

## **WORLD ISLAMIC FINANCE FORUM**

**Address by Finance Minister  
Senator Mohammad Ishaq Dar  
5 September 2016**

- Hazrat Justice Shaikh Muhammad Taqi Usmani, Chairman, Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) Shariah Board
- Mr. Ashraf Mahmood Wathra, Governor State Bank of Pakistan
- Mr. Saeed Ahmad, Deputy Governor State Bank of Pakistan
- Dr. Ishrat Hussain, Chairman, Centre of Excellence in Islamic Finance Education, IBA
- Dr. Azmi Omar, Director General, The Islamic Research and Training Institute - IDB
- Professor Dr. Abbas Mirakhor, First Holder of Chair of Islamic Finance - INCEIF, Malaysia
- Dr. Farrukh Iqbal, Dean and Director, CEIFE-IBA
- Distinguished Guests
- Ladies & Gentlemen

### **Assalam-o-Alaikum**

It is a pleasure to be present at this prestigious event. I feel honoured to be sharing the stage with a visionary like Shaikh Muhammad Taqi Usmani sahib and other friends.

Soon after taking over the responsibilities of Finance Minister in June 2013, I advised State Bank of Pakistan to consider establishing Centres of Excellence in Islamic Finance. Alhamdulillah today we see that the efforts of State Bank of Pakistan proved successful and three Centres of Excellence in Islamic Finance have been established in Pakistan in association with country's leading business schools.

At the same time we are all happy to see how the Centre of Excellence in Karachi has developed since I inaugurated it last year. Dr Ishrat Hussain and his team deserve great appreciation for their commitment and outstanding performance. I would take this opportunity to especially acknowledge the support and technical assistance extended to Pakistan by the Islamic Development Bank (IDB) over the years. I would like to extend my gratitude to IDB through Dr Azmi Omar, Director General, IRTI with special reference to intellectual support for CEIFEs.

Ladies and gentlemen,

The theme of this conference "Roadmap for Future and Critical Success Factors" is quite strategic. I am sure that you will be hearing some prominent speakers over the course of two days who will be giving you insights into issues of Islamic finance. I believe that knowledge, skills and experience of delegates from different jurisdictions will be of great value for our domestic practitioners and help us in carving out a future path for the sustainable growth of Islamic finance industry in Pakistan.

Islamic economic system is not only about prohibition of interest, but it also promotes values such as social responsibility, transparency and accountability. Though Islamic finance has been around for the last five decades, the inherent emphasis of Islamic finance on real economy and on wider ethical codes has attracted more attention in post 2008-09 financial crisis. Islamic finance today is being acknowledged as an economic system which can provide answers to banking stability issues that the world is currently facing. Eradication of poverty, promotion of socio-economic justice and equitable distribution of wealth are among the primary goals of the Islamic economic system.

Ladies and gentlemen,

The history of Islamic finance in Pakistan can be traced back to the global history of Islamic finance. We were among the pioneer countries that allowed the practice of Islamic finance. Efforts made by Pakistan during 1980s on the legal, regulatory and supervisory fronts were recognized at the international level. Unfortunately, those initiatives could not produce the desired results. However, the industry has been growing at an impressive rate since it was re-launched in last decade as a parallel to conventional banking. Our government has been committed to accelerate the development of this industry as we not only consider the implementation of this system as our religious duty but also believe in its supremacy for inclusive development and broad-based growth.

Our conviction towards Islamic finance is evident from our initiatives and full-fledged support at all levels. For example, a high level Steering Committee for Promotion of Islamic Banking in Pakistan having representation of all strategic partners was formed in 2013 under the chairmanship of Mr Saeed Ahmad, Deputy Governor, SBP. The committee, in its tenure of two years, worked on priority areas for ensuring sustainable growth of the Islamic finance industry.

I have received recommendation from the Chairman for setting up a high level Implementation Committee for smooth execution of proposals of the Steering Committee. We shall be taking a decision in this regard very shortly. Generating funds from the global market using Sukuk after a gap of 9 years, introduction of recent amendments in the State Bank of Pakistan Act which now allows the central bank to issue Shariah compliant instruments and 2 percent income tax cut through Finance Bill 2016-17 for all Shariah compliant listed manufacturing companies are few significant steps in this regard.

Ladies and gentlemen,

Furthermore, our government desires to tap on the surplus liquidity of Islamic banking industry to fund infrastructure projects. This indicates a huge potential market for Islamic banking industry especially in the infrastructure and energy sectors to supplement China-Pakistan Economic Corridor (CPEC) package worth \$46 billion. I believe that a portion of these projects, in line with the availability of funds and the capacity of Islamic financial institutions, may be taken up by the Islamic finance industry. Currently work is also in progress for developing a dedicated legal framework for Islamic banking industry at the State Bank of Pakistan under the guidance of the Deputy Governor. Moreover, in order to provide level playing field to the

industry, tax treatment of Sukuks has been brought at par with TFCs last week through an Ordinance in order to support issuance of and investment in Sukuks.

Given the potential of Islamic finance towards ensuring broad based economic growth and development, we believe that this Shariah compliant system can be an effective tool towards reducing both voluntary and involuntary financial exclusion in the country. In this backdrop we have launched Pakistan's first National Financial Inclusion Strategy (NFIS), which includes Islamic Finance as a strategic area for achieving greater financial inclusion in the country.

Ladies and gentlemen,

While talking about the growth of Islamic finance and its ability to cater to all segments, I would like to draw your attention to the fact that Islamic finance has remained concentrated in few areas only. Globally as well as domestically, Islamic financial institutions have not been able to cater to strategic sectors. I believe that the industry should not remain complacent with traditional model and methodologies. Instead Islamic financial institutions need to resort to innovative products based on distinctive Shariah characteristics. This highlights the significance of research and development. We need to change our perceptions and invest in research as a core ingredient of our strategic objectives. This also requires close interaction between academia and industry. I expect that these newly established Centres of Excellence in Islamic Finance Education will play an instrumental role to this end.

I am also urged to emphasize on the role of technology. We have seen that the model of branchless banking has produced impressive results in enhancing financial inclusion. Islamic finance can also leverage on technology to increase its penetration to the lowest spectrum of population - the microfinance clients, for whom the cost of delivery of services may be reduced by use of technology. This will be a win-win situation for both sides as on demand side there will be enhanced access to finance and on supply side this will not only bring diversification but will also address the criticism on the industry of not catering to low income segments. Let me point out that with growing expansion of Islamic finance industry there is a need of adoption of prudent corporate governance practices and strong risk management framework.

Ladies and gentlemen,

There has been international recognition of the efforts made in Pakistan over the last three years for the promotion of Islamic finance. These include IDB Award for Sheikh Taqi Usmani, IFN's award for SBP as the "Best Central Bank for Promoting Islamic Banking", Best Deal of the Year Award for Sukuk issuance by Pakistan, Service Excellence in Islamic Finance for SBP, the Global Islamic Finance Awards plus many other awards for Pakistani Islamic banks.

Ladies and gentlemen,

In conclusion, while Islamic banking has made significant strides globally and domestically, I believe it is still in an evolutionary phase and relentless efforts are required to confront challenges in keeping the growth momentum of the industry. With our sincere and collective

efforts we will, Insha Allah, be able to meet the challenges facing us and provide our people a Shariah compliant system that is equitable and transparent.

Given our experience in this field and the advantage of having Shariah scholars, research facilities at our universities and business schools and leading banking professionals, I am optimistic that we have potential to emerge as one of the world leaders in Islamic finance. Let me assure all the stakeholders of Islamic finance industry of full support and co-operation of the federal government for the promotion of Islamic finance in the country.

Thank you.

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