

# P.R.I.M.E. Finance

## Panel of Recognized International Market Experts in Finance

### Islamic Finance and Sustainable Development Goals (SDG's)



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**P.R.I.M.E. Finance Annual Conference 2018**  
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# PRESENTATION OUTLINE

- INTRODUCTION
- UNLOCKING THE POTENTIAL OF ISLAMIC FINANCE
- ISLAMIC FINANCE AND SDG'S



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# Introduction

- Islamic finance is one of **the fastest-growing segments of the global financial industry**, from US\$200 billion in 2003 to an estimated US\$2.2 trillion in 2017, with global assets expected to surpass US\$3 trillion by 2020.
- The **principles of Islamic finance** that support socially inclusive and development promoting activities, the Islamic financial sector has the potential to contribute to the achievement of the Sustainable Development Goals in promoting strong growth, enhanced financial inclusion, and intermediation, reducing risks and vulnerability of the poor and more broadly contributing to financial stability and development.



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# Unlocking the Potentials of Islamic Finance

## THE STRONG FOUNDATIONS OF ISLAMIC FINANCE

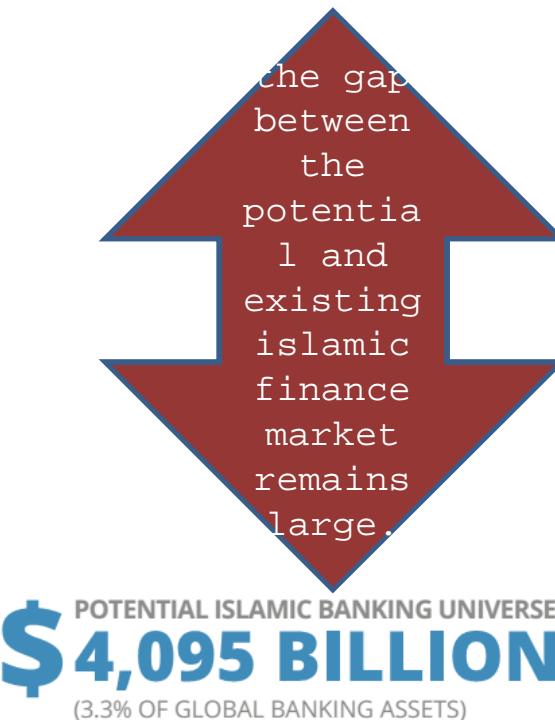
IF has principles that would support good finance, namely:

- Fair and equitable tools for Risk appetite and allocation (rejection of riba, gharar, maysir, qimar, and darar).
- Social welfare tools to leverage concessional finance
- Connection between finance and real economy

## ISLAMIC MICROFINANCE

- It is estimated that 72% of people living in muslim-majority countries do not use formal financial services.
- The estimated size of Islamic microfinance today is \$628 million in managed assets (2011) , which is 0.8% of the estimated total global Microfinance market of \$78 billion (2011)

**\$ 2012 CURRENT ISLAMIC FINANCE ASSETS  
1,354 BILLION**  
(INCLUDES BANKING, TAKAFUL, SUKUK, FUNDS, OTHER FROM DISCLOSED DATA)



## FINANCIAL INCLUSION

It is the key for escaping poverty status.

Queries:

- The poor access to Islamic finance?
- The Islamic finance penetration to the poor?

## WAQFS & ZAKAT

- The market is large and extends globally with large private waqfs & zakat (e.g alrajhi waqf, saudi arabia) to large number of Government managed waqfs & Zakat

Source: Thomson Reuters' Report State of the Global Islamic Economy 2013





# ISLAMIC FINANCE AND SDG'S



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# *How to link Islamic Finance to SDG 3*

Goal 3: Ensure Healthy Lives and Promote Well-being for All At All Ages

## Case Study: Sukuk for vaccine fund

- The International Finance Facility for Immunisation Company (IFFIm) today issued its inaugural Sukuk, raising US\$ 500 million for children's immunisation in the world's poorest countries through Gavi, the Vaccine Alliance.
- This landmark transaction is the first socially responsible Sukuk with funds to be utilised for this purpose.



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## *How to link Islamic Finance to SDG 4*

# Goal 4: Ensure Inclusive and Quality Education for All and Promote Lifelong Learning

- CASE STUDY:
  - SUKUK IHSAN: the Malaysia's first Sustainable and Responsible Investment (SRI) issued by Khazanah Nasional Berhad and exclusively offered to institutional investors.
  - The proceeds were channelled to Yayasan AMIR, a not-for-profit organisation incorporated in 2010 to improve the accessibility of quality education in Malaysian government schools.

TERMS & CONDITIONS OF THE RETAIL OFFERING	
Issuer	: Ihsan Sukuk Berhad
Obligor	: Khazanah Nasional Berhad
Amount	: Up to RM100 million including a retail portion of RM5 million
Tenure	: 7 Years
Profit Rate	: If KPIs are not met 4.60% and redemption at 100%
	: If KPIs are met Reduced to 4.20% via a mandatory reduction of 3.18% of the principal by redeeming the SRI Sukuk at 96.82%
Waiver Option	: Investors may waive the principal value and profit invested at any time during the tenure of Sukuk Ihsan

HOW KPIs ARE MEASURED	
<b>Number of Trust Schools</b>	Minimum of 20 identified schools are selected during the term of the sukuk
<b>Senior Leadership</b>	Minimum of 50% of the senior leadership team of the identified schools are highly proficient in enabling positive and relevant learning environment
<b>Teachers</b>	Minimum of 50% of the teachers of the identified schools are at establishing level or above
<b>Students</b>	Minimum of 50% of students of the identified schools demonstrate positive values and at least 75% of the student population are able to pass the national literacy & numeracy test



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**7** AFFORDABLE AND CLEAN ENERGY



## *How to link Islamic Finance to SDG 7*

**Goal 7: Ensure Access to Affordable, Reliable, Sustainable and Modern Energy For All**

**1/4 of all humans live without electricity — approximately 1.6 billion people.**



## **Case 2: Saudi Electricity Global Sukuk**

- Saudi Electricity Global Sukuk Co Issue SAR 4.5 bln sukuk al-istithmar.
- Proceeds will be used to fund the development of power plant and utilities in Saudi Arabia.



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## *How to link Islamic Finance to SDG 9*

### Goal 9: Build Resilient Infrastructure, Promote Sustainable Industrialization and Foster Innovation

- Investments in infrastructure – transport, irrigation, energy and information and communication technology – are crucial to achieving sustainable development and empowering communities in many countries.
- **Case Study: Housing Project Development:**

Bank Islam Malaysia Berhad in collaboration with Jabatan Agama Islam Pulau Pinang and a property development Company cooperate in developing Affordable Housing Development through Al-Waqf Home Financing-i. 76 residential and 9 commercial lots has been built in Penang (project worth RM 24 mil).



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## *How to link Islamic Finance to SDG 12*

### Goal 12: Ensure Sustainable Consumption and Production Patterns

- Sustainable consumption and production aims at “doing more and better with less,” increasing net welfare gains from economic activities by reducing resource use, degradation and pollution along the whole lifecycle, while increasing quality of life.

#### CONCERN:

- Each year, an estimated one third of all food produced – equivalent to 1.3 billion tonnes worth around \$1 trillion – ends up rotting in the bins of consumers and retailers, or spoiling due to poor transportation and harvesting practices.

#### Case Study:

- **Agriculture Development:** Agrobank, in collaboration with BERNAS launched an initiative to improve productivity of paddy and farmers' standards of living. Agrobank provides working capital (RM50 mil) to farmers while BERNAS provides free technical consultation.



# BNM and Value Based Intermediaries (VBI) Initiatives

- The VBI initiatives by Central Bank Malaysia (BNM) aims in **creating an enabling environment** for financial institutions in Malaysia to adopt relevant practices, offerings and conduct that **generate positive and sustainable impact to the economy, community and environment**, without compromising the financial returns to shareholders.
- BNM requires FI to ensure that the intent, strategy and performance of their businesses are **premised on the underpinning areas of VBI** that will eventually **create values to the stakeholders**.



The underpinning Thrusts of VBI



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# Transforming the Landscape of Malaysian Islamic Finance Industry

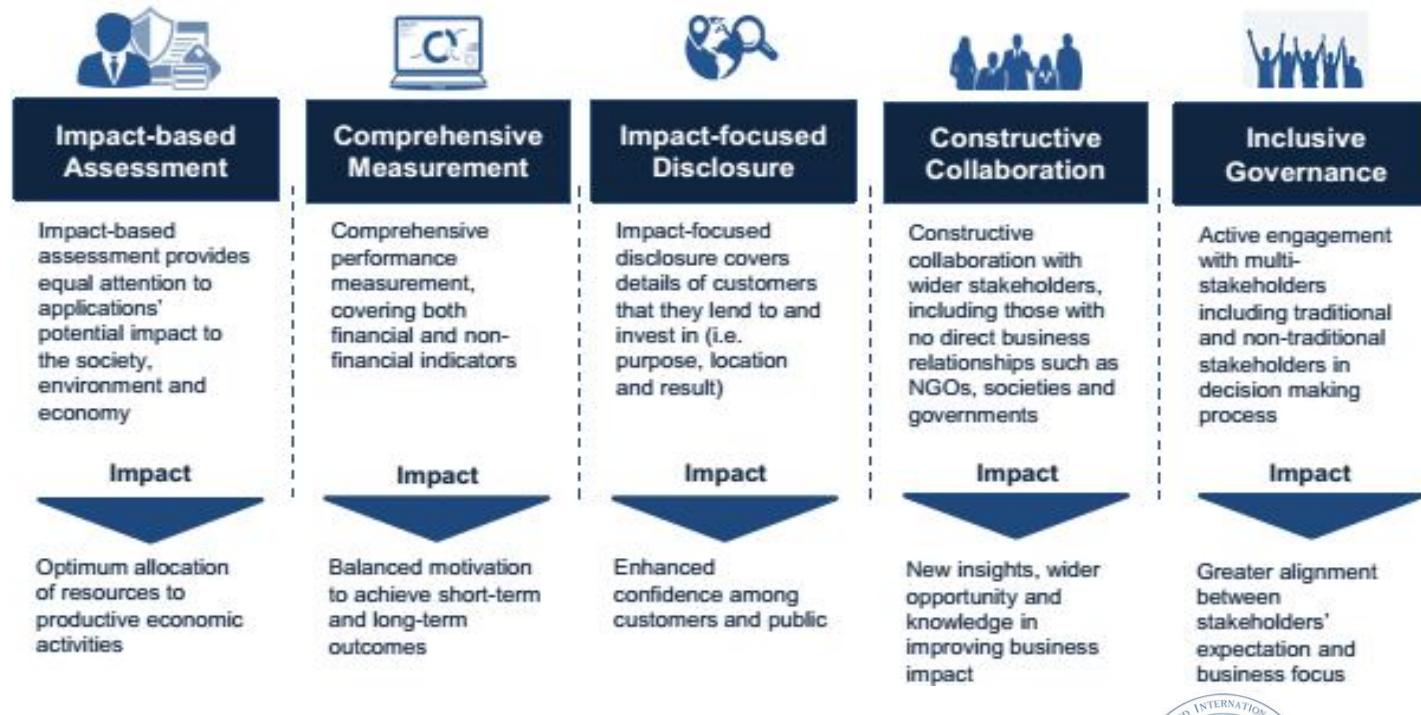
- VBI will transform the landscape of Islamic finance industry in Malaysia:

Perceived Current Financial Landscape	Envisioned Future Financial Landscape
 Driven by short-term and narrow bottom line	 Driven by long term and wider objectives (profit, people and planet)
 Performance measurement focuses on financial aspect	 Performance measurement considers both financial and non-financial aspects
 Innovation mainly to create competitive advantage for shareholders and players	 Innovation to create values for all
 Good conduct driven by regulation	 Impact-based approach that fosters good conduct
 Minimal roles of other stakeholders	 Meaningful and active roles of key stakeholders (consumers, employees and public)



# Transforming the Practices of Malaysian Islamic Finance Industry

- Some Expectations on the Value-based banking practices:



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# Strategies to Create Enabling Environment for VBI Implementation

- The BNM, in collaboration with other stakeholders, will promote a conducive environment through the following strategies that aim to expedite implementation of VBI initiative:

 <b>Nurturing Potential Champions</b>	 <b>Enhanced Disclosure</b>	 <b>Strategic Networking</b>	 <b>Performance Measurement</b>
<ul style="list-style-type: none"><li>The regulator will nurture potential champions or leaders to showcase success stories.</li></ul>	<ul style="list-style-type: none"><li>IBIs to enhance disclosure on their commitment, implementation strategies and KPIs.</li></ul>	<ul style="list-style-type: none"><li>The regulator will develop a strategic collaboration with established value-based communities, key partners and stakeholders.</li></ul>	<ul style="list-style-type: none"><li>The regulator, in collaboration with industry players will develop and introduce "value-based scorecard" as a common and complementary measurement.</li></ul>



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# THANK YOU



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