



المؤسسة الإسلامية لتنمية القطاع الخاص  
ISLAMIC CORPORATION FOR THE DEVELOPMENT OF THE PRIVATE SECTOR  
SOCIETE ISLAMIQUE POUR LE DEVELOPPEMENT DU SECTEUR PRIVE

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**On the Occasion of**

**Islamic Finance & Investment Forum**

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**Distinguished Guests,**

**Ladies and Gentlemen,**

At the outset, let me start by expressing my sincere pleasure to be here this morning at this unique conference in Moscow. A Conference that not only brings together many distinguished leaders from the business community to discuss Islamic finance and investment alternatives, but also shows an ambitious will on the part of the community to actually apply this new business model.

On behalf of the Islamic Development Bank and its private sector arm, the Islamic Corporation for Development of Private Sector (ICD), it is an honor to deliver my speech to this august audience on the occasion of Moscow Forum on Islamic finance and Investment.

**Ladies and Gentlemen,**

Let me begin by a short introduction of recent Islamic finance developments. The Islamic finance has experienced tremendous growth over the last few decades. Though representing only a small portion of the global assets, the Islamic finance market has been growing over 30% annually and is set for continued growth. An evidence to this rapid growth is the size of Islamic assets which was US\$ 700 billion in 2007 and now is projected to increase to US\$ 1.5 trillion by the end of 2012.

Clearly, on the demand side, there has also been an expanding trend for its products, and a closely associated desire on the part of banks, including non-Islamic banks, to provide Islamic financial services. The growth in Islamic finance is also visible in the expanding range of services and products that comply with the basic precepts of Sharia law. One example is the global market interest in Islamic bonds – Sukuks – many of which are increasingly being issued and bought outside the Islamic world.

Besides being applied by Muslim countries all around the world, Islamic finance is now growing in Europe and North America too. The UK financial Services Authority started to approve the licenses for Islamic Banks since 2004. In the US, Islamic means of financing exist in personal home mortgages and other financial institutions that provide financing. And it was in 1999, that the Dow Jones presented its first Islamic Market Index, which follows Shariah, complaint stocks internationally. Looking at recent developments, the interest in benefiting from Islamic finance goes beyond imagination.

### **Ladies and Gentlemen,**

As witnessed by its unprecedented growth and through its innovative instruments, Islamic finance has some inherent features that make it attractive to any financial system and institution, especially those in the emerging economies. Let me briefly explain about its main features.

In Islamic finance, the payment of interest is prohibited and the modes of financings invariably involve real physical assets and sharing of ownership-related and business risks by the parties. The provision of risk-sharing among parties also requires Islamic finance transactions to satisfy a high level of transparency throughout their implementation.

Moreover, uncertainty in contractual terms and conditions is not allowed in Islamic finance, unless all terms and conditions of the risk are clearly understood by all parties. Another interesting characteristic of the Islamic finance is the prohibitions of investment and financing in certain activities and certain sectors. These are part of the reasons why Islamic assets are usually free from “toxic” assets, an issue which mainly caused the recent financial meltdown in the world.

**Dear Guests,**

As a pioneering institution in the area of Islamic banking, the IDB Group has constantly been playing a leading and catalytic role in promoting and strengthening Islamic finance in its member countries as well as internationally. At the time of establishment of the Bank, the concept of Islamic banking was almost non-existent, but over the last four decades a number of innovative schemes and modes of financing have been proposed by IDB and applied throughout the world. Today, the strategic direction of IDB Group, especially the Islamic Corporation for Development of the Private Sector (ICD) where I am coming from, is again centered on introducing new and innovative ways of Islamic financing for the benefit of its member countries and Muslim communities in non-member countries.

ICD's new strategy also centers on promoting Islamic finance channels. It is expected that development contribution to the private sector of our member countries mainly be realized through these particular instruments. The channels of Islamic finance for ICD covers a number of areas such as leasing Ijara activities, industry and regional funds, strengthening the capital base of Islamic banks, creating Islamic windows within existing conventional banks, Takaful and re-Takaful industry, promoting Islamic capital markets and finally asset management activities for both individual and institutional investors. Furthermore, ICD will be also engaging in deal structuring, advisory services and technical assistance to its potential clients in member countries.

Let me inform you with great honor that here in Russia we are establishing the first investment company fully compatible with Shariah principles in Tatarstan. The initiative is meant to open a window for investors from our member countries to invest in the opportunities exist in Russia. The company's mandate is to carry on all forms of Shariah compliant activities in the real as well as financial sectors of the region. I take this opportunity to call project sponsors in Russia to approach the Tatarstan International Investment Company if they have viable projects and want capital investment as well as access to International markets for their businesses.

## **Ladies and Gentlemen,**

Russia is a country with great potentials and huge aspirations. It is classified as one of the top ten strongest economies of the world. The economy is well diversified, and is relying less and less on raw materials sector and more on dynamic sectors such as financial. The successful economic performance has made Russia a top investment grade rating, backed by its low national debt and high reserves of gold and foreign currencies. Indeed, these may might have been part of the reasons of why H.E. the President of the Republic aspires to make Russia as a financial hub. A dream which is not far from reality.

To achieve the dream, Russia should also embark on strengthening its financial sector by including Islamic finance as a complement to its current settings. The industry can contribute to the socio-economic development of different communities and regions, all around Russia. It will facilitates the access to finance by many small and medium enterprises and will help to create employment and income opportunities for the poor.

## **Distinguished Excellencies,**

Russia, has the market drivers to push Islamic finance to a higher level. The recent trend shows that Russian banks and businesses are becoming more interested in Islamic finance. A number of Russia banks are approaching Islamic banks to launch Islamic banking operations in Russia. Some are thinking about creating Islamic “windows” within their existing set ups. Moreover, the demand for Islamic finance are strengthening from the Muslim population side as well. There is a potential market size of 20 million of Muslims in Russia and a 120 million in the whole region. These make huge difference in promoting Islamic finance in this country.

Nevertheless, the market drivers are necessary but not sufficient conditions. There are still challenges at the regulatory level that needs to be tackled. The issue of documentation, legislation, taxation and supervisory mechanism is the most pressing impediments of Islamic

finance growth in Russia. Moreover, the shortages of human capital, like in many other markets need to be addressed.

I think that the areas of growth for Islamic finance are limitless in Russia. As a first step for institutionalizing Islamic finance, I see an urgent need to establish an Islamic bank in this country. The bank could act as a promoter of Islamic finance for reaching the potential customers all around the region and may develop a number of other arrangements in the implementation of a broader range of Islamic financial instruments such as insurance, trade finance, leasing, and investment products.

At this point let me pause and express, on behalf of the Islamic Development Bank Group, our willingness to extend our technical assistance and to work collaboratively with the Russian Government to create necessary enabling environment for launching of Islamic financial intermediation in Russia.

**Dear Guests,**

Allow me to turn my attention now to a few concerns and challenges that western community may have for this new business model. The first is safeguarding mechanism and regulatory supervision of the Islamic Finance.

Fortunately to address the crucial aspect of safeguarding and regulating the industry, two international institutions have been established for taking care of regulatory and consistency issues of Islamic Financing all around the world. The Islamic Financial Services Board (IFSB) puts forth standards for supervision and regulation and the Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI), issues international standards on accounting, auditing, and corporate governance. The Islamic Development Bank itself has also been instrumental and pro-active in the launching of various initiatives aimed at strengthening the regulatory environment of the industry. For example Islamic Development Bank Group has contributed to the establishment of the General Council of Islamic Banks and Financial

Institutions and the International Islamic Rating Agency (IIRA) in Bahrain. It has also developed a Shari'ah compatible avenue for investing in a short-term inter-bank market through the establishment of Liquidity Management Center in Bahrain.

The other two relates to disclosure and capital requirements of Islamic financial institution as major concerns to reconcile Islamic and conventional modes of financing. In respect of disclosure, regulators all over the world seek to ensure that financial services firms make disclosure to their customers on such issues as the firm itself, its products and fees so that clients can make an informed investment decision-making. Islamic financial institutions not only must abide by these minimum requirements, but also there are a number of other requirements when it comes to disclosure. For example, the AAOFI requires firms to disclose the Sharaih Supervisory Board details of each institution, in addition to how the monies of the clients will be managed and what the basis for profit allocation is between the client and the institution.

Even though, for Islamic finance features of capital adequacy or prudential requirements has not been addressed by broad international standards contained in the Basel II framework, the regulations set by the IFSB draws to a large extent on Pillar 1 of the Basel II framework (the minimum capital adequacy requirements). The ISFB has also released an exposure draft on the supervisory review process (consistent with the principles of Basel's Pillar 2) and another on disclosure and market discipline (Pillar 3).

These were just some examples of how Islamic finance addresses some of the current concerns of conventional banking systems. You will agree with me that the process is an evolutionary one and more solutions will be found as the issues arises. The purpose of the supervisory bodies of Islamic finance is just to support the foundations of the industry and to make it more stabilized and attractive for the whole world.

**Ladies Gentlemen,**

Let me conclude by saying that Islamic finance has been subject to a great deal of inventions and innovations in recent years and as a result of the efforts by pioneers in the Islamic financing industry, it has now established itself as an important segment in the global financial service market. But the challenge is not over.

Discussion of Islamic finance not only needs to focus on resolving potential differences between conventional and Islamic finance, but also should go beyond geography, race, culture and religious. It should not be seen as a benefit for the Muslims, but rather needs to be looked at in the context of a complementary financing system for global peace and prosperity.

It is my hope that the sharing of knowledge and experience amongst the participants gathered here will contribute significantly towards the advancement of Islamic finance.

Wish the best of success for your Forum.

Thank you