

Fundanga: Islamic banking – building partnerships for development

Opening remarks by Dr Caleb M Fundanga, Governor of the Bank of Zambia, to the Islamic Banking Conference “Building partnerships for development”, Lusaka, 20 October 2008.

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The Guest Speaker, Mr. Ahmad Zaini Bin Othman
Chief Executive Officers of Banks and Non bank financial institutions;
Distinguished invited guests;
Colleagues;
Ladies and gentlemen;

On behalf of the Bank of Zambia and indeed on my own behalf, I would like to extend a very warm welcome to you all to this important conference on Islamic Banking. To our Guest Speaker, Mr Ahmed Zaini Othman, I wish to extend a special welcome to you to Zambia and in particular to Lusaka, the capital city. Like the rest of Zambia, Lusaka is a city of tranquility with an easygoing African charm. The city is not short of interesting sites and places to visit. I therefore urge you to find time or indeed stay an extra day or more to sample this special menu that Lusaka offers.

I also wish to extend my sincere thanks to Standard Chartered Bank Zambia Plc, the Islamic Council of Zambia and the Eastern Province Chamber of Commerce and Industry for graciously accepting to make presentations at this conference.

Ladies and Gentlemen, the Bank of Zambia is honoured and delighted to host the first Islamic Banking Conference in Zambia that begins today, the 20th and ends on 21st October, 2008.

This Conference on Islamic Banking could not have come at a more opportune time than now, when the financial sector in the country is called upon to widen financial inclusiveness. Banks and Non-Bank Financial Institutions are being encouraged to increase availability of, and access to financial services to the population through the design of new and affordable products. It is through conferences and fora of this nature, among other events, that Bank of Zambia endeavours to disseminate information and share experiences with stakeholders about the importance of developing the financial sector.

Ladies and Gentlemen, The last few decades have witnessed a rapid growth in Islamic banking both in terms of size and the number of players. Islamic banking is currently practiced in more than 50 countries worldwide. In some countries only Islamic banking is allowed while in others Islamic banking coexists with conventional banking. Islamic banking is not limited to Islamic countries. In August 2004, for instance, the Islamic Bank of Britain became the first bank licensed by a non-Muslim country to engage in Islamic banking. According to recent industry estimates, Islamic banking is set to grow at an annual rate of 15%. The increased trade between the sub-Saharan region and Islamic nations in the Middle East only reinforces our view that partnerships among the corporate players between the two regions will foster more development.

The Government of the Republic of Zambia (GRZ) recognizes that the limited access to financial services and low number of products available to the different sectors of the economy has hindered the development potential of Zambia's economy. There is need therefore, to revitalize the financial sector so that it meets the challenges of accelerated and sustained investments in key sectors of the economy.

Recent developments in the financial sector world-wide offer some encouragement that working together could extend the range and reach of financial services that are available to our people. Still a lot remains to be done to extend financial services to the majority of our people and foster ongoing sustainability of our financial institutions. It is against this

background that Bank of Zambia found it necessary to hold this Conference to deliberate on the topical concept of Islamic Banking under the theme “*Building Partnerships for Development*”. The main objectives of this conference are to get a general understanding of the operations of Islamic Banking and to share views on promoting partnership for development through Islamic Banking, draw lessons, and recommend strategies for implementing Islamic Banking in Zambia in order to improve access to financial services.

The rapid growth of Islamic Banking raises a series of important questions, such as whether Islamic Banking should be regulated differently from conventional banking. Because modern Islamic Banking is relatively new to most countries rules for financial accounting, bank governance, and lending standards are continually evolving as business practices are refined. However, a basic understanding of the concept of Islamic banking should provide a basis for determining an appropriate regulatory framework for Islamic banking.

Of particular importance to Zambia is an arrangement where borrowers can borrow without paying interest. Lending rates are very high in this country, thus making borrowing for capital investments prohibitive. This is one issue we have been grappling with for a long time. Therefore, an arrangement where borrowers can access funds for investments without paying interest, offered by Islamic Banking is worth exploring.

Mr. Chairman, over the past two years, we have noted with delight that financial institutions in Zambia are beginning to rise to the challenge by broadening the scope of their financial services beyond the traditional customers to include previously unbanked segments of society.

Ladies and gentlemen, the need to foster an enabling environment cannot be over-emphasized. In this regard, the Bank of Zambia will continue to ensure stable macroeconomic policies and development of appropriate financial sector regulations that will facilitate financial inclusion.

Ladies and Gentlemen, the introduction of Islamic banking would come with its own challenges. For us at Bank of Zambia, this entails further strengthening of our supervisory capacity. We would welcome this challenge and hope to rise to the occasion by providing adequate supervisory infrastructure and an environment for conducting good business.

In recognition of the rapid spread of the concept of Islamic banking worldwide, Bank of Zambia undertook a survey to determine the extent of the knowledge and demand for Islamic Banking among banks as a way of enhancing the regulatory preparedness. Significant findings were that the extent of the existing knowledge on, and demand for Islamic Banking in Zambia is quite limited and that currently none of the banks offer Islamic Banking services. The results also indicated that 80% of the respondents intend to introduce Islamic banking products in the near future. Further, most banks had received enquiries from their clients on Islamic banking products.

I have no doubt that this conference is very timely and that it provides a unique opportunity for stakeholders in the financial sector to share knowledge and experiences on how best to promote financial diversity and inclusiveness to all sectors of the economy by introducing and incorporating Islamic banking.

Distinguished delegates, On behalf of Bank of Zambia, I would like to thank our various presenters and panelists for accepting to help facilitate our deliberations over the next two days. I therefore, would like to appeal to all delegates to engage fully in these discussions and make the most of the wealth of knowledge generated in the house.

Ladies and Gentlemen, It is my pleasure and privilege to welcome you to the Islamic Banking Conference and officially open the Conference.