Standing Committee for Economic and Commercial Cooperation of the Organization of Islamic Cooperation (COMCEC)

Risk Management in Islamic Financial Instruments: Policy Recommendations

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1. RISK MITIGATION AND REGULATION IN ISLAMIC FINANCE

- There are two types of risk identification and Islamic banks:
  - Standard techniques, such as risk reporting, internal and external audit, GAP analysis, RAROC, internal rating, etc.
  - Techniques that either need to be developed or adapted, while keeping in view the requirements for *Shari'ah* compliance.
- *Gharar* can be mild and sometimes unavoidable; however, it could also be excessive and cause injustices, contract failures, and defaults.
- The *murabahah* contract is approved with the condition that the bank will take possession of the asset.
- With *istisna*, contract enforceability becomes a problem, particularly with respect to fulfilling the qualitative specifications.
- To overcome such counterparty risks, *Fiqh* scholars have allowed *band al-jazaa* (penalty clause).
- Fixed rate contracts such as long maturity installment sales are normally exposed to more risk, compared to floating rate contracts, such as operating leases.
- Due to the absence Islamic courts or a formal litigation system, dispute settlement is one of the serious risk factors in Islamic banking.

1. RISK MITIGATION AND REGULATION IN ISLAMIC FINANCE

- To overcome intermediation risks, the counterparties can contractually agree on a process to be followed if disputes become inevitable.
- Islamic financial contracts include choice-of-law and dispute settlement
- In order to manage interest rate risk, the use of GAP analysis and the use of two-step contracts are advised.
- Islamic banks utilize two *mudarabah* contracts
  - one as a supplier with the client and the other as a buyer with the actual supplier
- Another mitigative function recommended is on-balance sheet netting
- Immunization in order to mitigate potential FX risks and risk transferring techniques, including the use of credit derivatives, namely swaps and options contracts, are also functional for risk mitigation purposes.
- Collateral, guarantees, and loan loss reserves are protective mechanisms, as they improve credit quality and allow for a reduction in credit risks.
- there is a need to introduce a risk management culture in Islamic banks
- The non-availability of financial instruments to Islamic banks presents a challenge to managing their ability to combat market risks, compared to conventional banks.

2. SHARIAH HARMONIZATION IN PRODUCT DEVELOPMENT

- Developing standardized Shariah compliant products is very important.
- The mid-term review of the Ten-Year Framework identified three indicators to determine the level of progress in Shariah harmonization in product development.
  - The number and usage of standardized products with published structures and contracts.
  - The volume of published research on product innovation and standardization.
  - The number and use of innovative products.
- Shariah harmonization amongst Muslim countries and other countries can be achieved by instituting centralized and decentralized approaches.
- There is a lack of agreement amongst countries and institutions on how to make Sukuk, Takaful, personal finance and liquidity management products Shariah compliant.
- However, enabling research and academic institutions to conduct more thorough research on Islamic finance can result in a greater diversity and clarity of Islamic financial products.
- National boards can help fill the void of Shariah scholars at each institution.
- By establishing a national board, available Shariah scholars have more time to expend on product development.
- Creating a national board is a very centralized mode of ensuring Shariah compliancy.

3. DEVELOPING SUPPORT INFRASTRUCTURE AMONG MUSLIM COUNTRIES

3.1 Legal Infrastructure

- Recommendation 8 of the Ten-Year Framework focuses on creating a legal, regulatory and supervisory framework for the IFSI that will be conducive to growth.
- There are ten legal and supervisory areas identified.
- The models for the regulatory bodies vary from country to country.
- Flexibility in the legal and supervisory frameworks is necessary, due to the great variety in the size, function, products and operations of the institutions.
- Different approaches include creating regulations that vary depending on the legal format of the institution, or a model where all financial institutions are treated the same.
- The KPIs of this recommendation include the percentage of member countries with tax neutrality and legal enablers of Islamic banking.
  - Adoption of social media was identified as a second indictor

3. DEVELOPING SUPPORT INFRASTRUCTURE AMONG MUSLIM COUNTRIES

3.2 Accounting and Auditing

- The seventh recommendation pertains to enhancing the implementation of accounting and auditing standards for the IFSI.
- Its KPIs involve finding the percentage of members requiring compliance with Islamic accounting and auditing standards and determining the level of collaboration between standard setting bodies such as the Basel Committee, IAIS, IOSCO, and IASB (*A Mid-Term Review* 106).
- Within the IFSI, central banks and supervisors will need to adopt and implement both the general standards, such as the Basel standards, and industry specific standards, such as the AAOIFI.
- Governments, private institutions and multilateral bodies will each have a role to play.
  - Governments will have to facilitate the adoption of the standards.
  - Private institutions will serve as to ensure accountability, as they will demand proper compliance to Shariah.
- Multilateral organizations will provide international standards and increase advocacy and awareness of accounting and auditing standards (*A Mid-Term Review* 117).

3. DEVELOPING SUPPORT INFRASTRUCTURE AMONG MUSLIM COUNTRIES

3.3 Rating Agencies

- IFRS reporting standards do not fully reflect the performance of the IIFS.
- IFRS standards do not take into account attributes of IIFS such as “the nature of IIFS products, their practice to set up reserve funds to smooth profit distribution and protect risk sharing depositors’ principal, the commitment to distribute *Zakat* (Grais 9).”
- In 2008, conventional banks experienced more downgrades in ratings, compared to Islamic banks.
- The International Islamic Rating Agency was created in 2005 with the goal of improving the local and international recognition of the Islamic finance industry.
  - It also intends to help improve transparency in the industry.

3. DEVELOPING SUPPORT INFRASTRUCTURE AMONG MUSLIM COUNTRIES

3.4 Talent Development

- According to the fifth recommendation, actors in the Islamic finance industry will need to develop and utilize its human capital and technology to be more competitive with traditional financial institutions.
- The progress in this area can be identified by the percentage of countries that have access to Islamic finance education and the level of access to web-based specialized Islamic finance training.
- Another indicator is the number of professionals with certifications and industry-specific qualifications (*A Mid-Term Review* 106).
- Improving human capital and technology will expand the reach of Islamic finance.
- To attain better human capital and technology, there needs to exist an enabling regulatory environment.
  - For example, access to finance can be increased if regulations allow different methods of banking, such as mobile banking, to exist and function (*A Mid-Term Review* 127-128).

4. Internationalization of Islamic Finance

- There has been a great deal of effort to standardize Islamic finance practices across countries and promote greater cooperation.
- Through internationalization, countries and institutions intend to share best practices to further the growth of the IFSI. There is ample room for formal collaboration (*A Mid-Term Review* 44).
- Opportunities for cross-border investments are limited, due to a lack of generally accepted standards for Islamic finance, thus putting the IIFS at a competitive disadvantage to conventional counterparts.
- Principles-based rules are needed, rather than ad hoc rules (Grais 6-7).
- There has been good progress made on the Ten Year Framework's recommendations on improving the legal and regulatory frameworks in various countries (*A Mid-Term Review* 7).
- A recommendation is to link Islamic financial markets across borders to improve efficiency and maximize returns, while reducing transaction costs.
- Other recommendations include creating a Technical Assistance and Linkages Network and regional working groups
- The Technical Assistance and Linkage Network would be an international body composed of several types of institutions, including government, central banks and private companies.
- The Network would provide recommendations to member countries and help standardize regulations across all Islamic financial sectors.
- Regional institutions such as the GCC and ASEAN can similarly help in the effort to harmonize.
- The AAOFI has been working towards harmonizing Islamic accounting, auditing, and Shariah standards.
- The IIFM has focused on harmonizing the Islamic financial markets while the IFSB is focused on prudential regulatory standards.

5. GOVERNANCE AND CONTROL OF ISLAMIC FINANCE

- Islamic CG includes protecting stakeholder interests and achieving the company's objective.
- Islamic CG includes a third factor, which is to adhere to Shariah principles.
- The first recommendation of the *Ten Year Framework* focuses on improving the Islamic financial sector by creating an enabling an environment with more transparency and healthy competition.
- The three KPIs are identified:
  - Progress on World Bank governance metrics
  - The percentage of member countries with free market financial systems
  - The level of transparency in Islamic banks, compared to traditional banks
- The industry's level of Shariah compliance, the effectiveness of corporate governance, and transparency can be measured by three indicators:
  - The number of member countries with national Shariah standards or national Shariah boards.
  - The number of countries adopting international Shariah standards in their supervision framework can also be used.
  - The deepness of corporate governance standards and the disclosure standards of Islamic financial institutions (*A Mid-Term Review* 106).

6. CAPITAL MOBILIZATION AMONG MUSLIM COUNTRIES

- Capitalization in the Islamic finance industry is small, compared with the financial industry as a whole.
- Recommendation 2 from the Ten-Year Framework calls for enhancing the capitalization and efficiency of the IIFS.
- The IFSB standards attempt to “ensure that capital adequacy regulations suit the risk exposure of Sharī`ah-compliant contracts, provide adjustments required in the capital adequacy ratio (CAR) for profit-sharing investment accounts, and offer eligibility criteria and the contractual structure for issuing capital instruments that meet the criteria of going concern and gone concern capital (24).”
- Progress in this area is measured using four indicators:
  - 1) average capital adequacy
  - 2) the average ROE of Islamic banks
  - 3) the average ROE of takaful companies
  - 4) the market capitalization of member country capital markets.
- Examples of the progress in improving capital mobilization can be seen in the creation of the Tahawwut Master Agreement, the Mubadalat al-Arbah (Islamic profit rate swap), the Islamic Interbank Unrestricted Master Investment Wakalah Agreement, and the Master Agreement of Treasury Placement (*A Mid-Term Review* 99, 105).
- One of the twenty key initiatives in the *Mid-Term Review* is the number of securities proposed to fund public infrastructure projects to build Islamic capital markets.

7. FINANCIAL INCLUSION AND ISLAMIC MICROFINANCE AMONG MUSLIM COUNTRIES

- Increasing financial inclusion is important, as it can reduce inequality and propagate economic growth.
- In Muslim countries, 20 to 40 percent of the population chooses to eschew conventional microfinance services that utilize interest-based instruments.
- There are four types of organizational models for providing financial services to the poor:
  - Commercial
  - non-profit
  - mutuals or cooperatives
  - community-based organizations.
- Microfinance focuses on pro-poor financial inclusion and has grown in popularity over the last four decades.

7. FINANCIAL INCLUSION AND ISLAMIC MICROFINANCE AMONG MUSLIM COUNTRIES

- Islamic microfinance institutions have several Shariah-compliant financial instruments they can utilize.
  - Qard-al-hassan are interest free loans.
  - Through sharikat, profits can be shared either by musharakah or mudarabah.
- The most popular MFI model is the Grameen model for group-based microfinance.
- The effectiveness of microfinance in reducing poverty is a polarized and debated issue.
- With the additional costs from Shar'ah compliance, Islamic microfinance becomes even more costly
- Microtakaful is a second way of increasing financial inclusion.
- There are three takaful models:
  - Mudarabah consists of a partnership relationship in which the participants contribute to a fund and the TO invests the funds. The TO retains a certain amount of the profit, and the rest is divided amongst the participants.
  - In the wikala model, the TO's compensation is not dependent on the investment s/he makes. Instead, the TO acts as an agent and charges fixed management fees for his service.
  - In waqf, the participants add to a waqf fund that the TO creates. The TO can choose to either be a partner or agent with the waqf model (Ahmed 211-213).
- Mandatory zakat and voluntary waqf funds can be used to create grants and interest-free loans for MFIs as well.

8. RECOMMENDATIONS AND RISK MANAGEMENT IMPLEMENTATION

8.1 Recommendations from the Risk Management Survey

- We offer the following recommendations from our survey:
- (a) Training, research and development
  - IFIs must ensure proper training for their staff on various updated technologies that bankers have to rely on for better analysis of the issues relevant to risk management in IFIs. IFIs should increase investment in research and development activities to find challenges beforehand.
- (b) Collaboration among IFIs and with external stakeholders
  - Active collaboration with international organizations may offer valuable insights into challenges from various dimensions. In the absence of a strong secondary market, banks can form a platform within themselves to solve liquidity problems. This kind of collaboration will also help in preparing a strong country risk report.
- (c) Investment in technology
  - In order to get better estimations and communication updates, IFIs must invest in new technologies to make sure that the staff is getting the right information at the right time. Since the basic setup of the risk management system is already established, IFIs need to upgrade their experience using cutting edge technology.

8. RECOMMENDATIONS AND RISK MANAGEMENT IMPLEMENTATION

8.1 Recommendations from the Risk Management Survey

- (d) Stop competing with conventional banks
  - Even though it is not entirely possible for many years to come, IFIs must stop competing with the conventional banks. Conventional banking risks and those of IFIs are never the same. Many IFIs are operating in dual banking systems and are primarily threatened by monetary systems controlled by un-Islamic principles. However, Islamic banks should operate solely based on the *Shari'ah.*
- (e) Going back to basic – *Shari'ah* based versus *Shari'ah* compliant
  - Gradually, IFIs must have a plan to go back to *Shari'ah* based risk management systems. As illustrated in Figure 4.12, *Shari'ah* based financial operations is the first line of defense. If IFIs sacrifice in the first line of defense, the rest of the system will collapse. Hence, the most important element of risk management in IFIs is to bring back the wisdom of *Shari'ah* into operations.
- (f) Diversification
  - IFIs are still struggling to diversify their portfolio of operations across countries, sectors and industries. Perhaps it is easier to diversify across industries and sectors. However, IFIs have to ensure that there exist experts on those sectors and industries among the staff who can guide the risk management process for that specific sector. In fact, IFIs should have experts on each sector or industry they are dealing with. This goes back to the notion of having effective training for employees.

8. RECOMMENDATIONS AND RISK MANAGEMENT IMPLEMENTATION

8.1 Recommendations from the Risk Management Survey

- (g) Role conflict: social versus operational
  - It is important to understand that the risk management division exists solely for the purpose of operational sustainability. It may not yield any social value addition in the immediate term. Islamic banks are more closely tied to social development goals than conventional banks. However, the objective of the risk management division is to make IFIs fit for social development. Hence, there should not be any role conflict between the overall objective of the IFIs and the specific objectives set for the risk management division.
- (h) Investing in education system
  - In order to get good employees, many IFIs are now directly connected to educational institutions. They are financing studies by brilliant students and bringing them into the banking sector after the successful completion of their studies. Some of these educational institutions are specialized in banking and financial sector education. IFIs may offer cases to discuss in universities in order to build awareness about risk management practices and strategies. As the Islamic financial system is relatively new, there is a need for an integrative approach between the banks and the regulators in order to bring a proactive, long-term change in the way we see risk management today.
- (i) Legal system
  - IFIs are lucky if they are in a system that does not tolerate habitual defaulters. Banks must assist the government and the regulatory authority in introducing a healthy legal atmosphere for all. In many countries, there is no Islamic banking law to guide the IFIs. In addition to the ordinary legal system, IFIs must work out an operating practice that abides by the laws of *Shari'ah*.

8. RECOMMENDATIONS AND RISK MANAGEMENT IMPLEMENTATION

8.2. IFSB Risk Management Implementation

- The Islamic Financial Services Board (IFSB) compiled 15 principles for the Islamic financial services industry. We reproduce these guidelines under separate risk categories below:
- **1. General Requirement**
  - Principle 1.0: IIFS shall have in place a comprehensive risk management and reporting process, including appropriate board and senior management oversight, to identify, measure, monitor, report and control relevant categories of risks and, where appropriate, to hold adequate capital against these risks. The process shall take into account appropriate steps to comply with Shariah rules and principles and to ensure the adequacy of relevant risk reporting to the supervisory authority.
- **2. Credit Risk**
  - Principle 2.1: IIFS shall have in place a strategy for financing, using various instruments in compliance with Sharī`ah, whereby it recognises the potential credit exposures that may arise at different stages of the various financing agreements.
  - Principle 2.2: IIFS shall carry out a due diligence review in respect of counterparties prior to deciding on the choice of an appropriate Islamic financing instrument.
  - Principle 2.3: IIFS shall have in place appropriate methodologies for measuring and reporting the credit risk exposures arising under each Islamic financing instrument.
  - Principle 2.4: IIFS shall have in place Sharī`ah-compliant credit risk mitigating techniques appropriate for each Islamic financing instrument.

8. RECOMMENDATIONS AND RISK MANAGEMENT IMPLEMENTATION

8.2. IFSB Risk Management Implementation

- **3. Equity Investment Risk**
  - Principle 3.1: IIFS shall have in place appropriate strategies, risk management and reporting processes in respect of the risk characteristics of equity investments, including Muḍārabah and Mushārakah investments.
  - Principle 3.2: IIFS shall ensure that their valuation methodologies are appropriate and consistent, and shall assess the potential impacts of their methods on profit calculations and allocations. The methods shall be mutually agreed between the IIFS and the Muḍārib and/or Mushārakah partners.
  - Principle 3.3: IIFS shall define and establish the exit strategies in respect of their equity investment activities, including extension and redemption conditions for Muḍārabah and Mushārakah investments, subject to the approval of the institution's Sharī`ah Board.
- **4. Market Risk**
  - Principle 4.1: IIFS shall have in place an appropriate framework for market risk management (including reporting) in respect of all assets held, including those that do not have a ready market and/or are exposed to high price volatility.

8. RECOMMENDATIONS AND RISK MANAGEMENT IMPLEMENTATION

8.2. IFSB Risk Management Implementation

- **5. Liquidity Risk**
  - Principle 5.1: IIFS shall have in place a liquidity management framework (including reporting) taking into account separately and on an overall basis their liquidity exposures in respect of each category of current accounts, unrestricted and restricted investment accounts.
  - Principle 5.2: IIFS shall assume liquidity risk commensurate with their ability to have sufficient recourse to Sharī`ah-compliant funds to mitigate such risk.
- **6. Rate of Return Risk**
  - Principle 6.1: IIFS shall establish a comprehensive risk management and reporting process to assess the potential impacts of market factors affecting rates of return on assets in comparison with the expected rates of return for investment account holders (IAH).
  - Principle 6.2: IIFS shall have in place an appropriate framework for managing displaced commercial risk, where applicable.
- **7. Operational Risk**
  - Principle 7.1: IIFS shall have in place adequate systems and controls, including Sharī`ah Board/ Advisor, to ensure compliance with Sharī`ah rules and principles.
  - Principle 7.2: IIFS shall have in place appropriate mechanisms to safeguard the interests of all fund providers. Where IAH funds are commingled with the IIFS's own funds, the IIFS shall ensure that the bases for asset, revenue, expense and profit allocations are established, applied and reported in a manner consistent with the IIFS's fiduciary responsibilities.
  - Islamic Financial Services Board (IFSB), "Guiding Principles of Risk Management for Institutions (Other than Insurance Institutions) Offering only Islamic Financial Services, December 2005

9. RECOMMENDATION, PERFORMANCE INDICATORS AND FUTURE INITIATIVES FOR THE DEVELOPENT AND RISK MANAGEMENT IN THE ISLAMIC FINANCIAL SERVICES INDUSTRY

- The *Ten-Year Framework* was created in 2007.
- The document lays out a roadmap for the development of the Islamic finance industry, which the challenges the industry is expected to face in the next ten years, as well as the recommendations for addressing the challenges.
- A mid-term review of the *Ten-Year Framework* was conducted in 2013.
- The mid-term review of the *Ten-Year Framework* by the IFSB, IRTI, and IDB Group revealed that there was still a great deal of work to be done at the halfway point to achieve the goals set out in the recommendations of the *Framework.*
- The IRTI, et al. concluded that, while “concrete progress” has been made towards all of the recommendations, none have been entirely achieved, and more focus is required by member countries in order to implement the 16 recommendations (*A Mid-Term Review* 7-16).
- While there has been much discussion surrounding the *Framework,* implementation has been a challenge.
- The 70 initiatives were narrowed to 20 key initiatives using key performance indicators (KPIs).

9. RECOMMENDATION, PERFORMANCE INDICATORS AND FUTURE INITIATIVES FOR THE DEVELOPENT AND RISK MANAGEMENT IN THE ISLAMIC FINANCIAL SERVICES INDUSTRY

9.1 Support the Growth and Stability of the Islamic Finance Industry

- A main goal of the international Islamic finance community is to encourage the continued growth and stability of the Islamic finance industries across the globe.
- Initiatives aimed at accomplishing this goal include:
  - strengthening Shari'ah governance frameworks
  - Encouraging more diversified institutions
  - Promoting Islamic finance
  - Improving financial data and reporting practices.
- Perhaps the most important aspect of an Islamic financial institution is the Shari'ah advisory board.
- Establishing proper governance and Shari'ah practices will help insure the strength of the industry and insure the public trust.
- In addition, encouraging more diversified Islamic financial institutions can help the overall growth of the industry.
- The Islamic finance industry stands to benefit from perusing more diversified practices as well.

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9.3 Support the Growth and Stability of the Islamic Finance Industry

- A more diverse Islamic finance industry will not only help the industry grow, but will also better service the economy by offering more robust products and creating more stable institutions.
- Another key to industry growth is providing for more efficient and accurate information.
- there is a need for the production of more accurate reporting from Islamic financial institutions.
- Finally, the Islamic finance industry needs to continue to demonstrate the value of Islamic finance in order to encourage its continued growth.
- The most obvious benefit is the use of Shari'ah principles to guide the operations of Islamic financial institutions, which is a valuable service for Muslims around the world.
- The additional benefits of Islamic finance include more closely linking financial activities with the real economy, a focus on overall economic stability, and a desire for socially beneficial financial outcomes.
- Islamic finance has the capacity to benefit society beyond the Muslim world

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9.2 Encourage Efficiency and Innovation in the Islamic Finance Industry

- Another key initiative for the Islamic finance industry going forward is the continued promotion of innovation and efficiency within the industry.
- National credit bureaus can help both conventional and Islamic financial institutions make more informed financial decisions.
- Promoting technical advances can also drive efficiency.
- Technical Assistance networks can provide new financial institutions and emerging markets with assistance in establishing technical solutions that will improve operational efficiency.
- Developing methods of conducting valuable industry research will help foster efficiency and innovation in the industry as well.
- Regulations must also be crafted in such a matter that foster new innovations within the industry.
  - Regulations must be crafted in order to ensure that innovations in the financial industry can be appropriated evaluated and, if appropriate, implemented, in order to create a more robust financial sector.

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9.3. Promote the International Growth of the Islamic Finance Industry

Enhance National Islamic Finance Agendas

- A key initiative to promote the advancement of the Islamic finance industry is through the implementation of national development plans that acknowledge the role of Islamic financial institutions and promote their growth.
- Encouraging developing nations to include the Islamic financial industry can help the worldwide growth of the Islamic financial industry as well as provide enhanced mechanisms for economic growth and wellbeing in emerging markets
- Islamic finance Master Plans can provide specific strategic guidance for the implementation of policies related to the Islamic finance industry that are specific to the needs and circumstances of individual countries.
- Master Plans should promote the growth of a complete Islamic finance sector, which includes banking institutions as well as non-bank Islamic financial institutions such as Takāful companies.
- Islamic finance Mater Plans should also include key performance indicators than can be measured and monitored over time.
- Master Plans should also play a key role in the development of governance practices within the Islamic finance industry.
- The Master Plan should guide Islamic financial institutions in the establishment of governance practices that uphold Islamic principles, promote stability in the industry, and ensure accurate and efficient information production and dissemination.
- Industry best practices such as IFSB and AAOIFI guidelines should be used as standards for developing these policies.

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9.3. Promote the International Growth of the Islamic Finance Industry

Improve Regulatory Standards

- National development and Master Plans should also focus on establishing regulatory regimes that promote the growth of a vibrant and stable Islamic finance industry.
- Countries should develop laws and regulations that encourage the appropriate balance between the growth and stability of the Islamic finance industry.
- Issues pertaining to capital adequacy and risk management in the Islamic finance industry are of particular concern, and appropriate regulatory practices need to be established.
- Regulatory practices need to be sensitive to the lessons learned from the recent financial crisis.
- A more specific focus on non-bank Islamic financial institutions should be implemented.
- Policy makers should develop a financial supervision structure that is sensitive to issues surrounding recent innovations in both technology and new financial products.

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9.4 Promote the Integration of Islamic Finance Across Borders

- There remains room for further integration of the Islamic financial markets across international borders.
- Developing markets that facilitate trading in international Islamic financial products will have several advantages.
  - More integrated international markets will make price discovery faster and more efficient.
  - Standardized international markets can lower the costs and the risks associated with international transactions, which will encourage more efficient flows in international Islamic financial products.
- Developing computerized markets that link international financial transactions is one potential solution for fostering more integrated Islamic markets.

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9.4 Promote the Integration of Islamic Finance Across Borders

- Differences in taxation, accounting standards, disclosure requirements, and other regulatory discrepancies make it difficult to establish standardized international markets.
  - A main goal in developing more integrated markets is to encourage consistent regulatory policies across international borders.
- The development of regional working groups can play a key role.
  - By working together to standardize financial products and regulations, these regions can help to foster more integrated and efficient international markets for Islamic financial products.
  - Regional working groups can also work together to share knowledge and develop industry best practices with regards to Islamic financial institutions.
- A major goal of the international Islamic finance community is to encourage access to and the growth of new markets for Islamic financial products

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9.5 Enhance the Role of Islamic Finance in Promoting Economic Growth

- Islamic finance can also play an important role in promoting international economic growth.
- In many countries throughout the world, there is a need for vital infrastructure projects, such as roads, transportation, and power, and project finance is often a major obstacle to their completion.
- Islamic finance may provide an opportunity for emerging economies to finance these crucial infrastructure projects.
- For example, a sukūk type security could be issued such that the returns are linked to the infrastructure project's returns.
- These securities could be established with a long time dimension and be issued in small denominations, which would allow smaller investors to participate.
  - Such an Islamic finance arrangement would allow for vital infrastructure projects to be undertaken in emerging economies without the need to overburden the budgets of emerging governments.