
Breakout 6: Risk Management: Islamic Financial Policies

“Sudan’s Farmers’ Commercial Bank”

Author

Ahmed Gaber (Farmer’s Commercial Bank)

Summary and Key Findings

This case study provides an in-depth examination of Islamic lending and deposit products offered by the Farmer’s Commercial Bank in Sudan. “Financing of agriculture is very risky in Sudan particularly in the absence of modern means of production to help combat frequent droughts and annual rainfall fluctuations” (p. 10). Recommendations to address risks associated with credit, capital and operations include: educational and training programs for rural clients in financial management; assessment of repayment failure so as to learn and not repeat the mistakes; and provision of targeted credit to the agricultural sector.

“Islamic Banking and Its Potential Impact”

Author

Thomas A. Timberg (Nathan & Associates, Inc.)

Summary and Key Findings

This study addresses questions about the impacts of Islamic banking in rural areas, with examples from Indonesia. Islamic lending and borrowing instruments are defined in appendix. Islamic finance provides services and products similar to other financial institutions, however issues related to risk sharing and the absence of fixed interest transactions in which risk is entirely assigned to the borrower makes Islamic finance an alternative and perhaps more attractive lending policy. The author recommends: “Donors should ensure that their assistance to financial system development includes Islamic financial institutions. This will help include otherwise excluded groups and avoid regulatory loopholes” (p 9).

“Case Study of Bank Indonesia”

Author

Maulana Ibrahim (Bank Indonesia)

Summary and Key Findings

This case study examines the development of Islamic banking in Indonesia through the experience of Bank Indonesia. Appendix provides a case illustration of the Ukabima banking network in Indonesia. Three distinctive features of Islamic finance are: the prohibition of interest for economic transactions; the prohibition of conducting gambling activities; and, prohibition of investing in (morally) non-legitimated investments (p.16). Bank Indonesia has focused strategies in order to develop the Islamic banking system. They are: improve the legal and regulatory framework to parallel the commercial banking system and further develop the dual banking system; network Islamic financial institutions in order to provide greater outreach of products and services; market and promote the Islamic banking concept to the public through human resources.
