3.46
Saba Islamic Bank	Equity Banking	Yemen	48.5	9.65

Source: <http://www.icd-ps.org>

## International Monetary Fund (IMF)

It is noteworthy to inform that the Islamic banking segment has increased its penetration in many International Monetary Fund (IMF) member countries.<sup>35</sup> Realizing the significant position of Islamic finance for many of its members, IMF has shown a long-standing interest in its implications for macroeconomic and financial stability, and played a key role in the establishment of the Islamic Financial Services Board (IFSB).<sup>36</sup> IMF has also engaged its members on the implications of Islamic finance, in the context of its policy advice and capacity development effort, notably in the areas of regulations and supervision of Islamic banks, and the development of domestic sukuk market.<sup>37</sup>

Positively, the recent growth of Islamic finance has also led to increased demand on the IMF. To foster

its readiness, IMF has formed an interdepartmental working group with the objective to develop an institutional view on the industry, build in-house expertise and better coordination with various stakeholders.<sup>38</sup> This working group has stepped up the analytical work on Islamic finance in the key areas, including Islamic banking regulation and supervision, macro-prudential policy, safety nets, resolution, financial inclusion, consumer protection, monetary policy, sukuk market, public financial management, and tax policy. In addition, IMF has established an external advisory group, comprised of standard-setters for Islamic finance and leading international experts, to assist in identifying policy issues and to enhance coordination with various stakeholders keen in Islamic finance.<sup>39</sup>

<sup>30</sup> <http://www.icd-ps.org>

<sup>35</sup> IMF, 2015

<sup>31</sup> <http://www.icd-ps.org>

<sup>36</sup> IMF, 2015

<sup>32</sup> <http://www.icd-ps.org>

<sup>37</sup> IMF, 2015

<sup>33</sup> <http://www.icd-ps.org>

<sup>38</sup> IMF, 2015

<sup>34</sup> <http://www.icd-ps.org>

<sup>39</sup> IMF, 2015



### World Bank

World Bank has been involved in Islamic finance through its works and projects to reduce poverty and expand access to finance in its member countries, and building financial sector stability and resilience.<sup>40</sup> Apart from that, World Bank has also taken role in the development of Islamic finance via its assistance to prepare Shariah Compliant financing framework for small and medium enterprise (SMEs). For example, in 2015 World Bank helped both Egypt and Turkey to design Shariah compliant frameworks to expand financing for small and medium-size enterprises.<sup>41</sup> In addition to that, the Bank also engaged with other entities to boost the development of Islamic finance industry. In 2013, the World Bank in collaboration with the Turkish government launched the Global Islamic Finance Development Centre (GIFDC) in Istanbul.<sup>42</sup>

### Conclusion

Thus far, Islamic finance has witnessed rapid development in many parts of the world, including in non-Muslim countries, as an alternative instrument to the conventional finance. The widen outreach of Islamic finance service industry is supported by various roles and efforts of various stakeholders, including governmental and regulatory agencies, Shariah scholars, market players, and more importantly the role of various multilateral entities, such as Islamic Development Bank (IDB), Islamic Corporation for the Development of the Private Sector (ICD), International Monetary Fund (IMF)

GIFDC is a knowledge hub for developing Islamic finance globally, conducting research and training, and providing technical assistance and advisory services to World Bank Group client countries interested in developing Islamic financial institutions and markets.<sup>43</sup> The centre is a manifestation of the World Bank's objective to develop Islamic finance and maximize its contribution to poverty alleviation and shared prosperity in its member countries.<sup>44</sup> More recently in July 2015, the World Bank signed Memorandum of Understanding (MoU) with the General Council for Islamic Banks and Financial Institutions (CIBAFI) to help foster the development of Islamic finance globally and expand its function as an effective tool for financing provider worldwide, including in non-Muslim countries.<sup>45</sup>

and World Bank. The multilateral entities play a significant role in the development of Islamic finance via various means and channels, including technical and financial assistance, advisory service, participation in equity and financing, awareness programme, research and training, and coordination with various Islamic finance stakeholders. Their active role undoubtedly have a significant impact to Islamic financial industry landscape given their wide and global membership coverage, financial capacity as well as professional human capital capability.

<sup>41</sup> World Bank Annual report, 2015

<sup>42</sup> World Bank Annual report, 2015

<sup>43</sup> World Bank, 2013

<sup>44</sup> World Bank, 2013

<sup>45</sup> World Bank, 2015

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