

ACHIEVING SUSTAINABLE DEVELOPMENT GOALS THROUGH ISLAMIC SOCIAL FINANCE

SPECIAL PRESENTATION KLIFF 2019

10 April 2019 (11am – 11.15am)

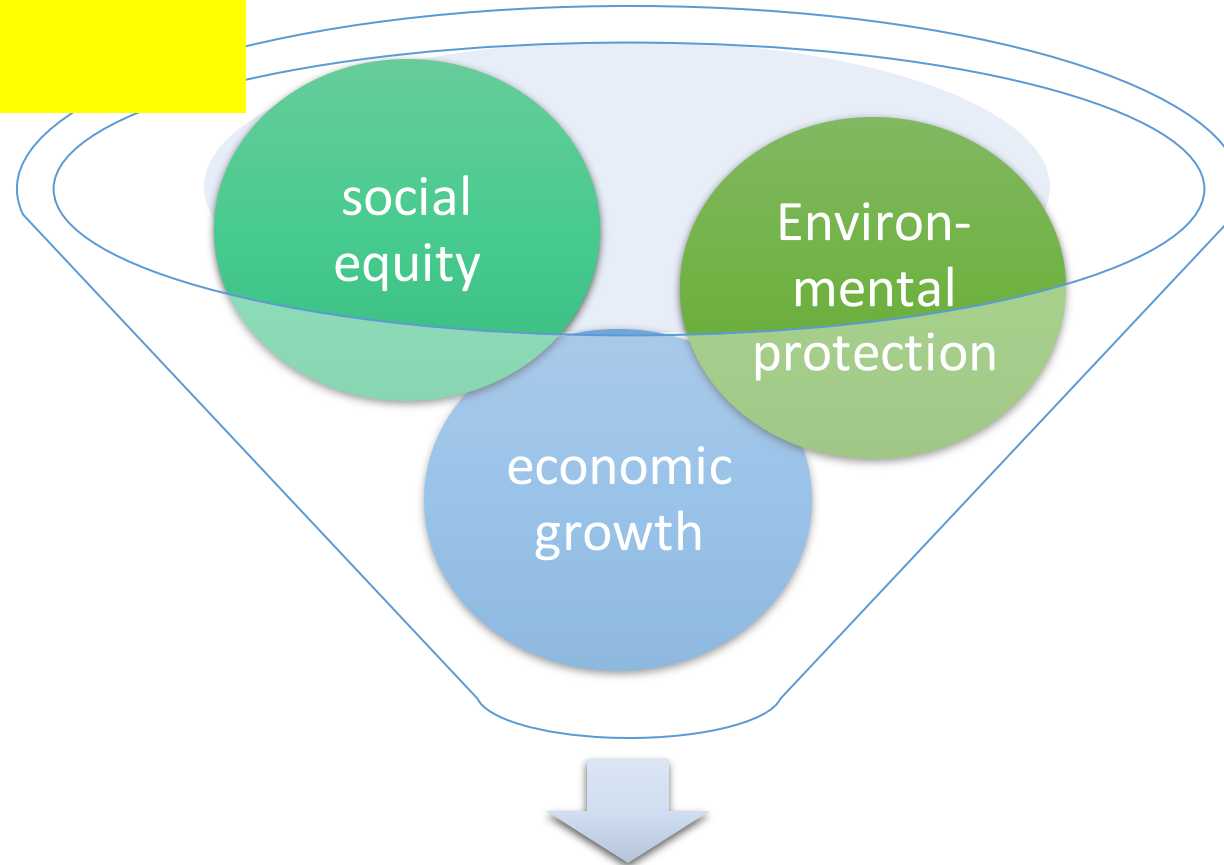
SUSTAINABILITY: THE BACKGROUND

- Sustainability is the buzz word now. Everyone is talking about sustainability
- It seems that in the past decades, there had been a growing realisation that lasting prosperity cannot be achieved through pure profit maximisation at the expense of everything else that matters in this planet
- It became clearer that economic development, often at the cost of ecological health & social equity did not lead to long-lasting prosperity
- This is evidenced by the fact that after decades of efforts to raise living standards through extensive industrialization, many countries were still dealing with economic woes & even extreme poverty; not to mention numerous social ills and environmental issues

SUSTAINABLE DEVELOPMENT

- This led to the acknowledgment that the world needs to find a way to harmonize economic prosperity with ecology & society well-being
- Hence, in 1983, the United Nations commissioned former Norwegian prime minister Gro Harlem Brundtland to lead the World Commission on Environment & Development (WCED) to look into this issue
- Four years later, the team came out with the Brundtland Report 1987, “Our Common Future”
- The Report famously defines sustainable development as:
- “Development that meets the needs of the present without compromising the ability of future generations to meet their own needs.”

The Report highlighted 3 pillars of sustainable development



LASTING PROSPERITY.

THE CONCEPT OF SUSTAINABLE DEVELOPMENT

- The concept of sustainable development under the Report focused on:
 - finding strategies to promote economic and social advancement in ways that avoid environmental degradation, over-exploitation or pollution; and
 - side-lined less productive debates about whether to prioritize development or the environment.

SUSTAINABLE DEVELOPMENT GOALS

- Following the Brundtland Report 1987, the UN has developed various plans & initiatives to materialise the noble recommendations made
- These include the Millennium Development Goals (MDGs) of 2000 – 2015, followed by the Sustainable Development Goals (SDGs) of 2015 – 2030
- Now the SDGs are the global development agenda that set the stage for ambitious development goals behind which the world must rally

UN'S SUSTAINABLE DEVELOPMENT GOALS



THE ROLE OF ISLAMIC FINANCE & ISLAMIC SOCIAL FINANCE?

- Financing is needed to support the SDG agenda
- For developing countries, the required investment for the SDGs would be approximately US\$4.5 trillion per year, with an additional requirement of US\$3.1 trillion (UNDP, 2016).
- Islamic finance as one of the fastest-growing segments of the global financial industry, growing from US\$200 billion in 2003 to US\$2 trillion in 2017; must definitely play a role in supporting the SDGs
- The inherent philosophy & principles underlying Islamic finance strongly support the 3 pillars of sustainable development, i.e., environment, social equity & economic growth
- Islamic Social Finance in particular is well positioned to positively contribute towards achieving the SDGs

WHAT IS SOCIAL FINANCE?

- Social finance is an approach to managing investments that generate financial returns while including measurable positive social and environmental impact (Deloitte, 2018)
- Social finance is now a multibillion dollar market that encompasses: ethical investment (including finance for green businesses), community investment to support economic development in deprived areas, ‘impact investing’, investment in developing countries, co-operative and mutual finance, along with a wide range of initiatives in the financing of philanthropic ventures, not-for-profits and social enterprises, new approaches to the funding of public services, ‘crowdfunding’, microfinance, and much else besides (Nicholls, Paton & Emerson)

ISLAMIC SOCIAL FINANCE

- Islamic social finance is a social-based financing or investment mechanism which promotes economic and social well-being of the people, while at the same time keeps the ecological balance of the environment, in line with the principles of Sharī'ah and its objectives
- The instruments of Islamic social finance can be divided into two broad categories:
 - i. traditional instruments that are based on philanthropy (*zakah*, *sadaqah* & *waqf*) and cooperation (*qard* & *kafalah*); and
 - ii. innovative modern instruments that are based on responsible investments, financial inclusion and impact investing (e.g. SRI Sukuk, Islamic microfinance, Islamic crowdfunding)

ISF & SDGs - CASE STUDY OF TRANSFORMATIVE POWER OF INTERNATIONAL ZAKAT INITIATIVE

- IFRC Pilot Project at one of the poorest districts in Kenya
- Background:
 - One of the worst draught in Kenyan history – crisis point in early 2017
 - At the peak – 2.7 million people needed relief assistance
- Goal: provide access to water, food & healthcare – then to recover & rebuild their lives

CASE STUDY: THE TRANSFORMATIVE POWER OF INTERNATIONAL ZAKAT INITIATIVE

- Source of funding: zakat from MAIPS
- Recipient: Kitui in Southern Central Kenya – identified as the worst affected part of the country – satisfied MAIPS requirements:
 - Clear need for humanitarian assistance – qualifying them as asnaf
 - Opportunity to rewrite zakat narrative – zakat can contribute for international humanitarian development projects for community in need
 - Showed that ISF can provide more than charitable disaster relief – but also create sustained impact & shared prosperity

CASE STUDY: THE TRANSFORMATIVE POWER OF INTERNATIONAL ZAKAT INITIATIVE

- Intervention: two pronged (costing US\$1.2 mill):
 - Water access – repair & install new bore holes & pumps – up to 30 – provide clean water & livelihood opportunity
 - Cash crop – purchased certified green gram seeds – distributed to 175,000 subsistence farming families (2 kg each) – anticipated to yield approx. 180kg of harvest per family (US\$1/kg) – total yield expected – 36,000 metric tonnes valued at US\$36 mill

CASE STUDY: THE TRANSFORMATIVE POWER OF INTERNATIONAL ZAKAT INITIATIVE

- Result:

- Access to clean water
 - Sustainable cash crop
- } Available for more than 1 million people across the county of Kitui
- Water kiosk & distribution – create business, employment & funding for ongoing maintenance of the water pumps
 - Sale of green gram:
 - Total yield – 20,000 metric tonnes – valued at US\$20 mill (due to lower rainfall than anticipated)
 - provide welfare to community: food, healthcare, education + cash to buy more seeds for the next crop
 - Initial zakat recipient now became a contributor – Farmers of Kitui paid back the cost of initial 2kg of seeds that they received – funds available again for investment in the next neighbouring county of Garissa that suffered similar level of hardship

ONE OF THE KEY SUCCESS FACTORS FOR THE PROJECT

- Application of forecast financing – transformative impact facilitated by application of data, technology & futures analysis in the form of forecast-based financing – identified:
 - the district likely to be hardest hit
 - the most successful crop to grow in difficult circumstances
- Green gram was the only successful crop, with no other planted crop surviving that season

KEY LESSONS LEARNT...

- Overcoming trust deficit issues – Kenya Red Cross built trust by working with the community, regular dialogue & exchanges
- Upscaling Skills – educate & train subsistence farmers on planting & nurturing green grams
- Overcame logistic issues – e.g. repaired & replaced many water pumps with low-maintenance solar-powered pumps
- MAIPS – collaboration with IFRC – value of partnership between ISF provider & development organisation – yield most impact from ISF to people in need

EMPOWERING ISLAMIC SOCIAL FINANCE (ISF) & ITS IMPACT

ISF =
Sustainability
voice of Islamic
finance



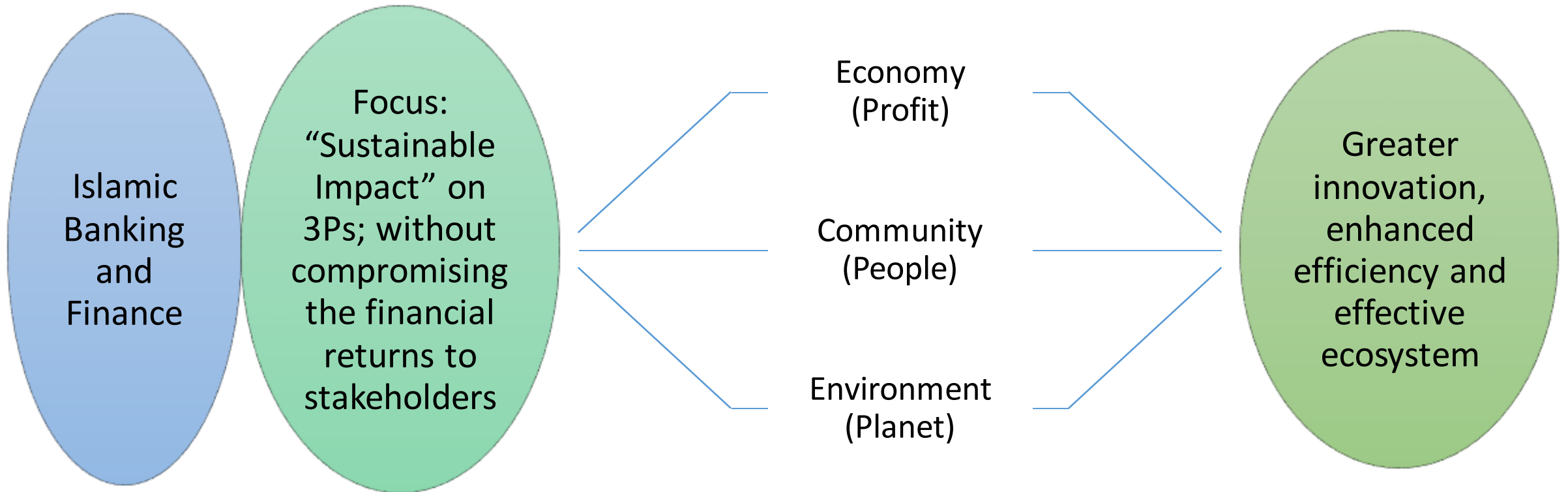
ISF with a
technology face



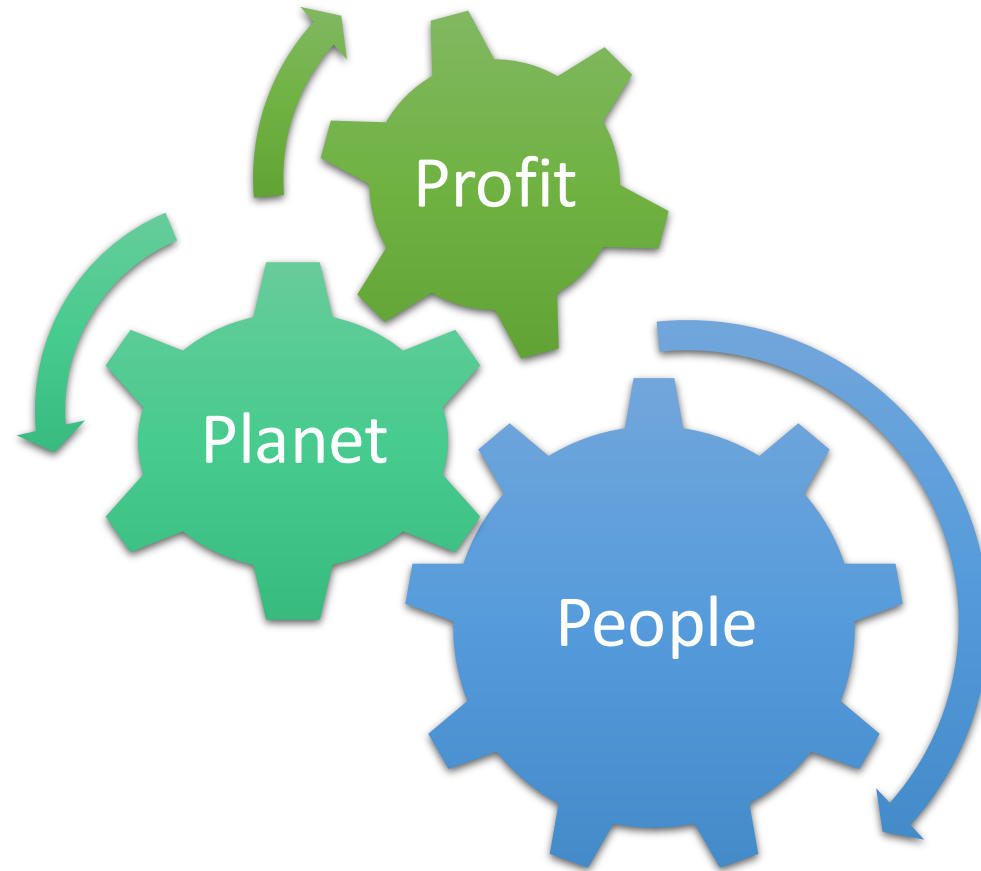
Opportunity:

- To transform the lives of people globally – better outreach & financial inclusion
- To become 4th Industrial Revolution Islamic social fintech / digital leaders but with ethical, sustainable & socially responsible underpinnings
- To accelerate growth & impact of Islamic social finance – fast, efficient, cost effective & data driven

HOW VBI CAN FURTHER DRIVE ISF?



3Ps IN VBI IS ABOUT SUSTAINABILITY



UNDERPINNING THRUSTS OF VBI



ISLAMIC SOCIAL FINANCE & SDGs



- The collection of *Zakat* is estimated to reach USD\$200 billion to USD\$1 trillion globally (Washington Post, 2018)
- It is recorded that *Zakat* collection in Britain alone reached as high as £20 million (USD\$28 million) in 2017 (The Economist, 2018).
- Finterra's model of *Waqf* chain that accepts contributions as cash *Waqf* to develop *Waqf* projects geared towards socially impactful programs that can empower communities as well as help to alleviate poverty and other social ills. (Finterra, 2019).

ISLAMIC SOCIAL FINANCE & SDGs



- Focusing on the border between Macedonia and Serbia with arrivals of 20,000 to 30,000 refugees and immigrants, Zakat Foundation of America takes a progressive effort to provide reliefs and basic needs such as cooked meals, dry clothing, raincoats and warm blankets (Zakat Foundation of America, 2019).
- Islamic crowdfunding company known as Global Sadaqah collaborates with a local based fundraising platform Kitabisa, in collecting *Sadaqat* for the survivors of earthquake in Lombok that reached 270,000 people (GlobalSadaqah, 2018). The *Sadaqat* collection is channelled to the reliable Indonesian authority responsible for the rescue efforts.

ISLAMIC SOCIAL FINANCE & SDGs



- In Pakistan, *Zakat* collection is utilised in providing Rs. 161.00 million (USD\$1.15 million) to 48 hospitals (The Nation, 2019).
- The International Finance Facility for Immunisation Company (IFFIm) issued its inaugural SRI Sukuk, raising US\$500 million for children's immunisation in the world's poorest countries through Gavi, the Vaccine Alliance.

ISLAMIC SOCIAL FINANCE & SDGs



- In lessening the adverse impact from losses of Indian soldiers, the education of children of the deceased officers is supported through *Zakat* collection made by *Zakat* Foundation of India (The Siasat Daily, 2019).
- SRI Sukuk Ihsan issued by Khazanah Nasional Berhad – 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.

ISLAMIC SOCIAL FINANCE & SDGs



- In Malaysia, the first SRI Green *Sukuk* related to renewable energy is Tadau Energy *Sukuk* worth RM250 million (USD\$61.44 million), issued in July 2017 (MIFC, 2017).
- This is followed by a huge issuance by Quantum Solar of RM1 billion SRI Green *Sukuk* in October the same year (Malaysian reserve, October 8th 2017).
- Indonesia then became the first country to issue a sovereign green sukuk in Feb 2018 with a US\$1.25 billion, five-year sukuk to finance climate or environment related projects, such as renewable energy, sustainable transport, waste management and green buildings (Financial Times, February 23, 2018)

ISLAMIC SOCIAL FINANCE & SDGs



- In Indonesia, Islamic microfinance is proven to be a success in empowering women through Misykat program under the Dompot Peduli Ummat of Daarut Tauhid and BAZNAS in Bandung (Yaumidin et al, 2017)
- In Pakistan, Akhuwat, an Islamic microfinance initiative provide Islamic microfinance facilities to the poor and needy, especially women. The participants of Akhuwat are given entrepreneurial training and encouraged to contribute back in helping others (Institute of Policies Study Islamabad, 2019).
- An initiative to introduce Islamic microfinance is done by Agricultural Bank of Sudan Microfinance Initiative (ABSUMI) through Shariah compliant micro-credit, savings and micro-insurance (Ahmed and Ammar, 2015). The said Islamic microfinance is offered particularly to empower women.
- 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.

ISLAMIC SOCIAL FINANCE & SDGs



- Ethis Ventures - Islamic crowdfunding company, launched a digital platform to collect *Sadaqat* for educational, social, and religious projects in Indonesia - raised funds in building a bridge for a small village in Sulawesi and 40,000 copies of Qur'an for 806 schools across Indonesia (Salaam Gateway, 2017).
- 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 residentials and 9 commercial lots has been built in Penang (project worth RM 24 mil)

ISLAMIC SOCIAL FINANCE & SDGs



- An orphanage sponsorship based on *kafalah* is consistently done in Indonesian Aceh Pidie and Aceh Utara, especially since the aftermath of 2004 tsunami tragedy. The program is a collaborative initiative by the Islamic Development Bank (IDB), the OIC and zakah management institutions. The total fund collected for the programme reached IDR 10.9 billion (BMM, 2016). The said program with contribution from the Baitulmaal Muamalat (one of the zakah management institutions) also provides training and rehabilitation programs. It covers activities such as handicraft, machine repairing, hand phone services, tailoring skill and basic computer training (BMM, 2016)

WAY FORWARD

- Smart partnership & collaboration
- Data & technology driven intervention
- Proper planning to avoid redundancy & overconcentration/lack of diversification