



# **THE ROLE OF GOVERNMENT IN ISLAMIC FINANCE**

**By: Dr. Muhammad Syafii Antonio,MEc**  
**Chairman Tazkia Group, National Economic Council-Indonesia**

# Presentation Outline

- Brief review on the role of government.
- Strategic Developmental Policy
- Government and Islamic Finance





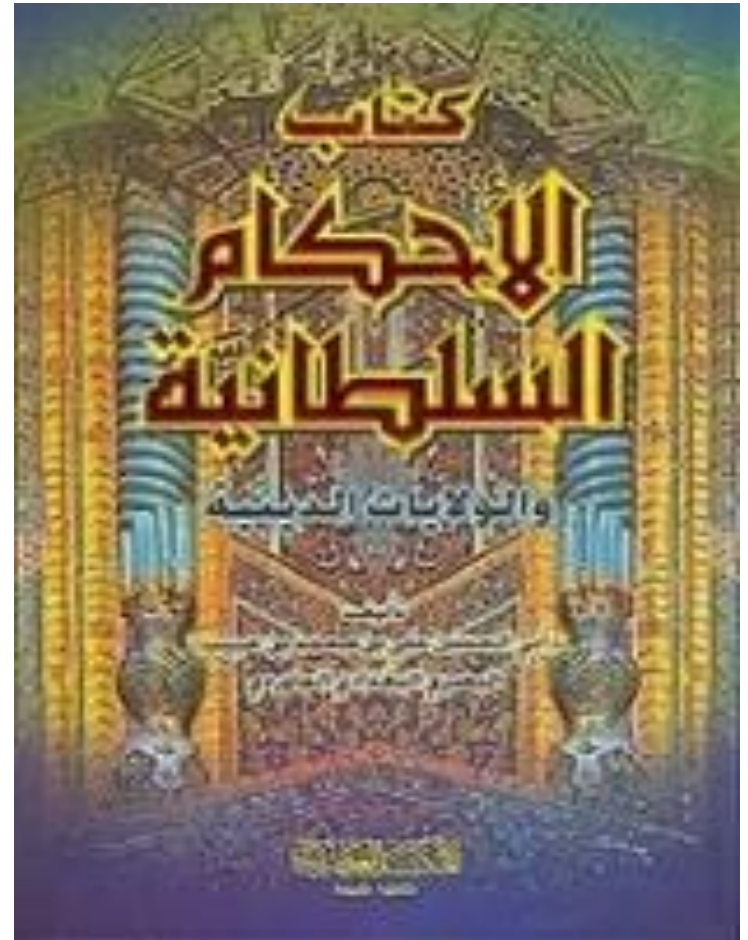
# Classical Period Understanding





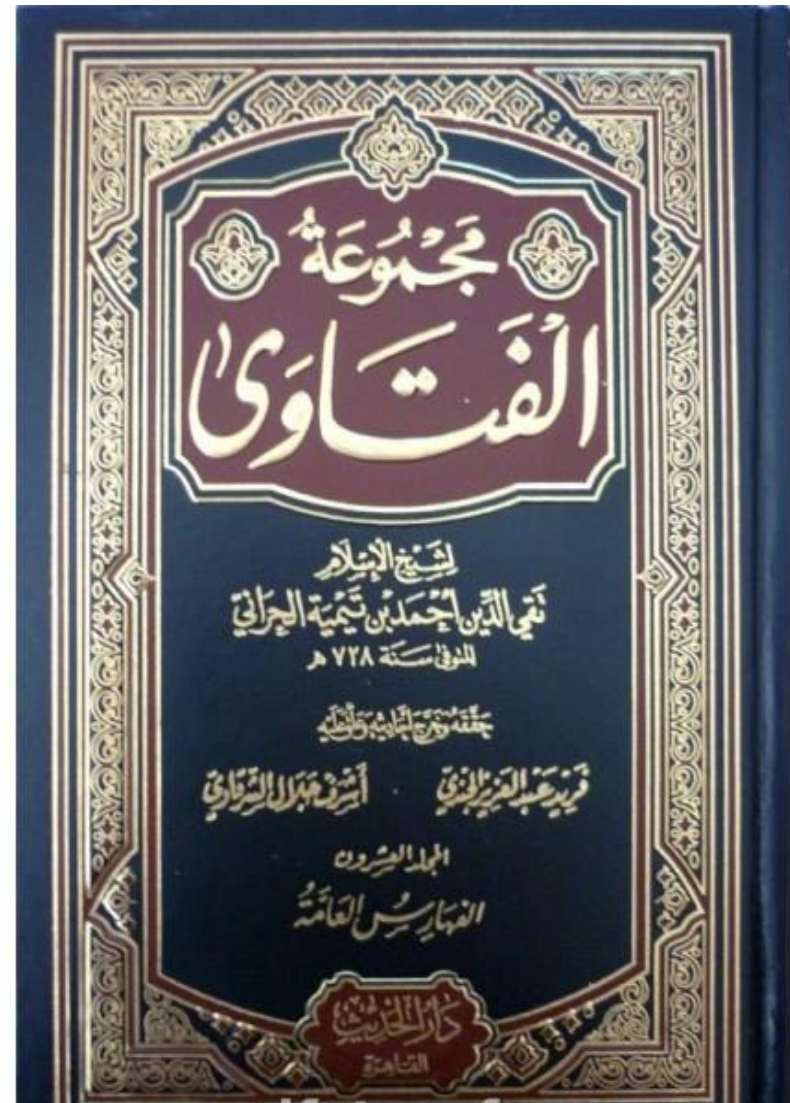
# The Objectives of the Islamic State In Classical Islamic Text

- The main objective of the Islamic state is to continue the function of Prophethood in safeguarding religion and managing the worldly affairs (al-Mawardi)



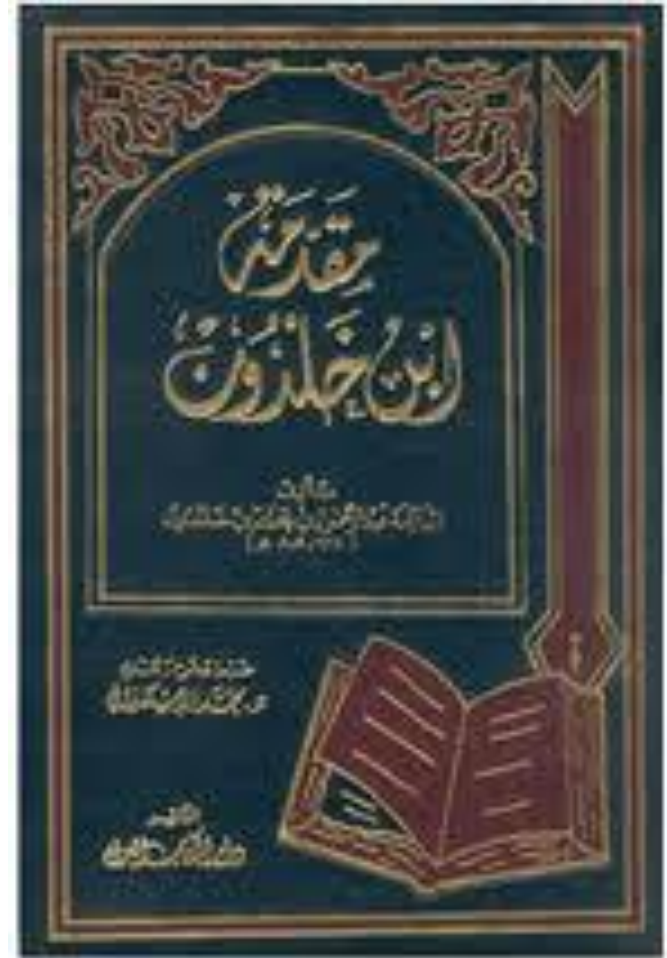
# The Objectives of the Islamic State In Classical Islamic Text

“That all religion be  
to Allah and that  
Allah’s word be  
supreme” (Ibn  
Taymiyah)



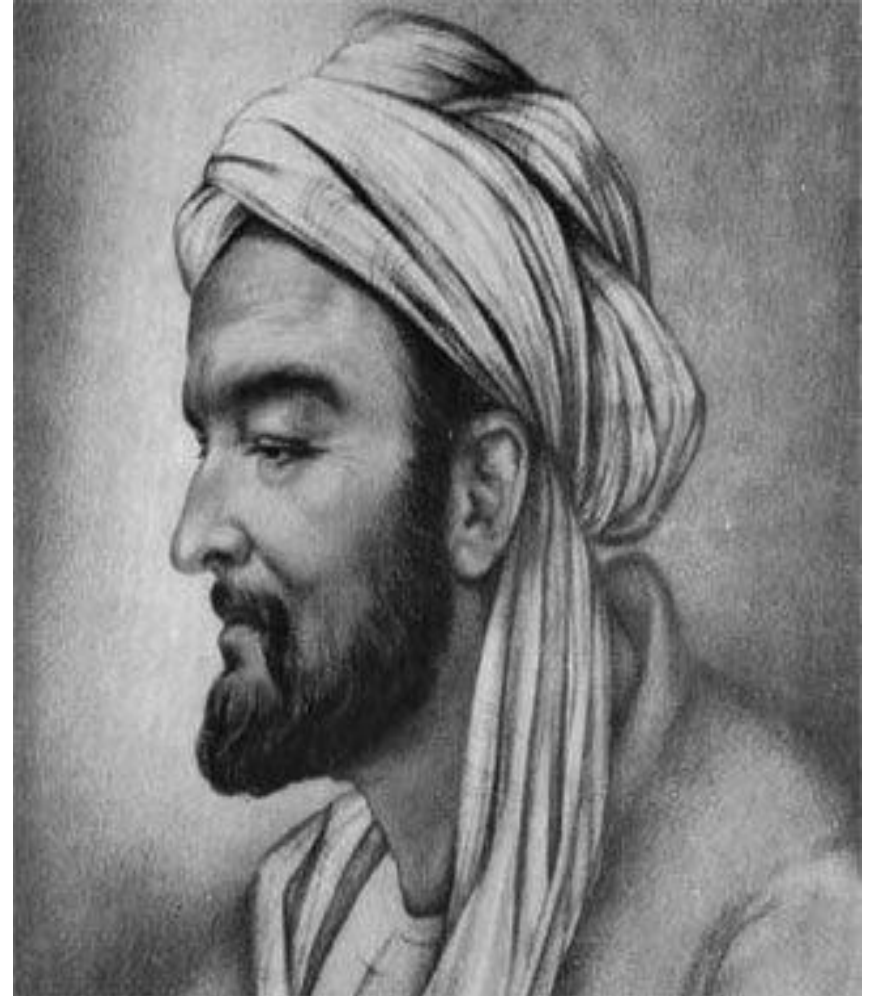
# The Objectives of the Islamic State In Classical Islamic Text

- “Getting everybody to follow the intent of the Shariah’s rationale in their worldly and other than worldly affairs” (Ibn Khaldun)



# The Objectives of the Islamic State In Classical Islamic Text

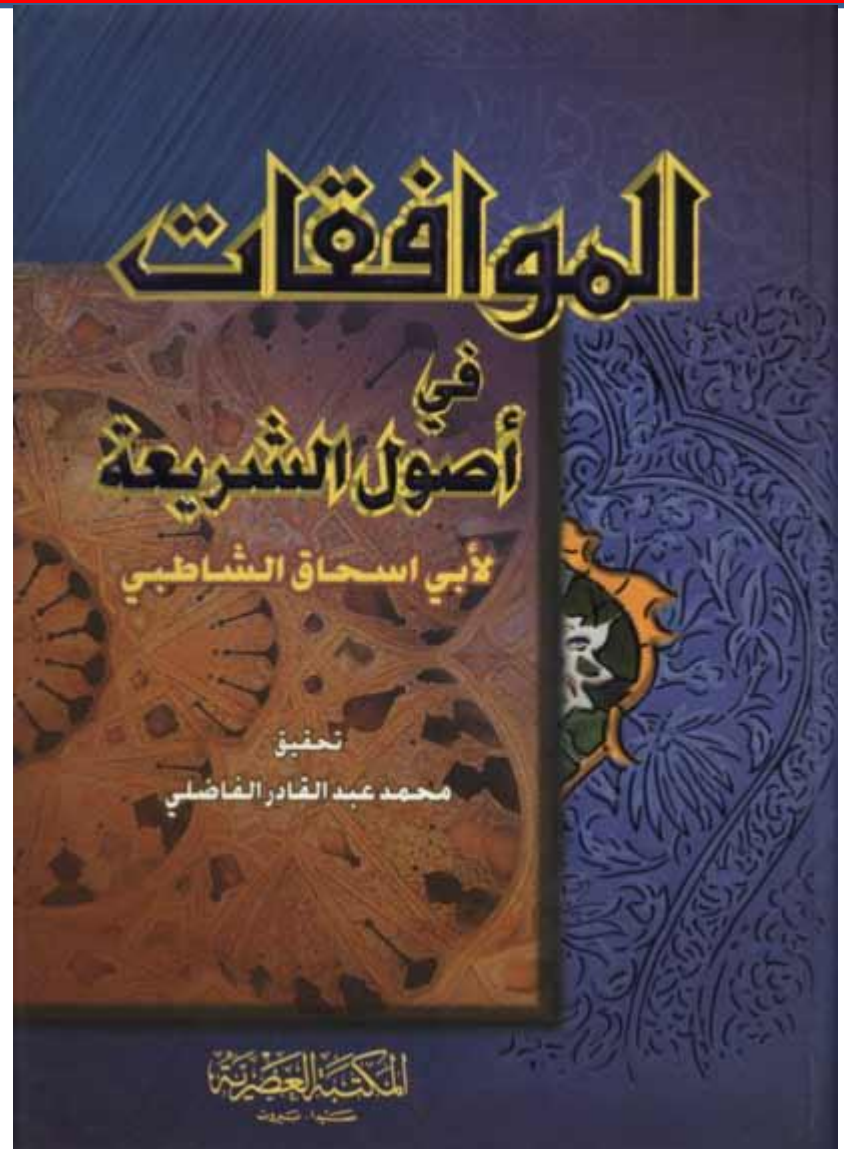
- Ibn Khaldun's political system rationalization
  - Monarchic
  - Democratic
  - Islamic





# The Objectives of the Islamic State In Classical Islamic Text

- The function of Islamic state covers the worldly affairs as well as the affair of hereafter
- The interests of religion have absolute priority over the interests of the worldly affairs





# Islamic state

Islamic state is an institution “represents” Allah in promoting religion and administering the world according to his commandments, although obviously, the government is appointed by people and it acts as the basis of their deputation or attorney. (Kahf, 1991)



# Economic Objectives of the Islamic State

1. Achieving of economic capability necessary for strengthening Islamic state which allows it to protect religion.
2. Securing the economic satisfaction of the society in general and promoting general material welfare while guaranteeing the basic needs of its individuals.
3. Maximization of the benefits of the public properties.



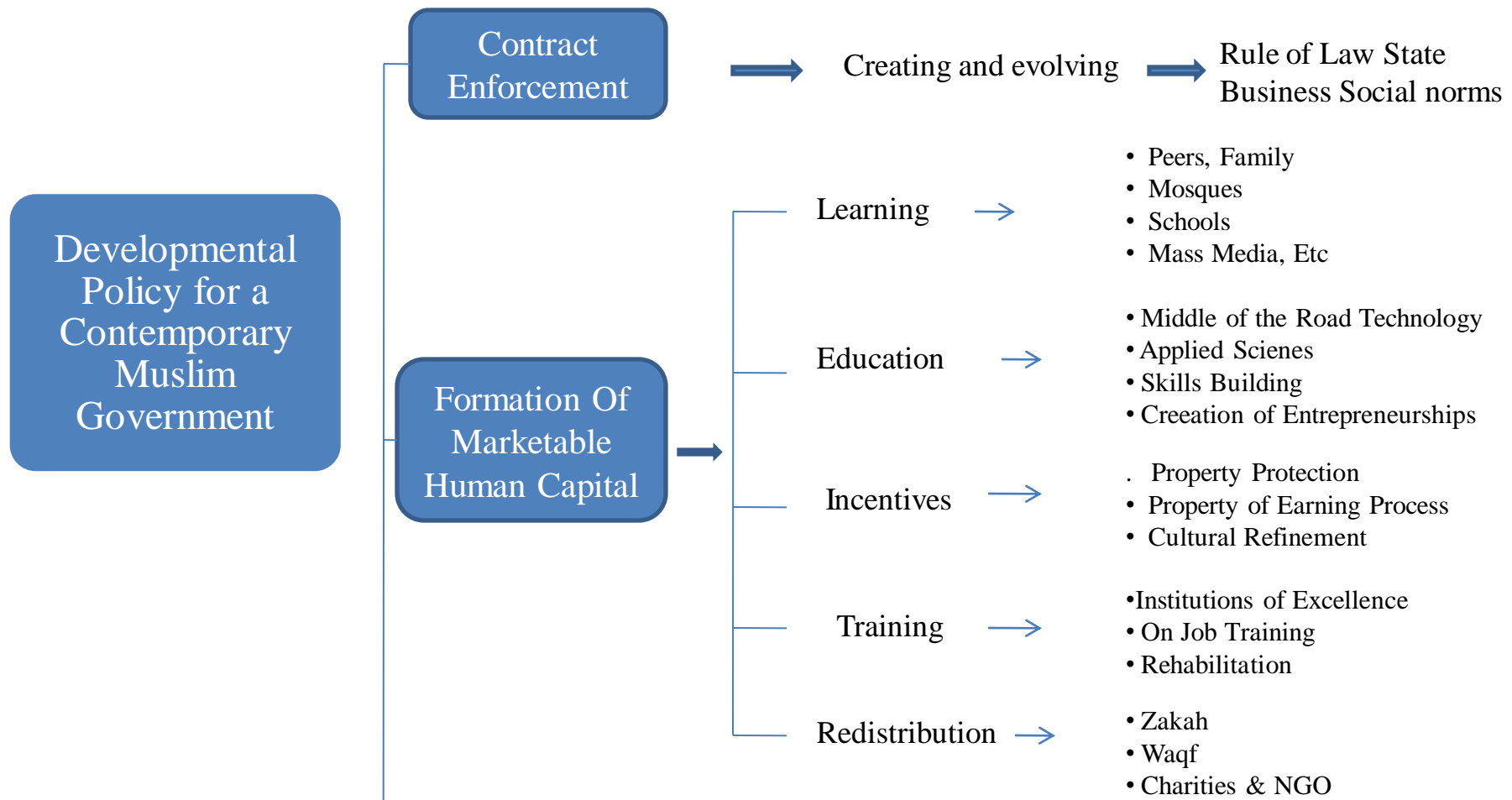
# Economic Objectives of the Islamic State

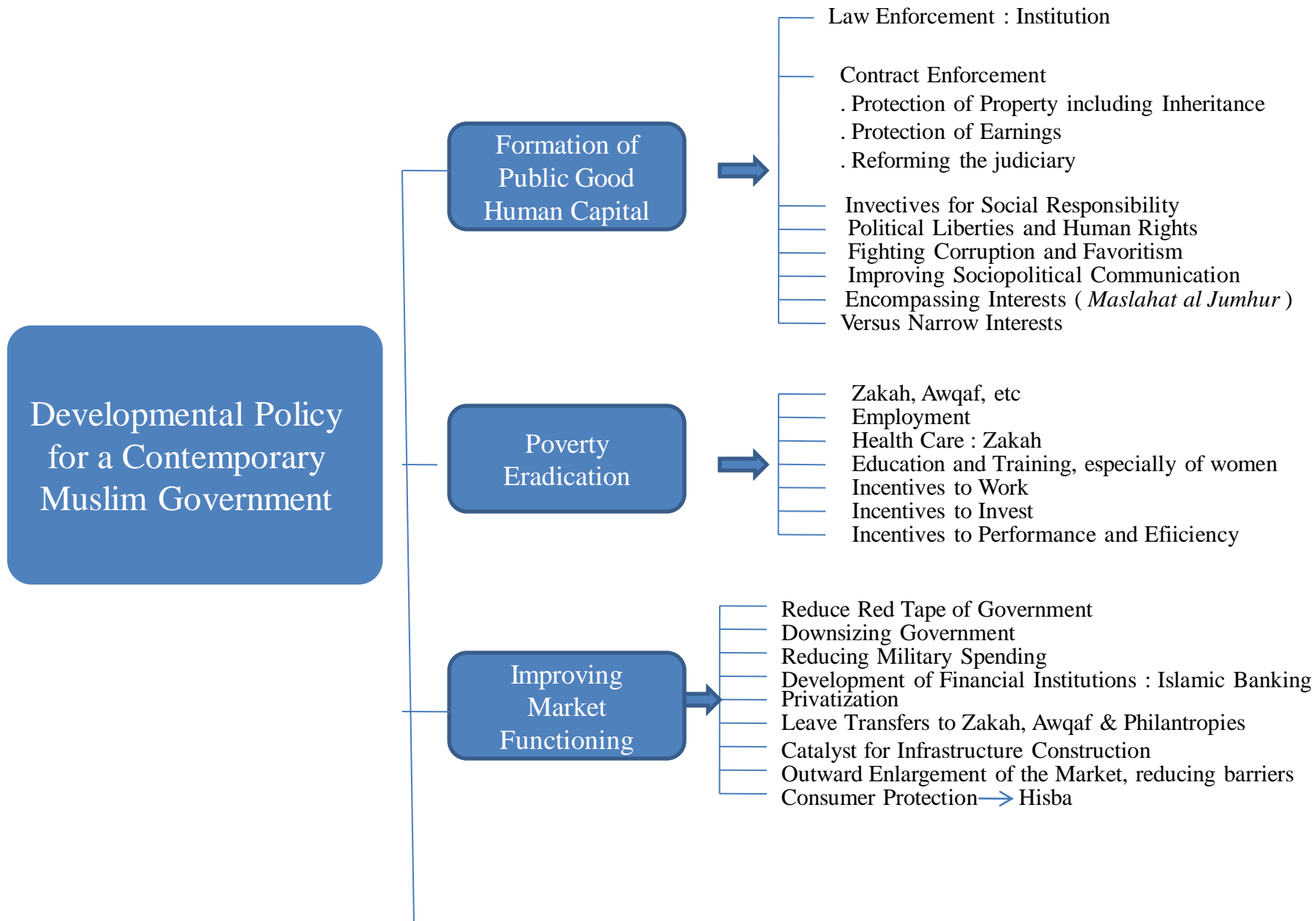
4. Obtaining necessary financial resources to run the government and spending in accordance with Shariah.
5. Protecting the moral and legal framework and promoting a work environment conducive towards success in the hereafter.
6. Maintaining economic justice by preserving social and economic balances, achieving adequate employment for all members of society and preserving the income and wealth of the people.

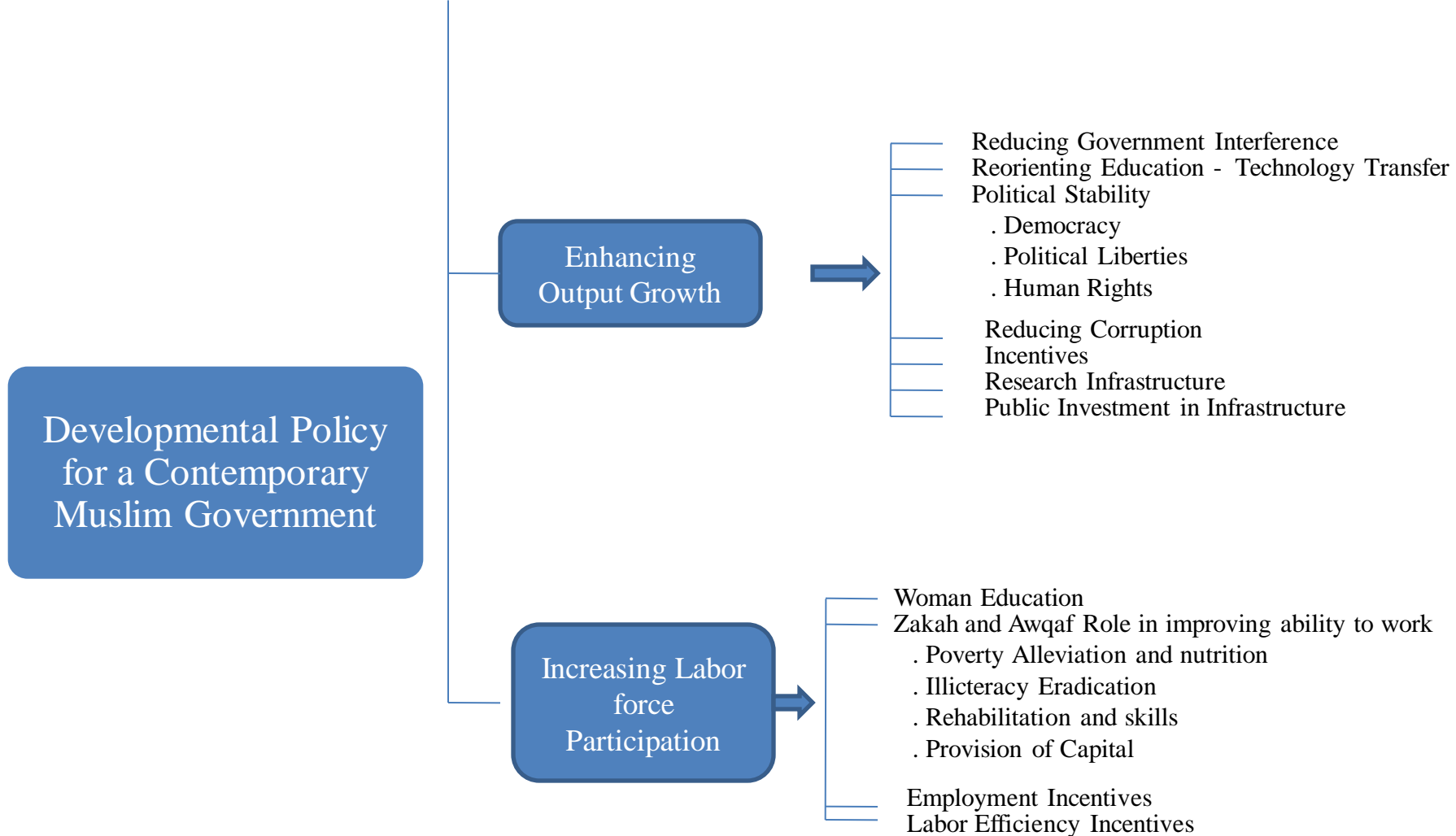




# CHART DEVELOPMENTAL POLICY RECOMMENDATION FOR A CONTEMPORARY MUSLIM GOVERNMENT







(Source: Kahf,1991, with modification)



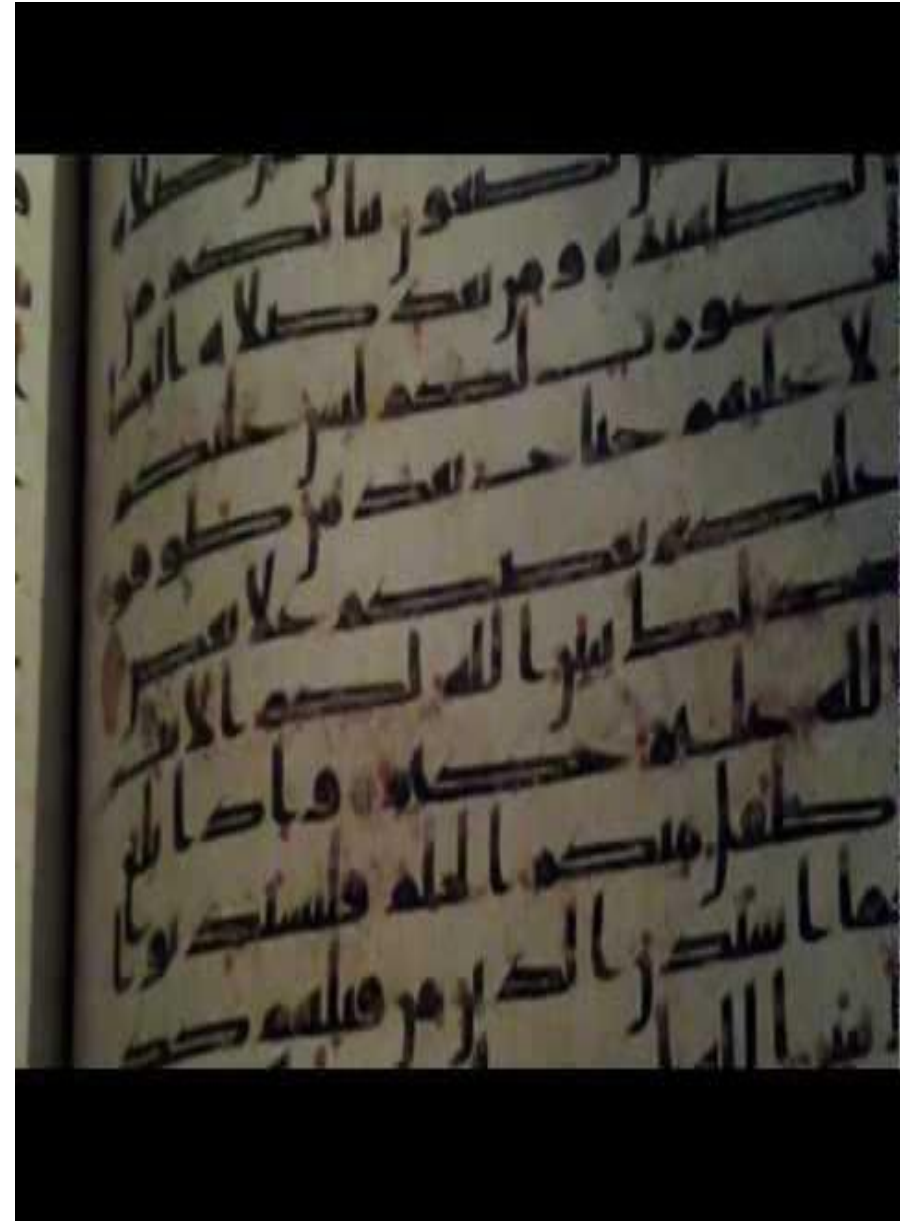
# Contract Enforcement

- Creating and Evolving Rule of Law
- Good Business Norms



# FORMATION OF COMPETENT HUMAN CAPITAL

- Learning
- Education
- Training
- Coaching
- Internship
- Learning infrastructure
  - Schools
  - Universities
  - Libraries
  - Web based learning



# Formation of Public Good Human Capital

- Law Enforcement : Institutions, System & resource
- Fighting corruption
- Political Liberties and human Right
- Improving Sociopolitical Communication
- Social Responsibility
- Encompassing Interests (Maslahat al Jumhur)

Versus Narrow Interest





# Poverty Eradication

- Zakah, Awqaf and social funds
- Health Care
- Education and training
- Incentives to Work
- Incentives to job Creation
- Incentive to Investment
- Incentives to Performance and Efficiency



# Improving Market Function

- Reduce red tape of Government
- Competent Government officers
- Proper Military Spending
- Development of Financial Institutions : Banking and non banking institutions
- Strategic Privatization
- Catalyst for Infrastructure Construction
- Outward Enlargement of the Market, reducing barrier



# Enhancing Output Growth

- Political Stability
  - Democracy, human rights, political liberty
- Re-orienting Education-Technology Transfers
- Research & Development for (food, water & energy security)
- Public Investment in Infrastructure

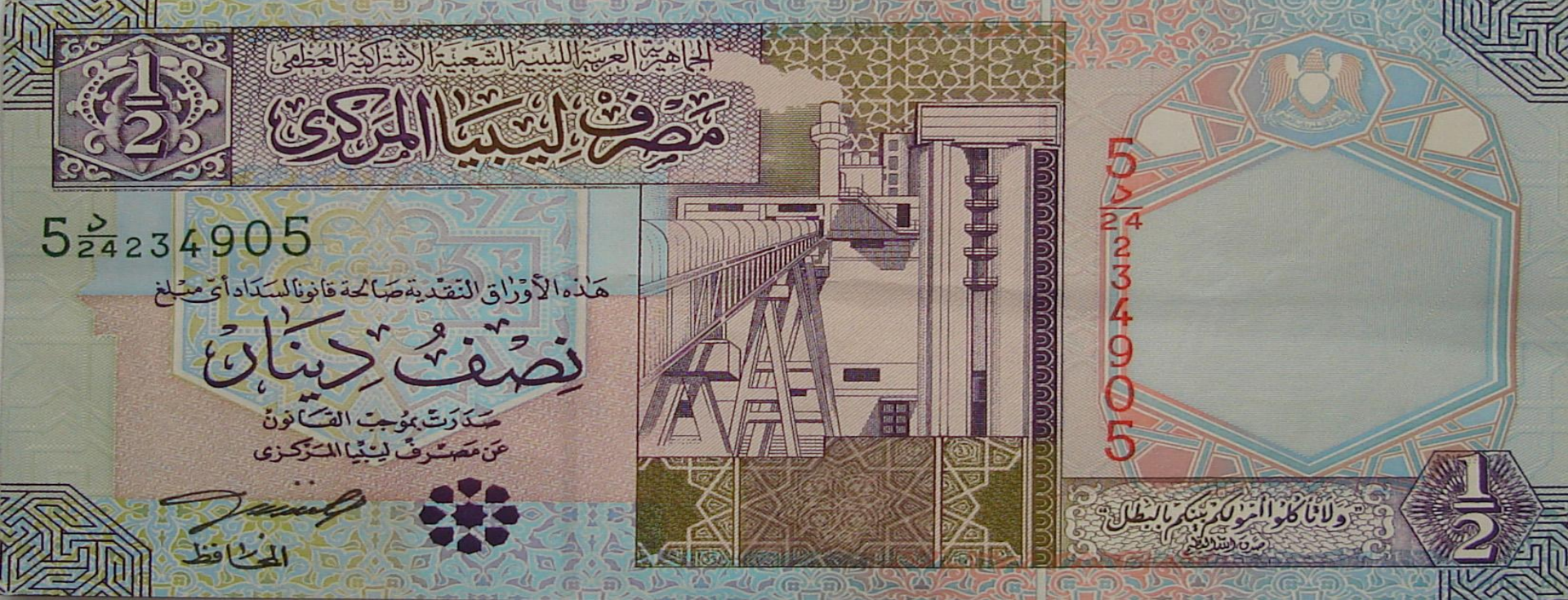


# Labor Force Development

- Competent workforce
- Woman Education and training (stop TKI)
- Youth Vocational training
- Link and match University and industry







# Contemporary Challenges of the Role of Government in Islamic Finance

# Emerging interest on Islamic finance as viable alternative to the global financial system ...

Starting in 1971 with the first Islamic bank in Egypt, there are now more than 600 Islamic financial institutions in 75 countries

## UK

- Gov't sets an objective to 'entrench London as a global gateway for Islamic finance
- 5 FSA-approved Islamic banks and Takaful operators
- Plans to issue sovereign sukuk, amend tax law on IF

## France

- Passed rules/regulations to support Islamic finance activities
- In process of licensing Islamic banks
- Made fiscal & legal adjustment for IF transaction i.e. taxation guidelines on sukuk & murabaha

## Malta

- Plans to position as Islamic finance hub for the Mediterranean

## Jordan

- Plans to tap sukuk market to finance its deficit

## Germany

- Saxony-Anhalt state issued government sukuk
- First Islamic bank to operate in 2010

## Turkey

- Announced IFC Istanbul in Sep '09 with focus includes interest-free financial business

## South Korea

Parliament expected to pass the law related to offering of tax waiver on foreign investors' interest income from sukuk issued

## Japan

Law passed allowing banks to do Islamic finance

## Hong Kong

- Aims to become Islamic finance gateway to China
- Plans to issue sovereign sukuk
- Hang Seng Islamic China Index Fund in 2007

## Brunei

Aim to become Islamic financial services hub for Asia

## Singapore

- Established first Islamic bank
- Introduced tax neutrality for Islamic finance
- Aspiring to be centre for Islamic finance
- Launched Islamic ETF

Iran Bahrain  
Qatar UAE Pakistan  
Saudi Arabia Kuwait

## Thailand

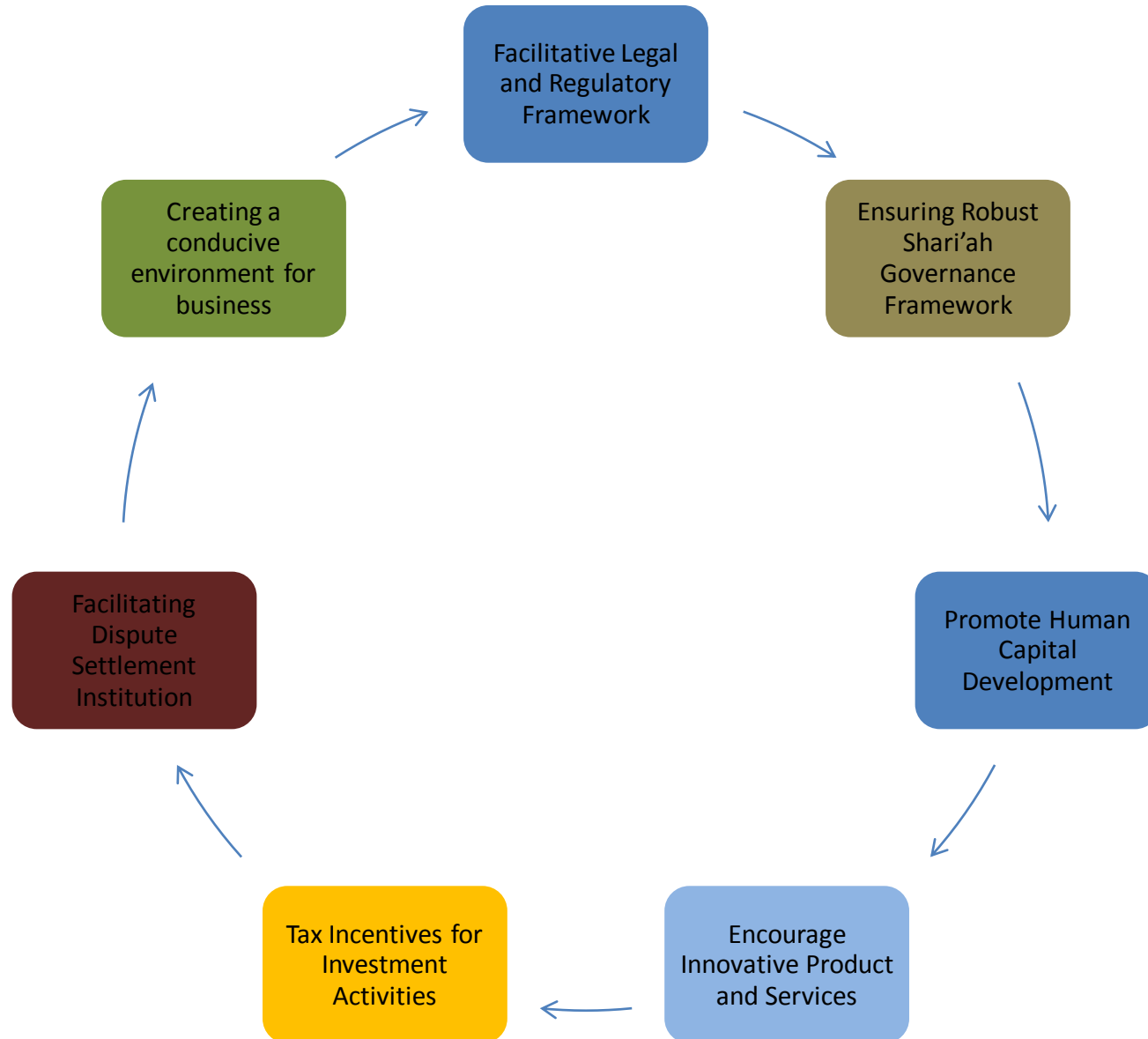
## Malaysia

## Indonesia

Muslim-majority countries offering Islamic finance (IF)

Non-muslim countries starting to offer IF

# A Robust Islamic Finance Industry and the Role of Government





# Active in the Promotion and Adoption of Dinar as Muslim World Currency

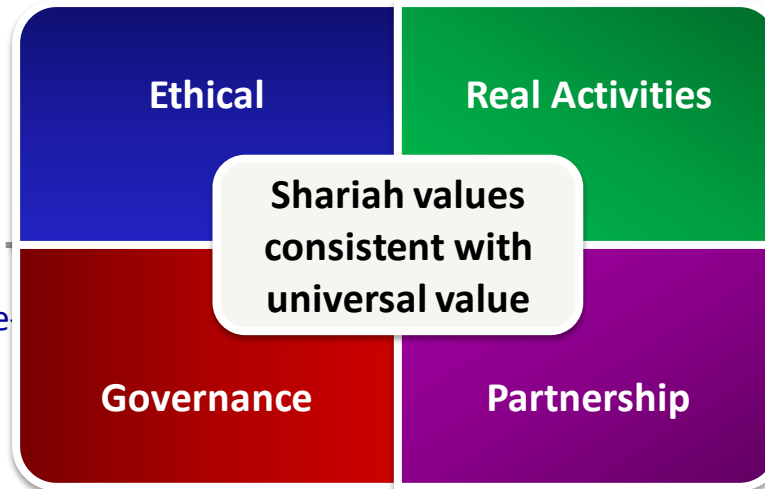




# Promotion and Encouragement

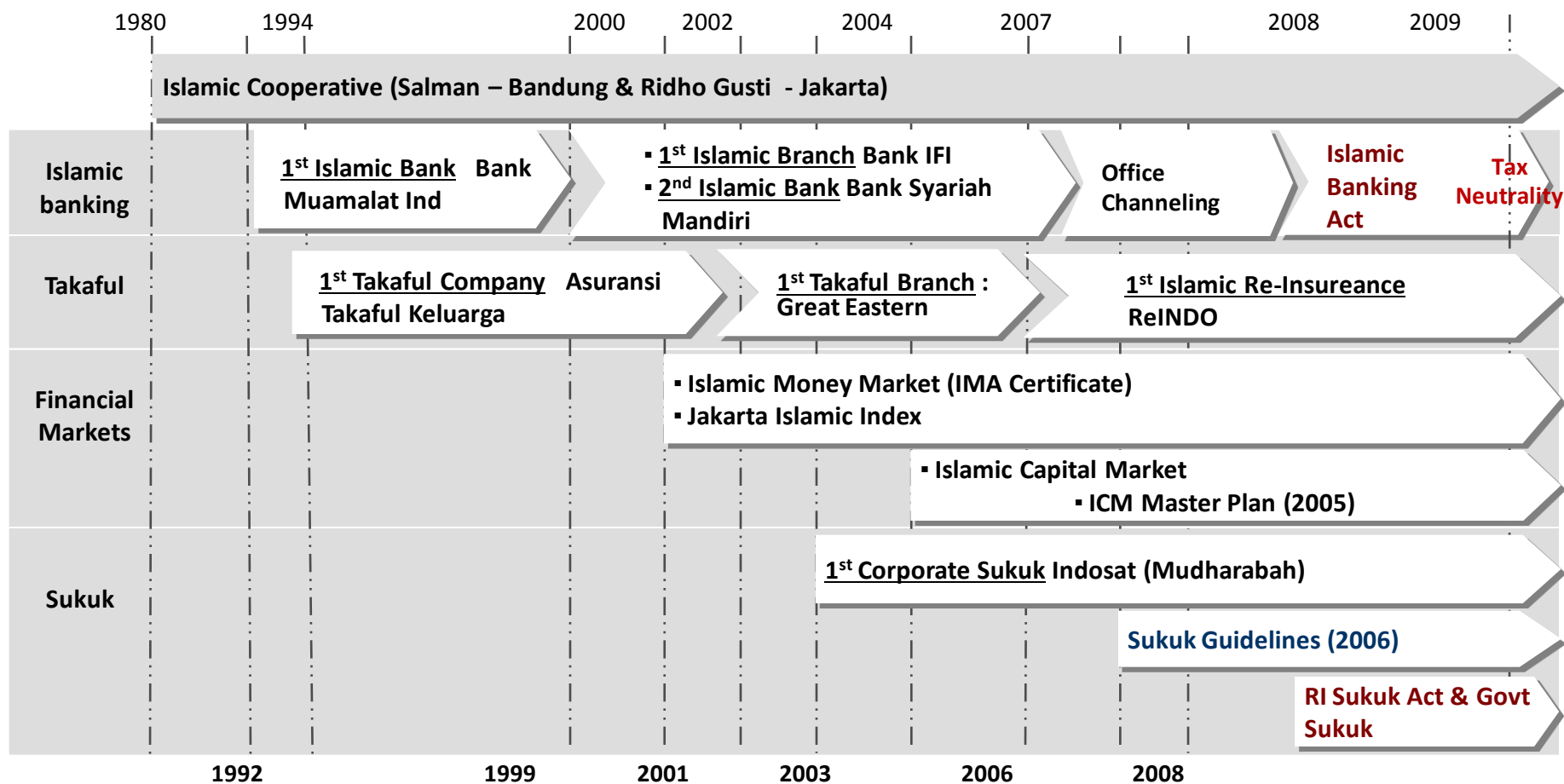
- Avoidance of unethical activities
- Avoidance of *maisir* (gambling) & *riba* (interest) & non-permissible goods & services
- Screening investment
- Forbearance for customers in difficulties

- Greater transparency & disclosure
  - ✓ More *Shariah* governance
  - ✓ unique risks
- Greater fiduciary duties & accountability
- Emphasis on clear documentation & contract add to soundness & stability



- Direct link to real economy
  - Certainty – supported by underlying activities (prohibition of *gharar* - uncertainty)
  - Prohibits excessive leveraging
  - Money is not commodity
- Different contractual relationship
  - Equity-based & risk-sharing transactions
  - Clearly defined risk & profit-sharing characteristics serve as additional built-in mechanisms

# Milestones on Indonesian Islamic Banking & Finance Development



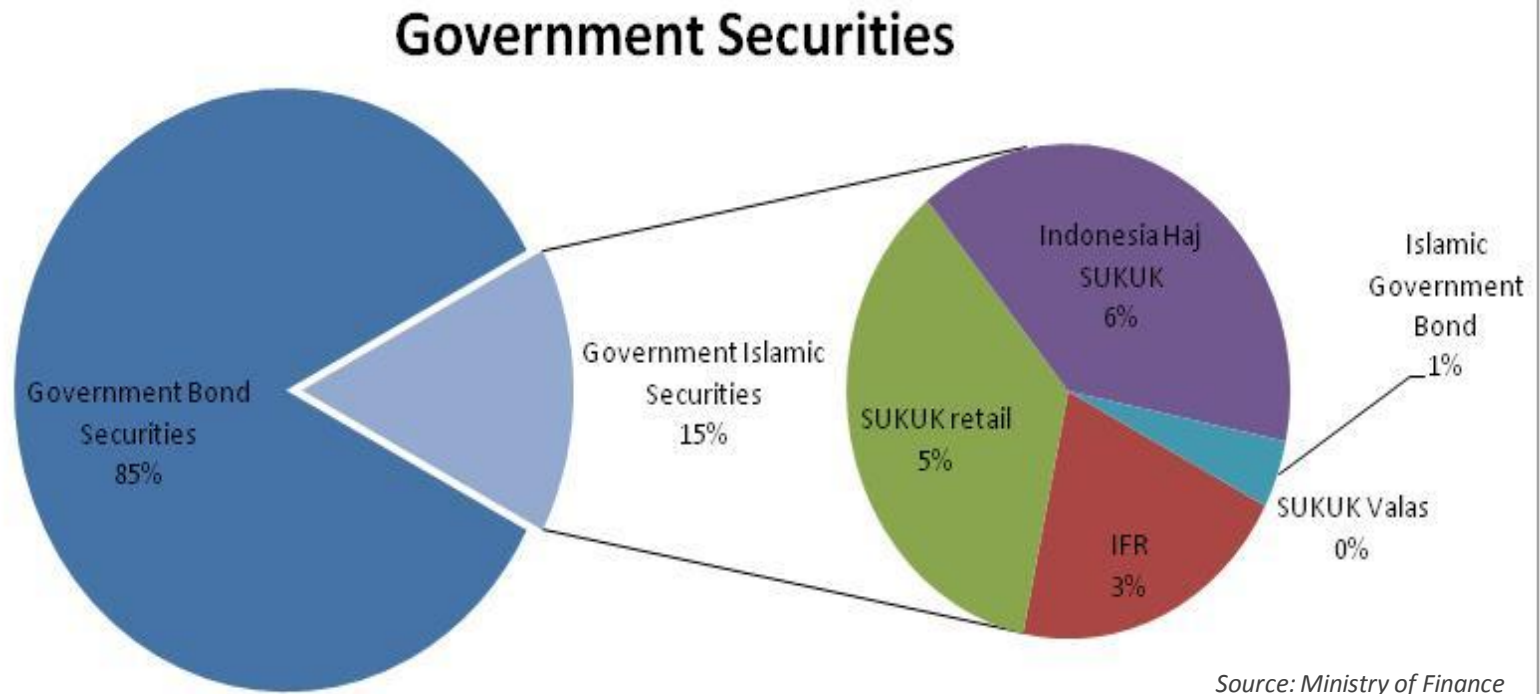
# Government Commitment



*“Indonesia has opportunity to be a focal point of Islamic finance within the region even in the world, by which we could have a wider opportunity for tapping source of financing from the global Islamic finance to support national development program. In line with this, I request all related ministers and other national institutions to perform concerted efforts to develop national Islamic finance industry and put up the development of Islamic finance industry as a national agenda”.*

**(President Susilo Bambang Yudoyono, at the opening speech of the Indonesian Islamic Economic Expo, 16 January 2008)**

# Composition of Government Securities



Item	Realization on August 31, 2011 (IDR)
Government Securities	143.073.910
Government Bond Securities	122.592.500
Government Islamic Securities	20.481.410



# Islamic Equity Market

## - *Shari'ah Compliant Securities*

**Shariah Compliant Securities Listed on Bursa Malaysia**



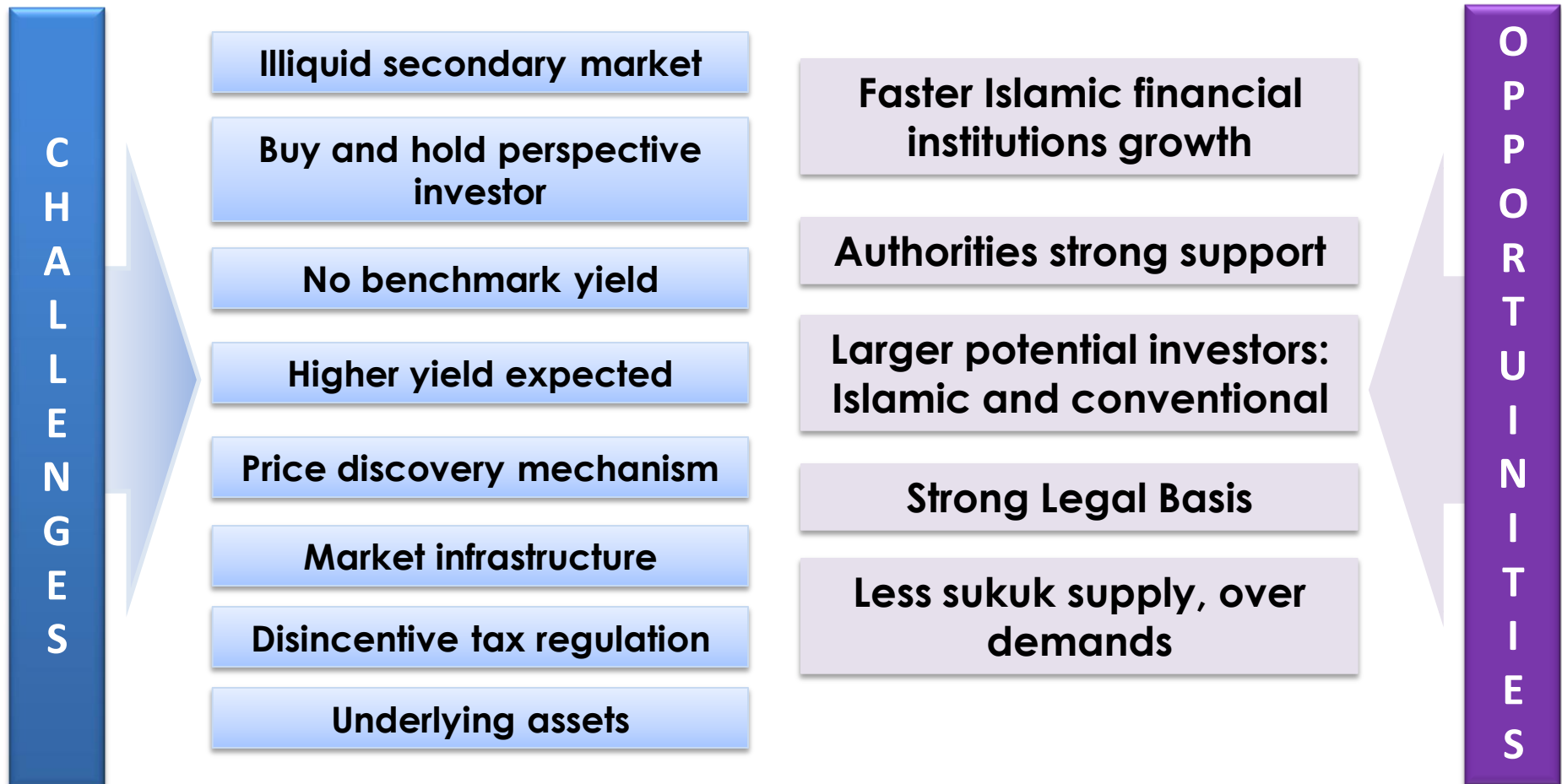
**Shariah-compliant securities on Bursa Malaysia**

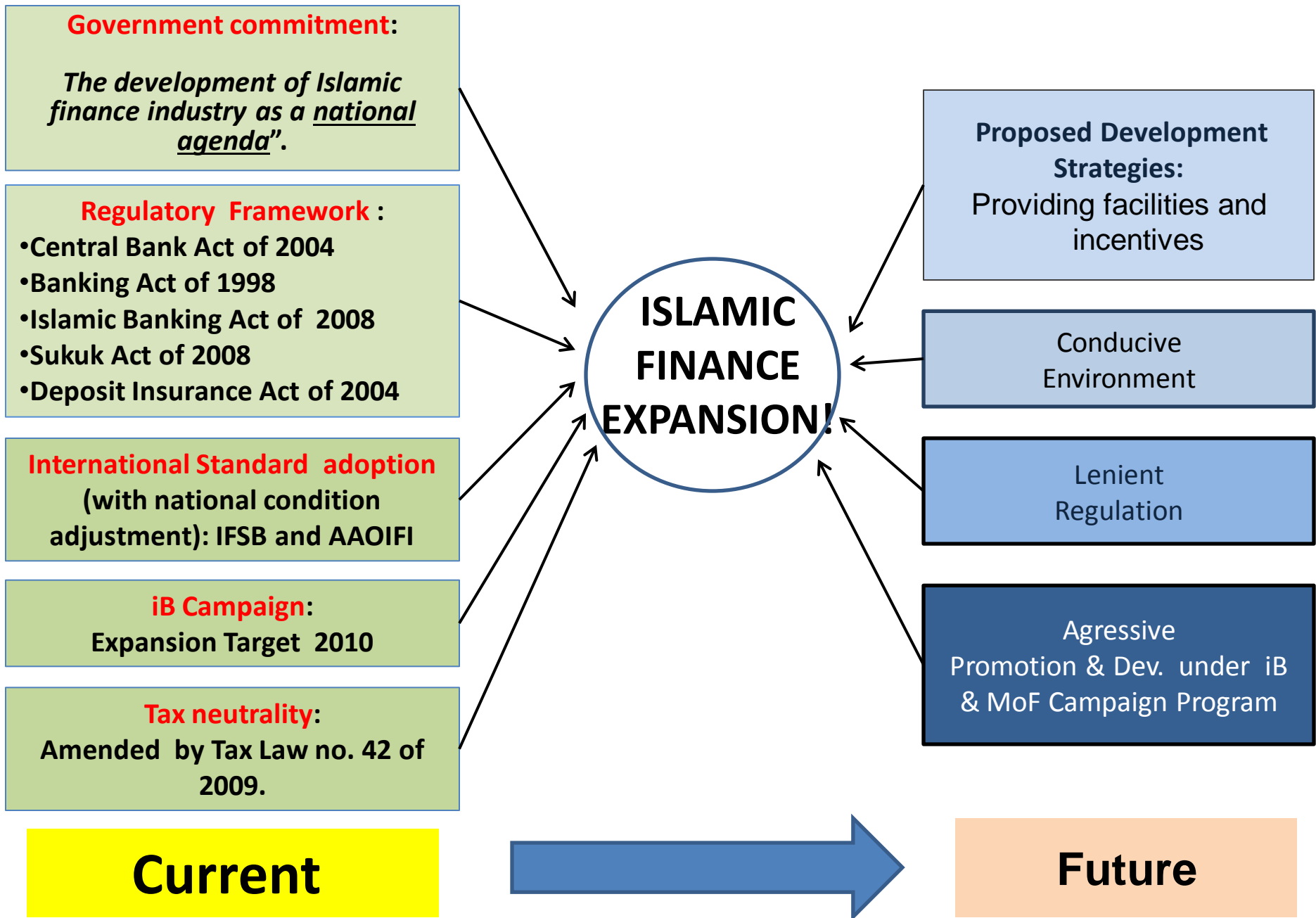
	Sept 2011	Sept 2010
No. of Shariah-compliant securities <sup>+</sup>	847	847
% to total listed securities	89%	88%
Latest market capitalisation:		
Shariah-compliant (RM billion)	723	719
Total market (RM billion)	1,172	1,150
% of Shariah-compliant securities to total market	62%	63%

+ The SAC of SC releases the updated Shariah-compliant securities list twice a year in May and November

- As at 25 May 2012, 89% of Bursa stocks are Shari'ah-compliant.
- Total of 825 Shari'ah-compliant stocks out of 930 listed securities.
- Shari'ah-compliant securities are well represented in all sectors of industry
- FTSE-Bursa Malaysia (FBM) Shari'ah indices based on internationally compliant criteria
  - ✓ FBM EMAS Shariah
  - ✓ FBM HIJRAH Shariah

# Sukuk Challenges & Opportunities (case of Indonesia)





Thank you ...





# CV Dr. Muhammad Syafii Antonio, MEd

- Muhammad Syafii Antonio, Graduated from University of Melbourne, Jordan, IIU Malaysia. He is currently member of National Economic Council of Indonesia, National Shariah Board, Chairman of Tazkia Group and rector of Tazkia University College of Islamic Economics. He published more than 30 books on finance and management and seats in number of global and national Islamic Financial institutions including Security Commission Malaysia, Bank Islam Malaysia Berhad, Bank Syariah Mandiri and Indonesian Exim Bank. In social sector he developed Tazkia Micro Finance Initiative with tens of thousands of participant mostly micro enterprises, throughout Indonesia. For his contribution he was awarded numbers of awards including the Best Shariah Practitioner Award in 2011 and nominated for IDB Prize by Ministry of Finance and King Faisal Prize in 2011.