Suruhanjaya Sekuriti
Securities Commission
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ENHANCING THE VALUE OF ISLAMIC CAPITAL MARKET THROUGH SOCIAL AND IMPACT INVESTMENT

Proceedings of the SC-OCIS Roundtable 2018

24-25 March 2018
Kuala Lumpur
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9TH SC-OCIS ROUNDTABLE 2018

ENHANCING THE VALUE OF ISLAMIC CAPITAL MARKET THROUGH SOCIAL AND IMPACT INVESTMENT

24-25 March 2018 ◆ Kuala Lumpur

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Enhancing the Value of Islamic Capital Market Through Social and Impact Investment

WELCOME ADDRESS

Tan Sri Dato' Seri Ranjit Ajit Singh
Chairman, Securities Commission Malaysia

WELCOME REMARKS

Dr Farhan Nizami
Director, Oxford Centre for Islamic Studies, UK

SPECIAL KEYNOTE ADDRESS

HRH Sultan Nazrin Muizzuddin Shah
Sultan of Perak, Malaysia and Royal Patron for Malaysia's Islamic Finance Initiative

WELCOME ADDRESS

TAN SRI DATO' SERI RANJIT AJIT SINGH

Chairman, Securities Commission Malaysia

Trends towards Climate Change and Social Impact

In identifying new imperatives for the Islamic capital market (ICM), it is important that we continue to build upon an ecosystem that supports sustainable growth. Today, sustainable and responsible investment (SRI) has become an agenda of global importance. It is driven by a conscious understanding that status quos must evolve to offer solutions to the pertinent concerns of our time. This is an emerging issue for which Islamic finance is well placed to provide key leadership.

Over the years, we have seen numerous institutions and corporations expressing a keen interest in participating in social finance and the impact investing movement. Therefore, this year's theme 'Enhancing the Value of Islamic Capital Market through Social and Impact Investment' certainly demonstrates that a strong pursuit is being made in developing an intellectual body of knowledge.

This transition to an enabling and sustainable economy would require a facilitative regulatory framework and ecosystem that provides the appropriate incentive structures intended to galvanise participation both from businesses

Note: Tan Sri Dato' Seri Ranjit Ajit Singh retired as Chairman, Securities Commission Malaysia on 31 October 2018.

as well as investors. This can be accomplished if there is trust and confidence towards socially impactful and green financial products to provide access for retailers as well as the institutional investors in delivering long-term social impact.

Green projects would be vital to reduce environmental degradation and alleviate issues such as poverty, which will in turn, bring forth greater social impact and economic stability. Pertinence of social impact however does not only encompass socially responsible conduct but also ensures that benefits are shared across societies for better living conditions as well as better use of natural resources and public infrastructure. Therefore, impact investment is a vital tool to advance ICM's value proposition. The capital market is able to influence change based on the premise that they provide intermediation and platform for capital mobilisation across various sectors and industries.

Institutional investors play a key role in influencing the companies that they invest in to adhere to their environmental, social and governance (ESG) obligations. As investors increasingly demand that companies take into account wider social and environmental factors, markets are poised to become more in-tune with the principles of sustainability. Certainly, demand for sustainable and responsible investing globally will create significant opportunities for Islamic finance to demonstrate its leadership in this segment and continue to provide a key value proposition to investors.

Incorporating sustainability principles into ICM

As in the past SC-OCIS Roundtables, we have often touched on the essence of *halalan toyyiban*, or *halal* and wholesome. In the context of Islamic finance, it relates closely with the concept of not just avoiding the *haram* but also achieving positive social outcomes.

It is therefore a natural progression to consolidate SRI into Islamic finance as both are aligned and share common principles and values such as social responsibility, shared prosperity and sustainable growth.

The attainment for sustainability through, for example, green and social impact initiatives are in essence 'good' and are therefore consistent with the principles of Islamic finance. Under the objectives of Shariah, the protection of *maal* or property is one of the pillars, and the preservation of the environment and society falls under this objective.

Therefore, in recognising the significance of this alignment, the Securities Commission Malaysia (SC) has driven an agenda towards developing sustainable and responsible investing as part of the development of Malaysia's Islamic capital market. Since 2014, the SC has been looking at creating an enabling ecosystem around this area. We introduced the SRI Sukuk framework in 2014 followed by the *Islamic Fund and Wealth Management Blueprint* in 2016. We then launched our *SRI Funds Guidelines* at the end of 2017. Sustainability is a priority area for the SC; as such, we will continue to work with the industry to pursue this agenda moving forward.

Green Sukuk and Green Bond Initiatives

Global infrastructure investment estimates show that by 2030 the world needs up to US$90 trillion worth of investments, which presents a significant opportunity for green finance to be part of mainstream investment and financing solutions.

In Asia, we are seeing strong impetus in sustainable and green finance. This region requires US$1.7 trillion a year for infrastructure investments, of which green financing makes up a significant portion. This has translated into key Asian economies including Malaysia, Indonesia and China issuing green sukuk and green bonds as we have seen recently and there are moves by countries within the region to take similar steps. This has also been reinforced by discussions that we had with the Asian Infrastructure Investment Bank whose president was here in Kuala Lumpur a month ago.

In Malaysia, the close collaboration between the SC, World Bank and Malaysia International Islamic Financial Centre (MIFC) as a working group has led to direct engagements with the industry in this area. This has culminated in the issuance of the world's first green SRI sukuk by Tadau Energy in July 2017 which has won several awards in this area. This momentum has led to several other SRI sukuk issuances and we have to date, RM2.2 billion worth of issuance with several more expected in the pipeline moving forward.

We are also involved through the ASEAN Capital Market Forum's (ACMF) Green Finance Initiative to establish green bond standards. The *ASEAN Green Bonds Standards* was launched in November 2017. As noted in a meeting of the ACMF recently, there has been several issuances including the first by PNB Merdeka Ventures which issued a green sukuk under this framework. The Indonesian sovereign sukuk issued in 2018 is also based on the alignment of this green bond standards.

Recent Development in Waqf and SRI Funds

Over the course of the last decade, we have certainly seen a great degree of pioneering exhibited within the domestic ICM ecosystem. I believe that this has contributed deeply in advancing both Malaysia's ICM and our standing as the largest SRI market in Asia excluding Japan. These developments have also benefited greatly from the discussion that we have had in these SC-OCIS roundtables.

With the added dimension of deploying instruments that are anchored upon the betterment of society, I can safely say that the ICM's value proposition will be elevated further.

WELCOME REMARKS

DR FARHAN NIZAMI

Director, Oxford Centre for Islamic Studies, UK

There is an urgent need in the fast-industrialised economy to reorient the economic efforts. These needs were always obvious in pre-modern traditional societies where economic considerations were contained within the same rationale be that in the form of legal, political, ethical or even aesthetic considerations.

After the economic instability that accompanied the banking crisis of 2008, there were signs of severe acceleration in the destabilisation of the climate, its likely impact on food production and its impact on non-human inhabitants of the planet. There has been a growing realisation that we need to stabilise the profit motives urgently. These needs, that are recognised in contemporary capitalist economies, is another welcome instance of the possible convergence of modern and premodern economics. Islamic economics is so called because its philosophy is grounded in the guidance of religion for human relationships including economics relationship and regulated by the Shariah. Shariah is understood as a flexible framework within and by means of which the terms of contract between contracting parties can be legally determined for different material situations and conditions.

As a mainstream Islamic tradition, there is no necessary opposition between the pursuit of virtue and happiness. Accordingly, generating growth and profit is a religious good. This is the case only so long as profit is seen as an indicator of the success of an economic transaction, and is not regarded as its only or primary purpose. Profit should be viewed as a measure of economic efforts, not its end. The most important mechanism to prevent the confusion of economics means and ends is the obligatory *zakat* or alms tax. Its primary aim is to prevent believers from becoming obsessed with their worldly possessions.

Second, because the religion specifies how the *zakat* should be allocated, it also functions as an economic mechanism for the relief of need in the community and an encouragement to the circulation of wealth. The law governing inheritance also serves to undo concentration of wealth, power and status. There is also commonalities in Islam and other religions through voluntary charity, and the tradition has a rich history of private funding of public goods such as schools, hospitals, fountains, roads, irrigation works and so on. The concepts of public goods extend to a distinctive understanding of the special status of common or shared the sources such land, water and air and to a certain extent of what can be mined from the land or the sea.

Islamic traditions consist of human economic endeavours associated with a network of mutual obligations that are obtained in all communities and dependent on the well-being of the resources on which the community collectively depends. As another pre-modern tradition, the idea of absolute unconditional ownership of property is alien to Islam and Islamic law. Similarly, the idea that the long term and downstream consequences of a business operation as an external cause that is not part of its business nor responsibility, has no equivalent in Islamic or pre-modern traditions. Thus, pre-modern economics is already primed to accept social impact investment because it already thinks of economics efforts as embedded within social obligations. But can those investments actually being delivered in the contemporary environment?

Among Islamic economists, there is a presumption that Islamic economic models are potentially superior to those of conventional economics because they promise fairness in their distribution of wealth and greater concern for the community's long-term interest notably the preservation of the natural resources from which its economic prosperity arises. Relative to the conventional model, the 'Islamic' heads or tails deduction in mere profit terms is not leading to any economic instability and justice.

Unfortunately, Harvard's Islamic economists also tell us that it is difficult to implement their models long enough to prove their works decisively. The main reason is in attempting to achieve parity with the competing conventional economics, whereas in reality, Islamic financing and investing ends up doing the same things as its conventional equivalent with the superficial, renaming of contracts and deliberation of legal arrangement to make transaction appear Shariah compliant. It is not surprising that the objectives of economic stability and fairer distribution are not achieved in the Islamic society. Moreover, the whole effort of Islamic financing and investing can be fitted in vastly larger conventional system as a niche market with a few nicely worded regulations and mission statements.

No doubt that many global corporations are sincerely concerned about how everyday social needs like nutrition, housing, health, education, etc., can be met by those in very low or negative incomes. It is proposed that private-public partnerships should provide these services since most governments claim that they cannot afford them. In the absence of the *zakat* incentives to improve the self and reorient motivations, I do not see what is there to deter private interest from demanding and enabling framework, tax exemptions and incentives flexibility of labour laws and dictating contracts that do not adequately specify the services to be delivered or liabilities for failures. This allows them to be the financial and human resources of non-profit entities of public agencies. Philanthropies can be done for image building and still do public good but has been confined to high profile projects, museums, universities, long-term research, religious building, art, sports and others. Everyday service of concern here promised no return in prestige but do offer a temptation of public money.

The social impact investment concept that has been theorised will be able to explain how it can be implemented so that we can avoid such dangers.

SPECIAL KEYNOTE ADDRESS

HIS ROYAL HIGHNESS SULTAN NAZRIN MUIZZUDDIN SHAH

Sultan of Perak, Malaysia and Royal Patron for Malaysia's Islamic Finance Initiative

Today, as finance has been progressively widening its objectives to include social, sustainable, responsible and environmental considerations, the need for Islamic finance to capitalise on these broader trends has become even more crucial.

Humanity is constantly faced with major challenges. Over the last quarter of a century, around a tenth of the Earth's wilderness has been destroyed. If current trends continue, future generations may be deprived of the beautiful natural surroundings that God has adorned the world. Such a scenario presents a serious threat not only for the endangered species but also to mankind itself.

Climate change is referred to by some economists as one of the greatest market failures in human history, with potentially highly disruptive implications on the social well-being, economic development and financial stability of current and future generations. A recent report by the climate change working group of the United Nations Environment Program Finance Initiatives contain the disturbing forecast that economic losses due to climate change could reach US$1 trillion year by 2040. Nearly a third of the world's population is now estimated to be exposed to climate conditions.

There also appears to be a strong correlation between climate change and inequality in which those groups that are already in disadvantaged positions are likely to suffer disproportionately from the adverse effects of climate change which then contributes to even greater inequality.

There is a critical need to address humanitarian issues which arise due to climate changes as well as natural disasters, epidemics and geopolitical conflicts. According to the United Nations' Global Humanitarian Overview 2018, US$25 billion is required to provide aid to 93 million people who are in need of humanitarian assistance.

Concerns on the future impact of all these alarming changes as well as the need to address current issues prompted the United Nations (UN) in 2015 to introduce the Sustainable Development Goals (SDGs). This aims to, I quote, "end poverty, protect the planet and ensure prosperity for all" with targets set for the year 2030. I will not go through the 17 SDGs individually today, but I do want to refer to a speech that I delivered in December 2017 when I spoke about the congruence of each of the 17 Goals with Islamic principles. This almost complete alignment, as I contended in that speech, represents a significant opportunity for Islamic finance to play an important role in addressing the comprehensive social and environmental agenda of the SDGs.

In this regard, a joint report published by the Islamic Development Bank Group and the United Nations Development Program (UNDP) in 2017 highlighted the potential and provided recommendations as to how Islamic finance and impact investing can be jointly harnessed as enablers to achieve the SDGs. It is believed that this combination can be mobilised to contribute significantly towards US$5 to US$7 trillion annual funding that is estimated to be required over the next 15-year period to 2030.

Furthermore, the 2016 report by the UN's High-Level Panel on Humanitarian Financing, also highlighted the potentially important role that Islamic social finance can play in providing solutions to meet humanitarian needs. This is especially the case given that significant proportion of affected population are currently located in Muslim majority countries.

Apart from the initiatives of the multilateral organisations, there are further opportunities for Islamic finance in general and ICM in particular to participate more actively and constructively in supporting and achieving greater social and environmental outcomes.

Recent growth in SRI has been strong. According to the 2016 Global Sustainable Investment Review, SRI assets under management rose 25% between 2014 and 2016 to US$23 trillion, with Europe and the US accounting for 91% of this total. Although Asia excluding Japan has remained a relatively small market with assets of US$52 billion. Malaysia is the largest SRI market in the region excluding Japan with a 30% share and this is due primarily to its pool of Islamic funds. The recognition of Islamic funds as part of the SRI universe is highly significant as it reflects the tremendous potential for the Islamic capital market to serve the global SRI segment at US$23 trillion is about 10 times the size of the entire Islamic financial services industry.

Indeed, SRI is already well-entrenched among some of the large global investors. Norges Bank Investment Management, manager of the Norwegian Government Pension Fund Global with asset size of about US$1.1 trillion, states that responsible investment is an important and integral part of its mandate and that ESG issues are taken into consideration in its investment decision.

For Japan's Government Pension Investment Fund (GPIF), fulfilling its stewardship responsibilities, which include the consideration of ESG factors, is part of its stated Investment Principles. This fund has a portfolio value of about US$1.4 trillion.

In harnessing the role of SRI, including social and impact investing, to enhance the development and value of the Islamic capital market, the importance of the millennials as a key stakeholder group cannot be ignored. The millennials as a group are relatively more sustainability-conscious than others and actively want to contribute to making the world a better place. According to a Global Investor Study undertaken by a UK-based fund management firm, Schroders in 2017 reveals that 52% of millennials often or always invest in sustainable investment funds, compared to 40% of Generation X and 31% of Baby Boomers. Engagements with Millennials on SRI, and by extension on Islamic investing, offers potentially a highly effective and productive means in gaining further traction within this market segment.

As part of efforts to address the climate change agenda, there is strong potential for green finance to thrive, and capital market instruments such as green bonds are already making good progress. The total amount of green bonds and green sukuk issued globally increased by 78% in 2017 to US$155 billion.

Malaysia is leading the drive in innovating green sukuk. The SC has underpinned its pioneering work in developing the green sukuk market through its SRI Sukuk Framework (Framework). Launched in 2014, the Framework seeks to address the funding gap in Shariah-compliant green financing among other issues. Through active engagements with the industry, the world's first green sukuk was issued in July 2017 in Malaysia to finance the construction of solar photo-voltaic power plants. Since then, three other green sukuk issuances have been issued in Malaysia and I am pleased to note that several more issuances are potentially in the pipeline. Indonesia also recently issued the first sovereign green sukuk with an issuance size of US$1.25 billion to finance projects in renewable energy, sustainable transport, waste management and green buildings.

Prior to the issuance of the green sukuk, the inaugural SRI sukuk under the SC's Framework was issued in 2015 by Khazanah to fund the development of trust schools. As a social impact sukuk, Khazanah's sukuk Ihsan was itself preceded by the immunisation sukuk issued by the World Bank Group in 2014. Both Khazanah and World Bank sukuk have had their second tranche and issuance in 2017 and 2015 respectively. This is highly encouraging as it reflects favourable market acceptance and therefore real prospects for further social impact sukuk issuances.

Another area of opportunity for combining Islamic finance with social and environmental objectives is philanthropy which includes the institution of *sadaqah* and *waqf*. Recent initiatives in this area augur well for the prospect of Islamic social finance. The launch of *Sadaqa* House by Bank Islam Malaysia in early 2018 to facilitate social finance initiatives represents a significant development in the utilisation of Islamic finance to create positive social impact.

Furthermore, the public offering in 2017 of *waqf* shares in the redevelopment of the Larkin Sentral has further broadened the Islamic social finance space and enhanced the value proposition of the Islamic capital market.

An important point to highlight in respect of these two initiatives is the fact that they both have in place necessary governance features that serve to gain the public's trust and confidence. This is crucial for attracting broad stakeholder participation and for ensuring the sustainability of the initiatives. Given the extent of *waqf* assets available in different parts of the world especially in the Muslim countries, there is a significant potential for *waqf* in particular to support or even drive the development of Islamic social finance, not just in Malaysia but also globally.

An extension of the philanthropy segment is venture philanthropy, which facilitates the development of start-up and early-stage social enterprises. Based on the venture capital model, the venture philanthropy structure is inherently Shariah-compliant and it can therefore enable Shariah-compliant social enterprises to raise funding from venture philanthropy investors who are willing to provide risk capital.

The adverse social and environmental developments that we are experiencing today call for much more concerted efforts on the part of both the government and the private sector to address the issues at hand. This requires the incorporation of the sustainable development agenda into all levels of decision-making and operations. A combination of the expertise and resources of the private sector with the policy framework and political will of the government is what necessary to achieve the desired impact and positive outcomes.

At the same time, capitalism is being 'reinvented' so that the sole objective and purpose will no longer be the pursuit of profit but will expand to include greater attention to sustainability considerations and long-term social impact. In this way, a more responsible private sector that lives up to civic-minded ideals can evolve. Given its own ideal and social objectives, it is only appropriate that Islamic finance should contribute significantly towards this reinvention.

The *maqasid al Shariah*, which is often viewed as being the foundation of Islamic finance, should also be a key point of reference in these endeavours and should form the basis for structuring a strategic roadmap for the long-term development of the Islamic finance industry – this roadmap enables the incorporation of sustainable development issues into capital markets; taking into consideration the challenges of the present, but without compromising the ability of future generations to meet their own needs. Islamic finance has to remain relevant by being involved more proactively in the global agenda that aims at alleviating poverty and inequality as well as to maintain and improve global prosperity and stability.

The substantial similarities between the underlying principles of Islamic finance and those of social and impact investment provide tremendous opportunity for the Islamic capital market in particular to capitalise on the strong growth of the broader sustainable finance and investment segment across the globe. By combining both through practicable recommendations and actionable solutions that can be implemented and operationalised, the financial industry and society can benefit at large.

OPENING SESSION

UPDATE ON ISSUES RAISED AT 8TH SC-OCIS ROUNDTABLE

PRESENTER

BADLISHAH BASHAH

Assistant General Manager, Islamic Capital Market Development, Securities Commission Malaysia

The theme of the 2017's Roundtable was 'Creating Shared Values with Risk Sharing'. which was actually provocative as we had one camp comprising economists and academicians propagating risk sharing while another of Islamic bankers, practitioners and Shariah scholars defending debt structures.

The Roundtable started off with a presentation titled 'Risk Sharing: Myth or Reality' by Dr Adam Ng from INCEIF. Dr Adam proposed that risk sharing in the financial world would be superior to risk transfer and risk shifting. A sound and sustained financial system could only be premised on risk sharing and the main element of its stability is by eliminating interest rate-based credit system. There are two myths and realities in the context of risk sharing. He argued that the first myth is that future payoffs on contingent claims have to be fixed because of the risk and uncertainty.

Therefore, contracts need to be completed in a way that debt is treated less risky than equity. However, the reality is that contracts are incomplete because they cannot include all information to ensure that the interests of both parties are served by the contract.

The second myth is that risk contracts are costly and demand more information than debt-based contract. The reality is that risk sharing contracts are incentive compatible contracts because there are incentive structures in place to elicit factors that could not be written into contracts and be enforced. The eliciting means include telling, trust, operations, hard work and efficiency in resource management. These contracts lower co-ordination problems and improve the efficiency of outcome. Ultimately, risk sharing needs to become one of the drivers to mobilise a risk sharing economy in order to share economic risks and prosperity.

The second presenter was Neil Miller from Linklaters LLP. In his presentation on risk sharing in the form of partnership, there had been several permutations of partnership in the past. Much of the practice in the West today has been on limited liability partnership. Islamic finance practices unfortunately have not defined where it stands as far as *mudarabah* and *musharakah* are concerned. Current practices have not achieved the classic goal of partnership. Therefore, the Islamic finance industry should find ways to increase transparency and reduce the risk of loss by structuring framework to be used in partnership modes. The limited partnership could be assessed in terms of value to the shareholders as a whole and not just to the management. Citing John Lewis Partnership in the UK, he suggested that by adopting this model, Islamic banks could also share its profit with its employees, stressing a stewardship's role beyond focusing on financial principles and structures.

Datuk Dr. Daud Bakar of Amanie Group, presented his paper on *maqasid* of risk sharing. Datuk Dr. Daud Bakar called on the importance to understand Shariah from the bigger perspective as such understanding will affect the decision on financial practices. He looks at some of the issues from both Shariah and business perspectives. Shariah does not limit human liberty and advancement but it prohibits certain aspects such as gambling (*maysir)* and usury (*riba*). Hence, there is no need for second opinion on this ruling. With regards to risk sharing, however, Shariah does not provide a precise ruling as to whether it is *halal* or *haram*. That opens up to interpretation thus it is up to the preference of a person whether he chooses debt or risk sharing.

The next speaker, Nicholas Foster from the School of Oriental and African Studies presented how the law could help risk sharing in Islamic finance. He discussed profit and loss sharing, stating that it is not equivalent to risk sharing. A loss would apply to a partnership but not directly to a company's shareholder. As such, a company is not a risk-sharing vehicle. He argues for a clear distinction between selling stock for profit versus participating in the company's profit, which are not the same. What is really the essence of shared value? What can be done to develop this shared value element in Islamic finance? There should be a clear line between gambling, speculation or investments.

In the third session, we had a sharing of models and cases. Sammy Almedal from JAK Bank's presentation was on how JAK's Bank is modelled; it avoids usury and interest through a benefit sharing scheme. Customers put in money where one part becomes equity and the other becomes savings of which they will only get back their principle. In return, they will accumulate savings points, which otherwise would have been an interest, that can be used by the savers to take out loans at a cheaper rate or to be transferred to other borrowers.

Basically, savers could transfer savings point to their children or other borrowers. A saver could transfer points to, for example, a community grocery store requiring a loan. Savers and borrowers continue to support the JAK Bank despite commercial banks in Sweden offering better rates. Ultimately this is a sharing model and a community spirit can be something that could be emulated by the Islamic banks.

Mr Rafe Haneef of CIMB Islamic Bank shared that the current state of Islamic finance is still trapped in a Shariah compliant mindset rather than going beyond *halal* and *haram* issues. Islamic finance should not be stuck in *fiqh* decision but to come out with a holistic approach in line with the *maqasid al Shariah*. Islamic finance can take a lead on the idea of sustainability as there are many verses in the Quran telling mankind to preserve nature and environment. It should not just be pursued on *halal*-related financing or even be deliberated on risk-sharing versus risk transfer. Rather, Islamic finance should strive to develop sustainability principles. To some extent, that is what we will carry on further in today's roundtable.

Omar Selim from Arabesque Asset Management, spoke about the funds incorporating big data for the ESG funds. Interestingly, Arabesque avoided the point on the Islamic exclusivity as it could deter non-Muslim investors. The SC screening, for example, not only excludes Islamic prohibitions but also incorporates Christianity and Jewish values. That has made it more appealing to the broad investor base.

The fourth SC-OCIS Scholar-in-Residence, Arshad Ismail from Maybank Islamic presented his paper, "Developing the Corporate Bond and Sukuk Market in Malaysia: Broadening the Credit Profile". Mr Arshad highlighted that despite Malaysia being the third largest bond market as a percentage of GDP in Asia, it lacks the depth of other more established bond markets with the low participation of papers rated in category A and BBB. As these two categories fall within investment grade, their low volume suggests that the Malaysian bond market still struggles with the demand.

It is important to have a strong bond market to reduce reliance of companies to banks. Borrowers with lower rating bonds would be most susceptible if their loans were recalled. During the pre-Asian financial crisis, the single

A market was vibrant with non-bank players being the main investors in the single A market. Investors who are like banks have little incentive to subscribe for such papers as it means intermediating what is already in their loan book. Furthermore, the small ticket deals below RM250 million (US$50 million) is seen as too small to arrange. Institutional investors like Malaysia's pension fund has indicated that it is not within their mandate to invest in such papers. As a comparison, in the United States of America, investors of high yield bond include pension funds, mutual funds, high net worth individuals and insurance companies. They need the non-bank players to make up for this credit profile in order to have a truly deep market in Malaysia.

This discourse is important because it is not merely a talk session as we take discussion and thoughts into practice or make Islamic finance relevant with current times.

Looking back at the Roundtable in 2014, we discussed harnessing *waqf* into a bankable finance investment class. As one of the outcomes in 2017, a company under Johor Corporation issued the world's first offering of *waqf* shares. Similarly, during the subsequent Roundtable, the discussion on sustainability, transformation change and shared values had paved the way for the issuance of the world's first green sukuk last year.

Although we are not saying that the outcome was directly from the Roundtables but rather from collective efforts by the SC and the industry. With respect to the green sukuk, there was collaborative efforts from the World Bank, the SC and MIFC and as well as Capital Markets Malaysia (CMM) and Bursa Malaysia who had directly engaged with investment banks, issuers, public-listed companies (PLCs) and other stakeholders to arrive at this outcome.

SESSION 1

Roadmap for a Sustainable Islamic Capital Market

CHAIR'S OPENING REMARKS

Rafe Haneef
Chief Executive Officer, CIMB Islamic Bank, Malaysia

PRESENTER 1

Daud Vicary Abdullah
Managing Director, DVA Advisory, Malaysia

RESPONDENT 1

Professor Dr Ashraf Md Hashim
Chief Executive Officer, ISRA Consultancy, Malaysia

RESPONDENT 2

Professor Dr Belal Ehsan Baaquie
Professor, International Centre for Education in Islamic Finance, Malaysia

RESPONDENT 3

Aamir A Rehman
Senior Advisor, United Nations Development Programme, Malaysia

KEY TAKEAWAYS

CHAIR'S OPENING REMARKS

RAFE HANEEF

Chief Executive Officer, CIMB Islamic Bank, Malaysia

At the inception stage, the Islamic banking sector was in the critical stage as it needed to find the footprint within a very crowded field and has passed this stage since then. Islamic banking has now grown to capture a significant size of the market share and similar trend is observed in the Islamic capital market segment. In Malaysia, more than 50% of issuances are now structured in a Shariah-compliant manner via sukuk. Around 75% of total number of equities listed in Bursa Malaysia (stock exchange) are Shariah-compliant stock equities.

We have moved from the critical stage towards the sustainability model. Can we sustain this? Not only from the growth perspective but also the qualitative aspects of the market itself. In the early stage, which is the critical stage, Islamic finance was trying to be relevant to the market. To this end, Islamic finance was able to shift to cater to the market needs and we have seen its growth. Now we have a higher objective in mind that is how do we ensure that the fixed income market and the equity capital market are not only Shariah compliant but also sustainable from an ESG standard perspective?

There are many terminologies used in the market today. This includes ESG, SRI, climate bond and green bond. This is similar to the experience seen in Islamic banking. In the past, there were no standards and the Accounting and Auditing Organization for Islamic Financial

Institutions (AAOIFI) stepped in to harmonise the accounting standards for Islamic finance.

Green finance is also going through that phenomenon and there are various standards prevailing in the market. How do we ensure that the Islamic finance industry including the capital markets grow to become more sustainable from an ESG perspective? Do we have a roadmap towards achieving that sustainable capital market?

In becoming an ESG-compliant company from an equity perspective, various screenings are available today. It will provide both environmental and social screening, and scoring, which are evaluated against the global ESG platform. There are also reporting initiatives like the Global Report Initiative (GRI) that helps businesses and governments worldwide understand and communicate on social, governance and environment-related issues. For the fixed income, there are the International Capital Market Association's (ICMA) *Green Bond Principles*, *ASEAN Green Bond Standards* as well as the SRI Sukuk Framework in Malaysia.

With all these developments and standards, how do we know which standards to apply? Where shall I get my certification? How do we ensure that there is no green washing? More importantly, we need to truly understand what we mean by a sustainable capital market and making sure that the Islamic capital markets would be truly sustainable.

PRESENTER 1

DAUD VICARY ABDULLAH

Managing Director, DVA Advisory, Malaysia

Islamic finance is an effective and efficient mobilisation of capital for the benefit of the real economy. My understanding of the real economy is about creating real assets and real financial transactions that would create/expand businesses and employment. But in reality, only 1% of the US$118 trillion capital market size actually goes into the real economy.

To share a real case study on how we could link finance with the real economy and empower the use of Islamic social finance, in my recent project with the International Federation of Red Cross (IFRC), an appeal came from Kenya to raise money that would be used to alleviate drought. IFRC received the *zakat* fund of US$1.25 million from the State of Perlis, Malaysia which was donated in response to the Kenya drought appeal.[1]

Overall, the drought appeal managed to raise US$10 million globally through the IFRC and Red Crescent Societies. The donation was used to restore over 30 deep bore wells in the County of Kitui, Kenya. Through this project, there was the availability of clean water. Jobs were created to maintain the wells where water could be constantly distributed locally for the county that had about 1.4 million population. One of the village elders shared that previously, they had to send their children and grandchildren to the nearest river, which is 14km - a round trip just to get water and

[1] Recognising the growing difficulties involved in raising emergency funds, IFRC approached the Zakat Council of the Malaysian State of Perlis (MAIPS) which provided a substantial contribution of *zakat* funding to the drought assistance programme. That contribution was allocated to the County of Kitui in southern central Kenya.

it was from a crocodile-infested river. The project brought about an important change and impact to the community of the county.

The next impact gained was when 184,000 subsistent farming families were given two kilograms of certified green gram seed, which would grow and produce a cash crop. Three months later, on an average, each family harvested 180 kilograms of green gram (market price at US$1 per kilogram). It created a sustainable base to purchase food requirements and surplus. This enabled it to deploy the investment for education, health and savings. In this case, with the initial US$10 million investment, it produced over US$30 million worth of grain. This illustrated how *zakat* proceeds may be sustainable and replicated in Islamic finance.

A more interesting point is that from the 1.4 million population in that county, about 50% are Muslims. They worked on a community basis and decided that they want to repay the *zakat* which is not actually possible (*zakat* is an Islamic form of alms-giving). In fact, they have repaid it in the sense that they are paying it forward for the next county, facing similar situation.

The second project has an impact on another one million people. This is a chain reaction where enough money are retained to buy the next crop of grain. They have two rainy seasons in a year. This is an example of a ground up type of Islamic finance activity that we can generate from the social financing initiatives.

We have clearly seen an example with the Kenyan case and there are many others. But in reality, we have been dominated by a conventional financial system. We have effectively survived the critical stage but it is not sustainable. Now is the time to focus on sustainability. We have attempted to replicate the conventional system in a Shariah-compliant manner and that replication of the conventional system has indeed proved to be a double-edged sword. It does not really progress well in the Islamic ethos.

There are of course two technical impediments globally to the progress of a sustainable Islamic capital market. One is tax inequality relating to the developed world whereby tax relief is given on debt which is a risk transfer rather than equity. Hence, risk sharing becomes a challenge. From a legal perspective, creditors rank higher in priority during liquidation. The system is stacked against a sustainable Islamic risk sharing system. Indeed, it is not quite Keynesian but the idea here is of the Dickens time in Victoria, England where you would go to prison if you do not pay, and you stay there until you can pay which is completely illogical but that is how the system is.

There are philosophical reasons as well when governments introduce tax relief and the legal system to accommodate Islamic finance. They are also tactical for the development of the Islamic capital market - leading to constant issues of sovereign and corporate sukuk. Sadly in most cases, they do not have the same ideological standpoint. As Shaikh Ali Elgari said, "Corporates do not have religion".

The next point is on the millennials. A recent United Nations Principles for Responsible Investing (UN PRI) report indicated that by 2025, 75% of the global working population are millennials. What do they value? Some 90% of millennials said they will not work for a company nor invest in anything which is not ESG-compliant. These grounds of opinions exemplify hope for the future which we could build on.

We have also heard that the UN PRI has now about 40% of global assets that are now ESG or SRI compliant. The Islamic proportion of this is still somewhat under 2%. There has been progress but there is still misperceptions about Islamic finance and many think that Islamic finance is just for Muslims.

From a debate in September 2012 at the collaboration of ISRA and Durham University, this came out with what was called the Kuala Lumpur Declaration, which started looking at this debate between real economy and financial economy with regards to risk sharing and risk shifting. Four points were highlighted. There was certainly an agreement that Shariah emphasised risk sharing as a salient characteristic for Islamic finance transactions but they had concerns that risk transfer and risk shifting contracts actually violated Shariah principles. The sales need to be genuine transactions in the open markets.

While Shariah recognises the permissibility of debt, excessive debt was detrimental to society. There were propositions made but I do not think any of these would be implemented but they said government should endeavour to move away from interest-based systems towards enhancing a risk sharing system by levelling the playing field between equity and debt. Governments should increase their use of fiscal and monetary policies based on risk sharing. Governments could also issue macro-market instruments that would provide their treasuries with a significant source of non-interest-rate-based financing while promoting risk sharing. Finally, there is a need to broaden the organisational structures beyond traditional banking models and formats by perhaps using *waqf* and *sadaqah* as part of that. I am optimistic that with the support of the millennials complemented with the fact that there has been much intense debate about this, we can build on and move forward.

It is timely for us to incorporate the *maqasid al Shariah* as a priority in our financial assessment. Based on Dr Liza Mydin's point on the introduction of Islamicity index, which looks at how well *maqasid* is being implemented in many countries. Referring to the original version, the world's leading country in Islamicity was New Zealand. For Malaysia, it was the highest rank Islamic country at number 34 and shockingly Israel ranked higher than any Gulf Cooperation Council (GCC) countries in terms of observing the intention of the *maqasid*.

ESG, impact, and philanthropic investing were dominated by the conventional instituitons. I attended conferences in London which were looking at Islamic Fintech and the role it plays. In terms of ESG and Islamic Fintech, London is certainly ahead of the curve. There are some interesting initiatives that could be done to make use of Islamic finance and Fintech to move forward with ESG. Executives in global organisations still do not understand Islamic finance and we have a great deal of work to do.

The answer is perhaps to build from the ground up rather than top down. That is why I used the Kenyan project as an example. The method works and you will hear of great projects that took off from the ground and these are ways to change the environment. We are not going to change anything with the top down approach. Let's endeavour to change in the legal systems or remove tax relief on interest (which precipitates debt). We have to work on this very much from the bottom up. We are still far away to the top but we can be better prepared if the next global crisis comes. We have to take the higher ground and move things forward.

RESPONDENT 1

PROFESSOR DR ASHRAF MD HASHIM

Chief Executive Officer, ISRA Consultancy, Malaysia

Starting with part of a verse from the *Surah Al-Baqarah verse 30*, "verily I am going to make in the earth a vicegerent." It is not a vicegerent among human being, we are not created as a *khalifah* among human beings but we are created as a vicegerent on earth meaning that we need to take care of our earth so that protection of the planet, climate control all comes together with this heavy responsibility as a human being. Another verse related very much to the wealth circulation, *Surah Al-Hasyr verse 7*. This is also another very important basis that we are now discussing. It has been there in the Quran for more than 1,400 years but now the challenge is how can we implement that. Taking one of the suggestions made by Daud, which is to link Islamic social finance to the real economy.

In our current Islamic economy setup, the ecosystem forms at least two parts. The first is the business-driven part that will include the Islamic banks, capital market entities, *halal* companies, and so forth. Whether you as an individual or institution, the main objective is to conduct your business in a *halal* manner and also to make profit which is totally not wrong in Islam. The other part which is philanthropic-based or charity-driven namely *waqf*, *sadaqah* and *zakat*. The real challenge is how are we going to link these two parts with different objectives? How can we link them so that the outcome will be a win-win to both sectors whereby the impact will be greater to society and the planet?

The objective for the win-win scenario is when you are able to convert non-bankable individuals or institutions to be bankable. It is important to find a systematic way to link the *al-gharimin*[2] or *asnaf* whom are considered as non-bankable, with social finance. Another option is that you may reduce the non-performing loan portfolio of any Islamic banks through *zakat*, for example, but of course, we need to be careful that there will be no arbitrage. This is because when people know of this arrangement, they may decide not to pay the *zakat.* These are the challenges. The outcome is for the non-bankable to become bankable and similar to the Kenya project; all of these can be achieved through this effort.

Even in the capital market ecosystem, we have the issuers and investors that are still looking at the same economic effect. Based on Daud Vicary's presentation, the approach of Islamic finance is similar to the Shariah-compliant copy of conventional. Even now, many of our colleagues are working on some good-on-paper type of instruments but there are obviously no takers. If you asked them to shield a risk, their responses will be, "No, we want fixed income instruments." This is the challenge and it has to be addressed.

To highlight on the sharing part where some of you might have heard that we have created much attention on the *waqf* sukuk, the temporary *waqf* sukuk issuance for the past two years. There has been a good progress as an AAA-rated institution with its board of directors has agreed to go forward in issuing the sukuk. Now, the challenge is on the implementation part.

In a nutshell, for the temporary *waqf* sukuk, the fund will be raised on a temporary cash *waqf* basis for profit generating projects. The income will be utilised to repay the sukuk subscribers. However, at maturity, the project will be declared as a *waqf* project. Any profit coming from that project will go to the beneficiaries of the *waqf*. This is a good thing as what started as temporary, it then becomes permanent. It is a zero coupon sukuk issued at par to the two tiers of subscribers - permanent and temporary sukuk holders.

The real challenge which we are facing with the institution as a team, is that before the decision made by the board, who will issue the sukuk? How to minimise any recourse to the issuer? What will be the benefit for the issuer if it is

[2] *Al-gharimin* is one the eight groups of people who are entitled to receive *zakat*. They are individuals who are in debt but needs assistance to meet his/her basic needs.

a commercial issuer? Then, who will subscribe to the zero coupon sukuk? What would be the benefits to the individual or corporate when they subscribed to this sukuk? Who will be the caretaker of the perpetual assets later on? When the assets are declared as *waqf* asset perpetually, we do not want somebody to come and claim the *waqf* asset. We want it to be *waqf* asset in perpetuity. Who will take care of that? What will be the governance required and what would be the legal framework that can ensure that it will be maintained? Where can we issue such sukuk?

Once we have addressed all these, and the sukuk is issued, then there will be sustainability because the proceeds will go to beneficiaries. Maybe some of them will use it for consumption but maybe the majority will use for productive activities.

RESPONDENT 2

PROFESSOR DR BELAL EHSAN BAAQUIE

Professor, International Centre for Education in Islamic Finance, Malaysia

There were four points made by Daud Vicary - efficient allocation of capital, building ground up, real economy and the pros and cons in replicating the existing financial system.

I believe that these involved mathematics, which play a key role in advancing these four points. To explain on how mathematics can help, we should dispel the view that has unfortunately being widely subscribed in the West about the crisis of 2008 that has a link to financial derivatives, swaps and various tranche whereby they have created opacity leading to the financial crisis.

One of the principles of Islamic finance is the prohibition of *gharar* which means ambiguous, opaque, or incomprehensible. The instruments mentioned were designed to be opaque. The intention behind the design allows one to do this subprime loan although they do not deserve to have any loans. They securitised the loans, hide and sell them to people who do not know the outcomes or consequences. An investor buy a subprime bond, which is originated and serviced in another location. He does not know that the bond is made up of high-risk mortgages. Therefore, let us not blame the credit assessments using statistical/ mathematics models for the defaults.

How you can build from ground up is by designing instruments customised for the field of finance. An example of this will be on the efforts that were made to service the real economy which often is not regarded as liquid or credit worthy. How do you design a sukuk for this market? Clearly, the market cannot have the same liquidity that you have when you have a normal bond.

An instrument that captures the real economy must have criteria set in it, which reflects the specificities. For example, to assess the real economy elements, we can use an ESG index as a benchmark. When a company scores high on the ESG index, hence we say a sukuk should pay a dividend to benefit the person. This coupon is not going to be fixed but it will be based on performance against the ESG index. On the other hand, we can have an Islamic index for stocks where if it scores higher, the dividend should be lower but if the score is within the Index, then the dividend required to be paid out will be higher. To reflect on the risks and pitfalls, investors must consider the risks and price it to be free from arbitrage.

To be free from arbitrage is a mathematical concept which means it is not a risk-free profit which can be done via going short or going long with these instruments. If you do not have the mathematical structure when supposedly you are giving out US$500, this does not matter. However, if you are giving out US$10 billion, even a fraction of a mistake you make will result in a loss of millions of US dollars. Mathematics then become crucial when you have a large amount of capital that you want to deploy.

Coming back to the point of being efficient in the utilisation of capital, how do you do that? It is an optimisation problem. If there are six different sectors and you want to optimise your allocation of capital, you will have a criteria which are not just for profit maximisation but it includes the criteria of social justice and fairness. Then you have to create and optimise the model. All large-scale deployment of capital needs a mathematical model and framework.

Unfortunately, what has happened is that we are replicating the existing system. How do you price a coupon bond if any of the complex businesses you have are in a forward curve and there is the risk of the coupon. You have the premiums that the AAA issuers get which is a twenty basis point above LIBOR. However, if the issuer has junk bond status, he would have to pay 500 basis points above LIBOR. All these are coming from the existing system.

As for the rating of the companies, what is the premium base? We may not need to subscribe to Moody's rating. We may come up with our own rating as what we think should be the premium which can be based on social justice and ESG. These issues are deeply linked to mathematics and to the real economy. All of these have to be considered as the pricing for the sukuk. According to Rafe, that is what the market wants, for *ijarah* sukuk to replicate the standard coupon bonds because that is what the investors want. However, what about sukuk where the coupons fluctuate with the performance of the issuer? If he has 5% that will be for a considerable performance in one year, it will be 3% for a bad year, 7% on a good year; hence, the coupons rate will be fluctuating. The pricing of the coupon for the sukuk in this case is also a very complex mathematical operation. You will have to guarantee that this instrument is free from arbitrage and has all the profile of the issuers or the investor. There are a number of issues where investors need to be convinced. Rafe pointed out that no one is interested in the specialised instruments, and that they want fixed coupon with no interest rate risk. *Ijarah* is good but we should go beyond *ijarah*. There has to be some way of doing this by educating the investors and issuers.

Last year, 12 companies were removed from the ESG index including Mitsubishi. Its stocks dropped by 18% and even after six months, it was still down by 9%. The ESG is adopted for social reasons. The ESG investors will sell the stocks when companies are removed from the index. The current real market sentiment requires transparency, fairness and good governance.

How does Mathematics come in? What is the digital option? The company that violated ESG and its rating has gone down; there is an option on the rating of ESG for a company to reprice it. For example, my business is ESG compliant and I expect that someday my stocks may fall. Therefore, I buy an option saying that if it does fall, I have the option that would give a pay off if my stock price drops. As you know, Mathematics is very complex depending on what you want to do with it. It provides you with certain answers.

My general observation is that the level of mathematics in Muslim countries is low. Finance, engineering, technology and scientific breakthroughs are all driven by mathematics. Finance is reaching this level of mathematics because of the vast structure that was created. The real sector as some may not realise the needs of Mathematics. It is a concrete and practical method to plan strategies to optimise allocation of capital, returns and lower risks. The question is, "Why are you lowering risks since you are risk sharing". The objective is to manage the risk that you are specialised for. You are not supposed to address all the possible risks in the economy as you are not geared for such. You are taking the approach of hedging i.e. the risk, currency, etc. It is important to research and have a prediction on every scenarios.

It is important to have more mathematics in Islamic finance and in the capital market. The Islamic capital market's growth will depend on innovative instruments that goes beyond the Wall Street. There is no point saying we followed the conventional then you surrender. We are at the 1% of the overall global financial system of US$230 trillion whereby it is worth US$2 trillion. It is key to create our instruments as we all know, Islam is for the benefit of mankind. This instrument can be used by everyone. Mathematics, on the other hand, has no religion nor it has human dimension or human creation. It is similar to a divine language where it speaks the truth, the exact truth and the absolute truth. We should use Mathematics and leverage our ethical and moral consideration to create great instruments that the whole world can use.

RESPONDENT 3

AAMIR A REHMAN

Senior Advisor, United Nations Development Programme

The proposed paper has attempted to put forward a roadmap based on the understanding and diagnoses of the current state. There will be five points which will be presented briefly. The first is on the role of social finance, second will be on the mantra of trust, relevant and impact. Third is to question our assumption about what is possible. Another point will be on Islamic finance as the contributor to SRI and the impact it has on the investment space. Finally, I will conclude with some thoughts on how we might want to move forward.

The first point, which is the role of social finance whereby it was mentioned and also responses were on *zakat*. When we talked about Islamic finance, we talk about the US$2 trillion assets under management and have excluded social finance. This is more so especially in my role now in the UN where we see that in truth the social finance aspects is much greater both quantitatively to the last point about numbers and mathematics, and also in qualitative ways.

The Pew Centre is a research group, which has surveyed 39 Muslim majority countries. In 36 of these countries, the majority of Muslims said they gave *zakat*. In Malaysia, the number was 93% while 98% is in Indonesia. To compare that with the share of Islamic banking assets in Malaysia, we have 24% of the banking market are Islamic, and in Indonesia, it is only 5%. Yet, 98% of people are getting *zakat*. This tells us that people know that it is our faith that gives them guidance about how to use their wealth.

They know that they should be exercising their wealth by complying with their values and ethics. Yet this commercial Islamic finance as it could be called, has not appealed to them, has not proven relevant but certainly they continue to give *zakat* which is very important.

Based on Professor Belal's point about Mathematics, I believe that the size and pool of *zakat* that is given each year is at least five times the total revenue of the Islamic finance industry, on an annual basis. According to the Islamic Development Bank's (IDB) estimates on the size of the *zakat* pool, and Islamic Financial Services Board's (IFSB) estimates on data, the size of Islamic finance market is roughly about five times more. Every dollar earned by the Islamic banks, assets managers or *takaful* companies - there is US$5 of *zakat* given.

When we defined the Islamic finance market, we need to include this social finance aspects as well as the commercial side, which is actually aligned with one of the guiding foundation *verse 276* in the *Surah Al Baqarah*, "God wipes out *riba* and multiplies *sadaqah*". As I mentioned in UNDP, the Islamic finance strategy that is being formed is very much rooted in *zakat* as well as in commercial finance. However, the idea of *zakat*, *sadaqah* and *waqf* are forms of social finance which need to be highlighted.

The second point is on the framework of trust, relevant and impact. It has been put forward that Islamic finance today is very much a replication of the conventional finance. In building the Islamic finance industry, we strive for trust, relevance and impact in order to differentiate from conventional finance. On trust, one of the most important things that we did was that we chose to go through the banking route. We applied for banking licenses, entered the banking systems, took supervisions from Bank Negara, the SC, etc. When we did that, we recognised there were certain challenges and constraints. We felt that customers trusted a banking license the way they would not trust an unregulated entity.

In terms of relevance, we wanted scale and the scale of Islamic finance industry would not be achieved without having those banking licenses, and building Bank Islam. As an example would be what Tabung Haji did, the entity is embarking on a visionary effort in relation to the non-development banking financial institutions side but similar to Bank Islam, it is important to build the banking sectors and achieve the scales. The idea of scale has given the impact and enabled these customers to have a peace of mind that their financial services have complied with the values.

The difference goes to my third point that we should question our assumption about what is possible. Based on Daud's paper, technology today allow screening of securities in ways we could not do before. The assumption we had before was that the data was not available and it was very difficult to gather them, it is no longer valid today.

Another point in relations to capital market is about having scale. We were under the assumption that if you need to have a certain size of issuance, you will need to have a certain scale. Then, there is crowdfunding, peer-to-peer financing, and these showed that you can do intermediation at a much smaller scale. Some of the compromises that we undertook was because of the constraints before which are no longer there or at least are diminishing. It is important to plan for the future where circumstances have changed. Therefore, our belief of how we can be differentiated should also change.

A report by Global Impact Investor Network titled, *The Roadmap for the Future of Impact Investing* looks at the impact investing world and how Islamic finance has something to offer when it comes to social and ethical financing. There are six areas covered in the Roadmap- identity; behaviour and expectations; products; tools and services; education and training; and policies and regulations. It is important to understand the impact of the investing world on how to identify and define the meaning of impact investing, what it means to be Islamic investing.

In relation to the point of behaviour and expectation, we need to understand on what should make an impact for a sustainable and responsible investing to be different from conventional. In my opinion, one of the greatest gifts that Islamic finance can offer to the conventional or the broader SRI world is the idea of having governance with an independent expert, around its impact and ethics as a huge value-add. When you have the management endorsing its own ethics, you will have the tendency for conflict of interests. Shariah has mechanisms which we should be proud of and see it as a contribution to the broader impact world.

Reiterating the point by Daud on having the listening skill to learn and recycle information/knowledge. To have the skill in listening is so fundamentally important whereby I believe we should start listening to disengage. What do I mean by disengage? One very good proxy is in relation to people who pay their *zakat* but do not engage in Islamic finance. These are the people who have some understanding on the connection between wealth and value but they do not engage in it.

For example, Thailand, which has almost non-existence to the Islamic finance sector has a couple of Islamic institutions, but it is very small. A sum of 93% of Muslims in Thailand said that they give *zakat*. Thus, if you want to be relevant to the Muslim population in Thailand, it is important to present the idea of the social finance. The second is the need to broaden our definition on Islamic finance. Referring to Dr Ashraf's points about the two parts where they are a part of the same body. Similarly, in Islamic finance, there is the commercial side and philanthropic or the social side. We consider them both to be Islamic finance. What would that do for us? They would do at least three things.

First, it will be more inclusive to the life experience of Muslims; which is what makes it much more relevant to them.

Second, it offers a clear differentiation. The arguments made about form over substance is not relevant when we start talking about social finance. When people say that Islamic finance is no different from conventional; they miss out the point that social safety nets are provided for under the Islamic economy which incorporates *sadaqah*, *zakat* and *waqf*. We need to underscore that.

Third, it gives us scale. *Zakat* is at least five times the revenue of an Islamic financial institution and UNDP in relations or when you think about certain institution e.g. IDB, UN, etc. The total budget in one year for the UNDP is US$5 billion. That is at most between 1% to 2% of the global *zakat*. These high impact institutions are operating with just a fraction of the *zakat* pool. Based on the scale, there is a lot that can be done by channelling some of the resolution in/of finance. The idea for example is on one of the great opacities of the banking system that when you put your money in the bank, it deploys this however, it feels fit. The idea was that there is no way that the depositor can have the information or expertise to channel his own fund. Today, as a depositor, you can give instructions or guidance on the type of portfolios and the risk to take to gain the returns.

Finally, we should juxtapose our frameworks, and roadmap with something around the impact-investing world and the Sustainable Development Goals (SDGs). When we talked about Islamic finance and investing, what are the sectors people are excited about? Is it healthcare, education, infrastructure in terms of commercial? These are all SDGs which we can explain the various initiatives that are being implemented to support the SDGs. Conceptually, we can link it to *maqasid*. According to Rafe on future generation, and how we are the caretakers, *hifdh al-nasl*, the protection of future generation is from the *maqasid al Shariah.*

There is also the idea of *hifdh al-'aql* that is protecting the intellect. We also have the idea of *hifdh al-din*, protecting values. The SDGs are great but they do not cover these things which is to look at other aspects e.g. spiritual tranquillity, living by the values (*deen*) and so forth. In summation, we should achieve the SDGs - have food, water, shelter and at the same time, we should also have peace of mind, tranquillity and preserve our faith (*deen*).

KEY TAKEAWAYS

Industry to Shift to Higher Objective

After decades of experience and progress with commendable traction and growth rate, the industry is now called to shift the mindset to better serve the people, society and economy. Although at the initial stage, the development has been focusing more on creating the enabling environment for the industry to take-off and to be commercially viable, the industry should not only be Shariah compliant but also sustainable from an ESG standard perspective. In enabling this aim, building the right ecosystem and empowering change agents within the financial system are key success factors of developing a sustainable agenda of the ICM. Numerous factors and consideration were discussed in crystallising the essential elements and building blocks in mapping out short and long-term strategies or so called 'roadmap'. Overall, the presentation and deliberations in this first session answered key vital questions that laid out important guidance in the development of the roadmap for a sustainable Islamic capital market.

Top Down or Bottom Up?

The Kenyan case that was shared during the session and many other projects available in the markets are examples where creating sustainable market may come from the ground up projects. This is necessary especially as Islamic finance is being dominated by a conventional financial system and we are in the focus of how to exist rather than being sustainable. In this pursuit, relevance, trust and impact are important and the industry need to change a predominant attitude that focusses more on form than substance.

Today, there is a real opportunity to scaling up the industry and this aligned well with what Shariah represents. Demands on sustainability, SRI or ESG are real and the trends are on the rise in the Europe and many other parts of the world. Similarly, emphasis on governance is getting more attention and focus. In fact, it was highlighted in the session that one of the greatest gifts that Islamic finance can offer to the conventional or the broader socially responsible investing world is the idea of governance with an independent expert around its impact and ethics.

Importance of Social Finance and Value-Based Banking

Social finance has been widely discussed and reiterated. Social finance products in Islamic finance have evolved but the need for further developments is essential. The ideas and developments in the areas of *zakat* or *waqf* or another form of social finance need to be highlighted. Furthermore, *zakat* and *waqf* are among the tools that underscore key important value proposition of Islamic finance *vis-à-vis* the conventional system. The size and scale of *zakat* fund is vast. The industry needs to look into aspects of social finance as a differentiating factor to better market their proposition to mass consumers.

This also relates to the discussion that how can we creatively link business and philanthropic bodies as a win-win to both sectors, and its impact will be benefiting the society, planet, and so forth. Such win-win situation will further empower changes in the industry and real economy. This would also allow the industry to tap and convert non-bankable individuals or institutions to be bankable.

Based on the experience of Bank Muamalat through the association called the Global Alliance of Banking for Values (GABV), the institution has benefited from many key aspects of sustainable finance including from the perspective of western values and how best to organise the way to do things in this space. This is more efficient than doing charity on a case-to-case basis. Continued reflections are necessary. How we should do it and how we can learn from these people? Looking at GABV, a team of 44 banks e.g. Vancity and Triodos Bank emphasised transparency in your lending. Triodos Bank for example, are transparent in terms of whom they lend out to. They look into the three core factors of the company. Firstly, they look at the credit scorecard whether it is consistent with sustainable finance in terms of the industry and all that. Secondly, they look at the vision, mission and values of the organisation. Thirdly, they calculate the real economy and its impact. Other important aspects include the emphasis on the engagement with clients and commitment of the board of the management and shareholders.

Taking reference to a survey by Thomson Reuters in 2015, it says that some of the Islamic finance institutions view social responsible investing as similar to their normal corporate social responsibility (CSR) activities and some view it as unnecessary. The reason is that their existing Shariah-compliant mandate coupled with their social responsible activities fulfilled their social responsibilities mandate. It was mentioned, it may be worrying as when we talked about social dimension, it should be integrated as part and parcel, rather than compartmentalising it.

This means your business is on one side and your social responsibility is on the other side. The social dimension should always be part and parcel of what we are doing. However, this may not be the current mindset of the industry players. This could be because many who came into Islamic finance had the conventional background with a very clear differential between A and B and you would know what has to change. We have to embed this not just in the education systems but also at the board level, Shariah board level and so on. Other related suggestion is to look into how best guidance and support maybe extended to social entrepreneurship in Malaysia and beyond.

Expectations of Millennials

The figures on expectations and investing trends of the millennials also set the discussion to focus on this emerging trend especially when this group will be the future pool of investors. By 2025, 75% of the global working population will be millennials. Their preferences are to invest in ESG or SRI asset classes which exemplify the focus on future investment trends. The industry was called to better understand this set of demand and their real expectations. A key question is whether the expectation of investors in terms of the economics returns, would provide the 90% be willing to accept lower returns. How would the industry respond and react to this bottom-up push by young investors?

Call for Innovation

Another key success factor in realising sustainable agenda by the industry is to have more innovation and instruments that are truly risk sharing including the real economic performance based. In enhancing the brand of Islamic finance, scale and customers' experience will have an important impression to the brand creation of the industry.

Based on the current observation, it is a daunting task to implement and execute new product innovations. Education and awareness to issuers and investors require resources and time. Taking ISRA's work on temporary cash *waqf* as an example, there are operational aspects and implementation processes that require awareness and education to the investors or financial institutions. Mathematics can be a powerful tool as a practical method to measure its impact on the real economy. The design of instruments can be customised for the objectives of finance that we are involved in by aligning it to the specificities that Islamic finance carries. More importantly, innovations will create new sets of clients.

SESSION 2

Mitigating Inequality and Climate Change: Considerations for Economic Transformation

CHAIR'S OPENING REMARKS

Dr Salman Syed Ali
Lead Economist, Islamic Research and Training Institute/
SC-OCIS Scholar in Residence 2016/2017

PRESENTER

Paul Milon
ESG Integration and Sustainability Specialist, Asia Pacific Consultant Relations
and Investment Specialist, BNP Paribas Asset Management Hong Kong

RESPONDENT 1

Monem Salam
President and Executive Director, Saturna, Malaysia

RESPONDENT 2

Professor Sayed Azam-Ali
Chief Executive Officer, Crops For the Future, Malaysia

RESPONDENT 3

Dr Liza Mydin
Head, Strategic Research and Reporting, Maybank Islamic, Malaysia

KEY TAKEAWAYS

CHAIR'S OPENING REMARKS

DR SALMAN SYED ALI

Lead Economist, Islamic Research and Training Institute/SC-OCIS Scholar in Residence 2016/2017

`Mitigating Inequality and Climate Change: Considerations for Economic Transformation' is the agenda of extending the sustainable economic development. The topic has many different dimensions that are beyond finance in general. The main presenter is Paul Milon, an ESG Integration and Sustainability Specialist from the Asia Pacific Consultant Region and Investment Specialist with BNP Paribas Asset Management Hong Kong. In addition, the three respondents are Monem Salam, President and Executive Director, Saturna Malaysia; Professor Sayed Azam Ali, CEO, Crops for the Future; and Dr Liza Mydin, Head, Strategic Research and Reporting, Maybank Islamic.

PRESENTER

PAUL MILON

ESG Integration and Sustainability Specialist,
Asia Pacific Consultant Relations and Investment
Specialist, BNP Paribas Asset Management
Hong Kong

Mitigating inequality and climate change have been acknowledged as being the big challenges in the 21st century. The Managing Director of IMF, Christine Lagarde, said, "It is very critical to address the urgent macro-critical challenges such as reducing inequality, increasing gender equity and mitigating the effects of climate change.

For many years, prominent people have spoken on these issues. The Islamic Declaration on Global Climate Change in 2015 called for action on climate change from governments, businesses, investors and Muslims around the world.

In terms of wealth and inequality, 70% of the world owns only 3% of the global wealth. A sum of 8.6% of the richest people in the world own as much as 86% of the global wealth.

We should look more at income in terms of inequality. Across Organisation for Economic Co-operation and Development (OECD) countries, we are not looking at huge income inequalities, although the 10% of the richest earn 9.6 times more than the rest across OECD countries. This has increased quite a bit over the last 20 years.

The last four years have been the four warmest years on record since we started to measure the temperatures in 1880. In fact, 2017 was ranked third but that was a year without any new phenomenon. This ranking is alarming albeit any new phenomenon.

All these developments have a lot of impact in terms of, for instance, the rising sea level. It is expected to accelerate and could reach 65 cm by end of the century. In terms of natural disaster, we have seen its implication in 2017 whereby in the US, the cost amounted to US$306 billion which is close to US$100 billion more than the previous record in 2005.

The topic gets even more interesting when you discover that climate change and inequality are interrelated. Based on the Synthesis Report by Intended National Determined Contribution (INDC) from the Paris Agreement, INDC has forecasted the world temperature to rise to around 2.7 degrees Celsius by 2100. As reference to the projected evolution of crops yield based on a 3 degrees Celsius warmer world, Latin America, Africa and major parts of Asia will be most impacted with dramatic decrease in crop yield.

The climate change effects have a higher net cost for the lower income group although in terms of the nominal cost, it is the highest for the high-income group. This is normal. There are more infrastructures and resources, as a result, a bigger cost. However, as you go down to the lower income economies, the cost of climate change to the gross domestic product (GDP) reaches 5%, which is high and significant. It is the net impact to the economy that matters. It came as a little surprise then, that developed countries are committed to mobilise US$100 billion a year in climate finance by 2020.

These are the actual issues which have economic costs. However, looking at it from a different angle, these issues can also be economic opportunities for investors. The OECD published a report where they demonstrated why less inequality could actually benefit the economy.

If you look at the Gini coefficient[3], it has been increasing over the last 20 years. This resulted in approximately 0.35% less economic growth per year. Yet, you are looking at 8.5% of GDP growth estimated around that period while at the same time looking at the gender inequality side of things. McKinsey Global Institute, in its report entitled, *The Power of Parity of Advancing Women Equality*, argues that gender equality can add US$12 trillion to the global GDP growth.

This is in reference to a scenario of the best region where the highest economic growth in women participation. This shows that inclusive growth is the opportunity for the economy.

When you look at climate change, you will also have this kind of cost and opportunity angle. Climate change is expected to reduce significantly in the global annual GDP. Under the 1.5-degree scenario, you are looking at a loss of US$21 trillion. If you move to the

[3] The Gini coefficient is equal to half of the relative mean difference, which is often used to measure income inequality.

2.5-degree scenario, there will be an additional loss of US$12 trillion.

On the other side of the coin, you need between US$5 and US$7 trillion of the annual investment in order to achieve SDGs and climate change objectives. For the developing economies, this translates into a gap of US$2.5 trillion annually. Such an investment represents opportunities for investors.

Many of these goals actually relate to inequality and climate change either directly such as reducing inequality or indirectly in relations to access for better quality education.

ICM has a critical role to play in achieving SDGs by mobilising mass investments from the corporates and private sectors as well as financial institutions as intermediary between investors and impact investment. It can also play the role in terms of incorporating the *maslahah*, the idea of public interest which is in line with promoting social good and addressing inequality. The *maqasid* on preservation of wealth that includes natural resources, avoidance of excess, depleting natural resources and the balances of resources are aligned with the climate change mitigation.

In many aspects, Islamic finance is by nature in line with sustainable investment with the aim to mitigate inequality and climate change. The question is how to address inequality and climate change. We could work on targeting specially social and green finance solutions.

It would be befitting to take the holistic approach across all investments to address inequality and align them to the green warming scenario. To do this is to look at it from an investor's perspective, the grant holding which has the most significant impact from any climate change above the 2 degree Celsius global warming. Activities such as the production, consumption, agriculture, transportation, insurance and real estate are all going to be massively affected in the scenario of climate change. Therefore, we need to identify the risk of these in investment to integrate, mitigate and invest them in the dedicated social or green finance solutions.

There is still a little bit of confusion where people are not sure on the meaning of sustainable investment and its reasons as there are different types of sustainable investment. One is **the exclusion.** This can be done through the Shariah principles and the UN Global Compact where through some sector policies particularly in the controversial sectors where those companies that do not meet certain standards will be excluded.

On the more positive selection side, there is the **best-in-class** approach. To invest across all sectors, it is important to identify companies that are best in class in terms of ESG practices. These areas for investment and exclusion will be for those that have practices deemed as the worst in class.

What we are actually seeing is that many firms are doing **ESG integration** where you combine the ESG analysis together with the financial analysis in order to come to an informed decision-making.

The other approach is **shareholders engagement**. In this approach, it is key to engage with companies through a constructive dialogue to drive positive changes as a result of these companies adapting to the green warming scenario.

More specifically, there is the **thematic investments** where you can focus on the environment and social sectors for instance. With reference to BNP Paribas, our climate impact universe includes sustainably manufactured and responsibly transformed food as well as water strategies. Lastly, there is the impact investing type of strategies where on the social side, the microfinance can be an impactful way or green, social and sustainable bonds.

Green, social and sustainable bonds or sukuk are structured similar to bonds or sukuk, which are instruments in the broader fixed-income universe.

They have indeed grown a lot from less than US$20 billion of issuance back in 2013 all the way close to US$140 billion last year. When you look at the green bonds or green sukuk, it finances its projects that are designed to reduce issues of climate change. If you look more at the social bonds, they may target to reduce inequality. Sustainable bonds more broadly aims to address some of the SDGs.

How can these green bonds and sukuk help to tackle climate change? Today, the global fixed income market is amounting to US$100 trillion. You need US$5 trillion between now and 2030 per year to support the energy transition to a low carbon economy. Therefore, green bonds bridge the missing link from the need for energy transition to financing these energy transition and the supplies from the debt capital market.

In sectors that can be very diverse and critical to achieve this transition such as energy, transport, building, pollution control or climate change adaptation, we look primarily at the sustainable sukuk market. Hence, there have been many 'firsts' in the sukuk market over the last few years namely the first impact sukuk in 2014 to fund immunisation in poorer countries; the first social sukuk launched in June 2015 by Khazanah; the world's first green sukuk by Malaysia Tadau Energy in 2017; and the first offshore green sovereign sukuk issued by Indonesia very recently in February 2018.

Although these 'firsts' are great, we are still looking at a very small market in terms of issuance. With respect to sustainable sukuk, we have a limited supply liquidity with basically no benchmark. The good news, however, is that we can expect more supply to come. The IDB has announced that they will issue US$1 billion of SRI sukuk. Many more investors are, for instance, becoming signatory to the principles of responsible investment (PRI) as of the case of Retirement Fund (Incorporated). This has also increased more demand from the market for the sustainable solutions such as sustainable sukuk.

Malaysia represents over half of sukuk outstanding by domicile and is ideally placed to drive the growth of the market with its experience in dealing with SRI sukuk.

One question remains when we look at this impact solution. How green is your green bond or sukuk? The risk is always that people take advantage of this which is better known as green washing. There are four main assessment pillars when you look at the current green standards or principles. The two main international standards are ICMA bond principles and the Climate Bond Certification. There is also the *ASEAN Green Bond Standards* (ASEAN GBS) which has already proven to be a success.

The four main assessment pillars are 1) use of proceeds; 2) process for project evaluation and selection; 3) management of proceed; and 4) reporting. Depending on the framework used, the criteria and standards may vary, which sometimes makes the identification of real green bonds more difficult. China is one example.

China has become the world's largest green bond issuer. However, there is a different framework depending on which regulator you approach. At the People's Bank of China and China Securities Regulatory Commission, they are relatively strict although they allowed 'clean coal' to be considered as green, which everyone knows is not entirely a green investment. Still, under the National Development and Reform Commission's framework, the definition gets even vague as selectable projects can include from clean coal to high efficiency fuel to large hydropower and even to nuclear. Up to 50% of proceeds can be used to repay existing loans or contribute to the working capital. Furthermore, it does not impose any rules regarding the management of proceeds, reporting and disclosure as well as external reviews.

It is very important to assess our green and social sustainable bond. At BNP Paribas Asset Management, we developed our own assessment methodology given there is no single standard today. These were published as case studies by the Principles for Responsible Investment.

Next topic is on how you can integrate inequality and climate change across your investment. One interesting initiative that has happened in the last couple of years involved the taskforce on the climate-related financial disclosure Taskforce on Climate Change Financial Disclosure (TCFD). It published its report last year which had four areas of disclosure recommendations in terms of what the company is putting in place. These recommendations are in relation to governance which needs to adapt to the 2-degree scenario, the strategy, risk management procedure and the matrix and target that they are adopting to adapt to the climate change.

In assessing the company for instance for investment, the Company follow TCFD's recommendations to see how they adapt to the potential physical risk, regulation risk, business model; or the risk for instance of straining the assets.

To make it more concrete using a case study how our own ESG research team at BNP Asset Management assess these utility companies' alignment with the target. Utilities sector is a critical sector for energy transition. They are the key enablers and the scenario of keeping the global temperature well below 2-degrees Celsius which is the carbon intensity under the Paris Agreement. This enables you to map out how well the usage of electricity and gas emission are adapting in line with these requirements. Some companies today are doing better than below the requirement, but then fall short for taking their initiatives to be in line with the 2020, 2030 and 2050 targets. On the other hand, there are companies that have already integrated in their real climate-change strategy to reduce their carbon intensity in order to become carbon neutral by 2050.

The interesting point is that there are different taxonomy that are put in place to help investors to realise how they can adapt their investments to be in line with SDGs and make an impact based on that.

Here is one example which is the taxonomy of PGGM and APG (Dutch Pension Funds Institutions), where each SDG is being described for different sectors it corresponds to and the impact that can be expected. It is sometimes difficult to measure the impact when you are looking at the conventional investment across all sectors.

When you move to a more thematic or impact investing portfolio, it is possible to try to map out the environmental impact. Through the investment and the impact that these companies have in terms of CO_2 emission that they avoid such as water treated, renewable energy generated or the waste that has been treated - you are able to estimate what your investment has been making in terms of the impact to contribute to the more sustainable world.

Can we address climate change and apply it to inequality? Stewardship is important, as when we invest in companies, part of our duty is also to be a responsible steward. As a shareholder, we can engage with the companies in constructive dialogues to see how they are adapting their business model to align to the 2-degree scenario.

At BNP Paribas Asset Management for instance, we are a member of several industry initiatives in which we have contributed by asking some key sectors such as oil and gas, mining or utilities companies to disclose their strategies to adapt to climate change. For the investment community, the key recommendation is to join such initiatives. As you are gathering these assets, you will have much more leverage power and muscle to push these companies to adapt their strategies to climate change for instance.

For the investors, they can take the three-fold strategies which include the allocation of capital for all increasing social and low-carbon investments to finance the energy transition. In addition, there is a need to identify and measure the carbon risks that are part of their investments by integrating them with the aim to reduce carbon footprint.

The second strategy is stewardship to address the inequalities and climate change through votes gathered from the companies' AGMs and engagements or dialogues. These avenues enable the investors to understand the initiatives carried out by the companies to reduce inequality and climate change where there are many leverages and means.

Lastly, transparency and commitment. These show the report of the progress made which is to raise awareness. By communicating with the investors, it sets a standard and encourage other investors to follow suit.

There has been several studies in recent years about how integrating some environment factors, social factors or corporate governance can link to corporate financial performance. A research by the University of Hamburg and Deutsche Bank where they looked at over 2,200 case studies to see whether there are any factors emerging. The outcome is 58% of the cases were on positive environmental strategy. Good environmental policy will lead to better corporate financial performance. This is the 4% negative outcome and the rest being either neutral or mixed.

Similarly when you look at the social aspects, for instance, health and safety, policies or the track record of the company, these links to their financial performance. 55% is positive outcome against 5% of that outcome is negative.

Governance, which is the key pillar and enabler for good environmental and social policies, stands at a even stronger outcome at 62%. Somehow integrating social and environmental factors in investment do not mean that you will have to sacrifice performance. As we try to get a better adaption by investors around the globe for sustainable investment, it is also critical to demonstrate that these do not result in sacrificing returns.

In conclusion, the pillar of Islamic finance are well-aligned with mitigating inequality and climate change. This represents severe risk but also economic opportunities.

Inequality and climate change should be tackled through specific social and green finance solution. Investors and the capital markets must integrate this holistically across all investments.

Lastly, training and education are critical to facilitate this change, and to equip ICM, it will need the combination of skills to address inequality and climate change in investments.

RESPONDENT 1

MONEM SALAM

President and Executive Director,
Saturna, Malaysia

We need to look at a perspective of how do you take money and make it impactful with the use of basic and public equity space. The key aspect is how to make an impact on investments. Though ESG investments only represent about 2% of the entire universe of the global financial market, it is a growing market where more and more investors are embracing ESG.

There are two key questions which we need to consider when you are looking at SDGs - how do you make them impactful and how do you make goals measurable?

There is the basic structure, and fund managers are given the mandate. One approach is that you can have your analyst to come up with some financial matrix whether the company is good or not. On another which is separately independent of that, you have an ESG specialist that is going to tell you whether the company has a good ESG, but typically the financial objective overrules.

The other way is to have an ESG integration which means that each analyst under your company is coming up with two ratings - the ESG side and financial side. They are combined to come up with one score to provide you with investments recommendations.

It is important to have the ESG factors with the governance factor encompassing all. When there is good governance in a corporation, this would lead to good environmental policies whether on air quality, deforestation or climate change. Similarly, on the social factor, policies would be able to address human rights or public safety of the workers and finally governance factor would be able to address diversity of the board, equality, human rights, etc. All these can only be achieved with the mandate from the top and support throughout the entire organisation.

Let us take a look at the E-factor in the ESG first. The Environmental Performance Index ranks 24 out of 180 countries on 24 performance indicators carried out by Yale & Columbia University. What you will find is that there is a trade-off between ecosystem vitality and environmental health arising from urbanisation and development.

Scandinavia has the best rating. Switzerland, France, Finland, Denmark are on par. Malaysia was ranked 75, Saudi Arabia at 86, Turkey at 108 and Indonesia was 133 out of the 180 countries.

The question is how can we improve the rankings of Muslim countries? Unfortunately, with the unavailability of data, we are unable to consider factors and variables for measurement purposes. However, with availability of indices you are now able to measure.

How do we achieve the E-factor for one of our funds? We basically compare the MSCI ACW Index to our own Sustainable fund. The MSCI Act Index shows the number of companies that report on Carbon Disclosure Projects (CDP) and would have energy policies. It has 56.90% of the MSC Equity Index. For our funds, we have 77%. What we are looking at is trying to be better than the index when it comes to all of these different factors. Whatever the factors are, it is reportable and measurable. You can begin to see the impact because you are allowing your fund to be invested only in those companies that are doing the reporting.

On the S-factor, there should be initiatives to address fair-wage policies, safety, rights, and so forth. These are ways to measure the level of happiness. What does happiness really mean and how do you measure it and implement it within the portfolio. One definition is by looking at the income status, healthy life expectancy, social support, freedom, trust and corruption.

On the scale, Scandinavian countries stand at the top ranking as it has the best well being and income status, life expectancy and social support, albeit half of the year, the country has no sunlight and its cold weather.

How do you begin to measure unhappiness when it comes to issues like corruption?

Interesting enough, based on a study, the happiest countries are those that welcome the settlement of refugees. In relations to the measurements of funds, we are required to assess whether a company is disclosing what they are doing regarding each of its different policies i.e. community spending, training employees as well as health and safety standards. This disclosure reporting enables us to understand the impact of the work that are being done.

On the G-factor, it can be broken down into two different areas where it involved governance - at the country and company level. Simply put, if you do not have the governance factors even at the company level, you basically end up either with worker strikes or a mass demonstration at a country level. On a country perspective, there is the corruption perception index. Ranking those countries that are going to be least corrupted means to look at the top down approaches.

For the assessment on a company, we can look at the number of independent board members based on MSCI. If the independent board members is greater than 75%, there will be about 45% of company in MSCI, and Saturna's fund is about 60%. When it comes to the number of women on the Board, there are four or more, but 19% of the investors looking at our funding is about 35%. What we are trying to do is not only to have a higher score than the index but also to move that percentage up. These scores are being tracked to understand the correlation to the actual scores on performance.

Next is the role of the fund owner, for instance, pension fund Norges, KWAP or Employees' Provident Fund (EPF). It could also be shareholders or unit trust holders when it comes to mutual funds. Fund managers are managing on the mandate of the fund owners itself.

It is important that all stakeholders play a role in developing a strong policy to drive implementations when it comes to ESG. It needs a good measurement system in place to ensure that everything that are being done have a sustainable impact.

RESPONDENT 2

PROFESSOR SAYED AZAM-ALI

Chief Executive Officer, Crops for the Future

I am working on a case study on the diversification in agriculture. The study looks into how we can get investment to break the model that has been adopted for the last 50 to 60 years. There is a research centre under my purview called the Crops For the Future (CFF). It is the only centre in the world dedicated to the non-major crops – the four crop-feed that provides more than 70% of the world's food consumption. I have two experiences to share from my career in the academic field.

How do we adapt to climate change? The environment has changed and it is not just climate. Change is endemic to everything and having the skills is key for adaptation.

From statistics, changes in the climate are already happening. The Paris Accord was made to keep the global temperature significantly below 2 degrees Celsius and we already exceeded that. We are at close to 2.7 degrees Celsius. We know we are going to live in a challenging environment. The existing crops may not be able to adapt to future climate. We cannot manipulate the crops fast enough to get out of this conundrum. At the CFF, we train, educate and gives qualifications to prepare people for this.

United States produced the highest number doctoral studies in the world. The Muslim world makes up roughly 25% of the population. However, in term of research performance, it is less than 25% from other develop countries. Taking the publication (6%), research expenditure

(2.4%), patents (1.6%), it should be all 25%, if it is made equivalent in terms of global population. Findings presented that 650 universities in the Muslim world are producing less than 4,000 PhDs. There are perhaps 20,000 universities in the world. This shows that our universities are under-populated and have produced less than what they should be doing in terms of qualifications. From any of those statistics, 1% of scientists contribute less than 0.1% of the world's original research. We are still at the 25% of population and producing 0.1% of the world's original research. For technical support and technology, this is only 1.2% and negligible patent registrations are in US, Europe and Japan. Unfortunately, findings present that qualifications and skills are lacking to address the issue of climate change and global challenge.

Who will suffer most from climate change? A decline in yield who affect the agriculture sector - four crops, maize, potatoes, rice and wheat. The north will suffer and the south would benefit from climate change. If you are in Iceland and it gets hotter, that is better. Muslims countries are in the frontline by their geography whereby we are going to live in a 3-degree warmer world without the crops. Where will you have to import those crops or will someone produce and sell them? What will the price be?

The richest sources of biodiversity are actually between the Tropic of Cancer and Tropic of Capricorn lines. Malaysia is home to 5% of biodiversity where one of 20 plants in the world comes from the island of Borneo of Sarawak and Sabah. Most of the countries between the lines are highly expose to climate change impact on agriculture. This requires higher investment in climate change adaptation. The very vulnerable primarily Muslims country are devastated in addressing the issue that matters the most, climate change. Based on public statistic, 81% of Malaysian are worried about climate change. We have this background concern of climate changes here and very near that is affecting us but we are not sure how to deal with it.

This is an issue which is of national significance. This is the Paris Agreement's, fundamental priority which is to safeguard food security. Food production system is vulnerable to the adverse impact of climate change. Khazanah Research Institute's statistics compare Malaysia and Nepal, and the trend of production and supply diversity from 1960s onwards. Production diversities means number of species produced in a country and supply diversities is to measure the diversity of species available for human consumption. Based on the statistics, Nepal shows a consistent growth of production and supply diversity. For Malaysia, the trend of production diversity has dropped significantly in contrast to Malaysia's consumption which makes the cost of imported food stood to RM46.7 billion and this is for a country that got the 5% of world's biodiversity. Imported food is not just to feed ourselves but to feed those poultry particularly and agriculture systems. This is a very risky strategy because we will depend on other countries to provide food to us. Unfortunately, we are the fattest country in ASEAN. Based on the statistics conducted by the World Health Organisation in year 2011, 51% of Malaysians are overweight or obese and clearly, the food system that is feeding us is not nourishing.

Agriculture is now looking at the nutrition content of all produce. If agriculture only focuses on economic production, it will make farmers richer without considering the nutrition content. This will not synergise with the health requirements. Another important aspect is the unemployment statistics. Where is the highest unemployment rate in Malaysia? The highest unemployment rate is actually the younger population. Therefore, we have an issue compared to other countries of youth unemployment. We are educating students to get qualifications and based on our statistics, the more qualified there are, the more likely for them to be unemployed. 15% of the youth in tertiary level who have the qualification are unemployed *vis-à-vis* with those who have none. If you have no qualification, you are going to be in the 10% group, likely to be unemployed.

In reality, to mitigate climate change, it is important to adapt to it.

We will perish if we do not because the speed where we have to adapt is much greater than the speed we can mitigate. The programmes introduced are aimed at gathering skill-sets, leadership, delivery, activities and training as well as education which is to manage a single national challenge - climate adaption.

Take the oil palm industry, take what we are now doing is not going to be fit for Malaysia's 3-degree warmer planet and a warmer country. It is important to adapt schools, farmers, villages, communities, consumers and businesses around the central issues which is - how does Malaysia and its communities adapt to climate change? With that adaptation, we can have all the qualifications and investments but we not going to make any real impact on the issues covering population whereby almost 90% of Malaysians now will be in by 2050.

We need to have schools on sustainability whether it is to educate children or farmers. It will serve in developing environmentally conscious global citizens. Technology can be an enabler in measuring and providing data. With this information, people have the satisfaction and confidence to make their decisions anchored on sustainable investments.

In reference to a case study on the rice production in Bario, Sarawak, the region has 30 varieties of rice that are being reduced to one which is to mechanise industrialised pesticide income driving crops. At the same time, there is a diverse range of vegetables and wild plants, which enable the region to drive economic and nutritional development. There have been many changes among the people as rice farming is no longer a man's job. It is done by the women. There is no income nor status for the people to remain in Bario to be farmers. There are no incentives or opportunities such as e-commerce, product development, marketing and income generating activities that are being created for the next generation to build their life around farming. This is similar in the case of Kota Marudu, a coastal area in Sabah, where it will become a vulnerable area when climate change happens.

It is important to have innovation that can help to sustain the fishing industry in this region. We are taking 90% of the fishes in the South China Sea to make fishmeal. Then, we import the rest of the fish feed from the US to maintain the aquaculture in Malaysia. In reality, we have plants that could feed fish. Particularly we have innovation that can help to drive the local economy for the aquaculture system to be sustainable.

Another example is Cameron Highlands where it has strawberry farming. The local communities are from many generations who have huge indigenous knowledge that needs to be preserved for future generations.

By adapting real opportunities, the returns on investments, community and capital development, commercial opportunities including mainly climate resilience can be achieved. We have diversification in our financial portfolio as a risk mitigation. Diversification is equally important in the agricultural portfolio.

It is key to align national priorities and global goals. No ministry other than the Natural Resource and Energy Ministry, Malaysia[4], which is in charge of climate change delivery. It has strategies in place for the ministry to meet and change targets from their own budget. This is not unique to Malaysia as 193 countries have signed the UN SDG Agenda and its first goal is to achieve zero poverty by 2030 anywhere. There are 17 goals with 169 targets tied to timelines. Referring to Paul Milon's point is that there is a need to have a matrix system. Without the matrix, targets cannot be achieved. There will be no international comparison between the countries that commit to the SDGs, as they have no idea how they are going to achieve them. Unless, there is a mechanism to show how we can contribute to the goals or be able to demonstrate, incentivise and address the SDGs, we will never meet the targets.

The opportunity is to bring across to the ministries, the activities at the national scale that can serve to address the global challenge. This is an opportunity for Malaysia to position itself in leading Islamic finance to achieve the UN SDGs Agenda.

[4] Post Malaysia's General Election 14, the Natural Resource and Energy Minstry, Malaysia has been divided under the purview of two Ministries - Ministry of Water, Land & Natural Resources; and Ministry of Energy, Technology, Science, Climate Change & Environment.

RESPONDENT 3

DR LIZA MYDIN

Head, Strategic Research and Reporting,
Maybank Islamic, Malaysia

Now in contrast to many other countries, Malaysia has done very well in trying to bring the income inequality down. In the 1970s, the Gini co-efficient exceeded 0.5 mark. It has seen a reduction to 0.4. Hence, wealth inequality is high. A sum of 1% of our population owns 20% of wealth in Malaysia.

Now we can use savings as one the proxies to measure wealth. EPF, which is made mandatory shows that 1% of the savers owns 66% of the mandatory savings. Now, when we look at the discretionary savings, it is even worse as the Gini is currently 83.3%. While income inequality is derived from the labour market, it actually just measures the difference of how we are doing at a certain point of time.

Wealth inequality on the other hand is a more comprehensive measure of economic well being. It is actually a stock-variable and income is a flow variable. It is related to labour market activities. Wealth has a longer time period as it allows immediate access to capital and it is independent of what has happened in the past. What is important is that wealth is able to transcend beyond generations. It gives us the safety net to prevent poverty on future generations. Wealth is the capacity to match and maintain a particular standard of living.

Based on the current circumstances, youth unemployment and so forth, the numbers present a large part of our population in Malaysia are not saving or investing enough. The current CSR programmes are designed towards instant gratification. This is in addition to all the other programmes that the government has been carrying out which is instantaneous in nature. Simply this means that money is given and spent. There are programmes and incentives introduced by the government to provide support for households that requires funding i.e. cash support for children to go to school, buy uniforms, etc.

Another programme that is also within the CSR is funding for orphanages where there are investments that are selective in the homes that they support. We need to look at ways to repurpose the corporate CSR. Rather than being an instant gratification-type of programme, the next step is to create long-term solutions that can address wealth inequality that can support the sustainability agenda.

One approach to consider is to centralise the fund that will allow it to increase in size. The underlying structure could be a cash *waqf* structure where its principle amount will not be diminished and as a result, it will encourage corporates to contribute. Tax relief could be continued and this will not deprive the government its revenue.

On the points by Professor Belal on clever mathematics and Monem Salam's expertise to invest in Islamic principal protected investments as well as the SRI sukuk or the high impact sustainability programmes, and taking Paul Milon's findings, there are opportunities to gain profits from these sustainable projects. From the profits, the proceeds are channelled back to the B40 (the bottom 40% households with monthly income below RM3,900).

As a result, profits from the sustainable projects programme could then be channelled to a long-term saving plan for the lower income population. However, there must be terms and conditions that can help this group better manage their savings. The aim is to ensure that the proceeds go back directly to the low income account holders that will then create a multiplying impact on wealth generation.

KEY TAKEAWAYS

The Climate Change-Inequality Nexus

There is nothing novel about climate change. Various institutions and leaders have spoken on global warming, rising sea levels and climate-driven natural disasters. There is an urgent call for concrete action plans to address climate change. For the Muslim world, the Islamic Declaration on Global Climate Change 2015 testifies the Muslims' global commitment towards addressing climate change, which could speak something about the potential role of Islamic finance.

What appears to be physical impacts of climate change have indeed proven to be beyond just the loss of lives, properties and natural damage. While the effects are visible across all walks of life and social status, the severity of these effects are disproportionate. Flooding, for instance, while it affects big part of the populace, it is those who live by the riverbank (often poorer segment of the populace) who suffer the most.

Thus, when one looks at the segment in the society that is most vulnerable to suffering from climate change effects, one discovers that it affects the vulnerable and the disadvantaged more that the rest of the population. This accentuates the role of another variable known as inequality. While inequality is well recognised as an economic variable, its correlation with climate change is still very much under explored. This can perhaps be explained by the fact that inequality is multi dimensional. You have gender, income, assets, political power, race, age and ethnicity.

Having said that, data on crop yield from across the globe shows a dramatic decrease in Latin America, Africa and major parts of Asia. Coincidently, these regions are also host to some of the world's most impoverished populace. Low income countries in these poor regions have equally seen climate change costing their GDP growth of 5%.

This is made worse by GDP estimations under different climate scenario. At a 1.5 degree climate scenario, annual global GDP is expected to lose some US$21 trillion. An additional loss of US$12 trillion is expected under a climate scenario of 2.5 degree warming.

Opportunities Arise for Islamic Finance

What do we make of all these gloomy pictures? As it is always the case for the business and the financial world, problems create opportunities. Given the gloomy outlook painted above, it is clear that counteractions and countermeasures are needed and the huge financing required to fund this presents obvious opportunities for investors.

It makes achieving sustainable development more pronounced than ever. The private sector capital is key in this aspect. Retail as well as institutional investors and fund managers are poised to play a role to help the transition into sustainable economy.

Nonetheless, there are seriously very limited sustainable assets available globally. In Japan, for instance, there is only 0.8% of total assets managed under sustainable investment style, compared to the global average of about 26%. Thanks to Shariah-compliant asset classes, countries like Malaysia offer high concentration of sustainable assets to allure sustainable investors to come.

Thus, Islamic finance does have comparative advantage in facilitating such transition into sustainable economy. Its underlying principles like *maslahah*, which permits or prohibits something on the basis whether or not the public's interest is served and *maqasid*. It needs to propagate the purpose of preserving wealth (financial) and environment (natural resources), and to be in line with the promotion of environmental harmony, social goods and equality in humankind. These principles support the idea of climate change mitigation and adaptation through responsible management of natural resources and efficient utilisation of resources. It makes much sense then to explore Islamic finance to have a more substantive role in driving social and green finance.

Social and green finance are all about integrating social and environmental risks in one's investment decision-making. The outcome will be an investment decision that complies with high commitment and integrity towards the ESG investment. The challenge, however, remains that investors are still confused with the different methods in ascertaining sustainable investment.

Finding the Right Approach

There are five key methods currently in use to define what sustainable investment means. The long established and more common among investors is the negative screening approach. This straight-forward approach simply excludes all companies that do not meet the predetermined criteria of sustainable investment. These criteria may include social exclusion e.g., racism and ethnic bias, and environmental degradation e.g., fossil pollutants.

Then there is the positive screening approach. This more proactive approach supports rather than abandons companies that set positive examples of environmentally products or production as well as socially sound business practices. It rewards good environmental and social behaviour and practices of companies through the best-in-class approach where companies are being ranked on a continuum of the best and the worst in class.

The more recent and dynamic approach is the engagement approach or also coined as shareholder activism. This approach, unlike positive and negative screening, focuses on continuous active interaction through dialogues and formal shareholders' resolution to drive positive change out of what companies are adapting with respect to the green investment. More and more investors are adopting this approach especially in infusing the ESG factors in their investment portfolios.

Through shareholder activism both fund owners (investors) and issuers can have meaningful exchanges. This is the best way how education and awareness can come into action in real-world situations. Information flow not only from one side but both ways.

Thematic investment approach adds to the list as one of the convenient tools for investors to do sustainable investment. Also known as labelled investments, thematic investment approach allows investors to focus on environmental and social sectors specifically. An example is that investors focus on responsible manufactured transformed food or water and climate action strategies.

Finally, there is impact-based investment. As the name suggests, this investment approach requires that each investment decision-making should bring about social or environmental impacts. Investing in a microfinance, for instance, brings high impact towards alleviating poverty and empowering the disadvantaged and vulnerable to better deal with climate change effects.

Founded Optimism for a Sustainable Future

Again, all the above have direct linkages to Islamic finance. The ever growing issuances of green sukuk, the green bond equivalent in the conventional space, underscores the natural fit between Islamic finance and sustainable finance. From merely US$20 billion in 2013, the value of sukuk issuances have grown close to US$140 billion in 2017.

There is no doubt that the green sukuk market is still relatively small when compared to the green bond market. Nonetheless, this is where the opportunity exists for green sukuk to complement conventional green bond to finance climate change actions. The world needs some US$4 trillion per annum between now until 2030 to support the energy transition to a low carbon economy. There is no way that green bonds alone can meet the requirement. More funds are needed and green sukuk simply increase such needed supply in the capital market.

Funds are critical element to support sustainable development. Equally if not more important element, however, are for standards to ensure that sustainable finance is used to finance projects or initiatives that are proven to be sustainable as mandated. For instance with respect to green finance, there are at least two key international standards namely the *Green Bond Principles* (GBP) and the *Climate Bond Standards*. Regionally, one has the *ASEAN Green Bond Standards* (ASEAN GBS). There are also national standards established namely that of Japan and China to name a few.

Different standards can lead to confusion and uncertainty to investors, especially for cross-border transactions. Hence, it is important for policymakers, regulators and the market in general to step up efforts in working towards acceptable standards globally. Nonetheless, caution should be taken so as not to overemphasise the top-down approach. Consultative approach might balance up and makes sustainable finance to be driven interchangeably by bottom-up approach.

Diagram 1 postulates the potential role of Islamic finance under the two-pole scenario of (in) equality. The existing inequality (bottom pole) as a result of failed capitalism and misguided globalisation is being exacerbated by climate change effects. Islamic finance then has the opportunity to stop (at the punctuated point), which is the ever worsening climate effects. Once Islamic finance intervenes, the Islamic finance universe comprising various instruments namely the sukuk etc., it reduces [mitigate and adapt] the adverse climate effects to eventually reach equality (top pole).

At this point, the ecosystem has reached its sustainability. Diagram 1 presents the Islamic finance-sustainability nexus which rests at the core of this session.

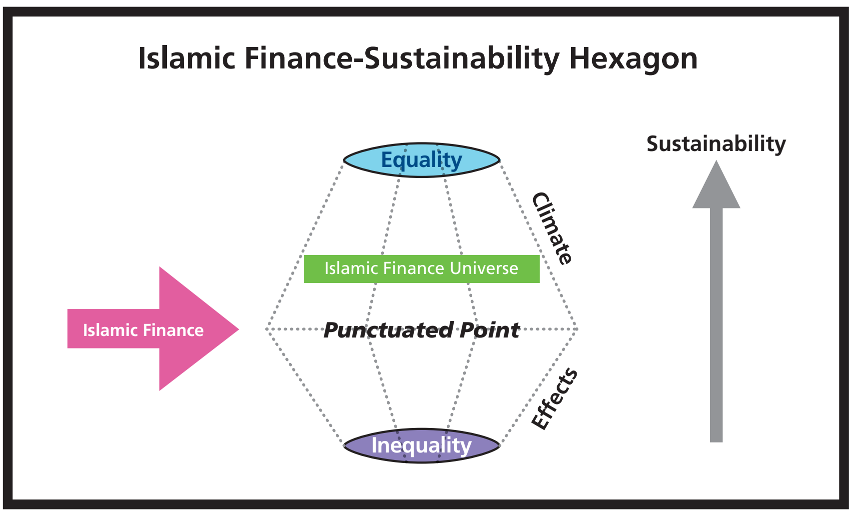

Diagram 1

SESSION 3

Demonstration Effect

CHAIR'S OPENING REMARKS

Datuk Zainal Izlan Zainal Abidin
Deputy Chief Executive, Securities Commission Malaysia

PRESENTER 1
Waqaf Saham Larkin Sentral

Jamaludin Md Ali
Chief Executive, Waqaf An-Nur Corporation

PRESENTER 2
Quantum Solar Park Malaysia – Green Sukuk

Lee Choo Boo
Group Managing Director / Chief Executive Officer, ITRAMAS Corporation

PRESENTER 3
Cenviro Sdn Bhd – Leading the Green Revolution

Khalid Bahsoon
Managing Director, Cenviro, Malaysia

KEY TAKEAWAYS

SUMMARY OF RESEARCH PAPER PRESENTATION
PRESENTER

Dr Salman Syed Ali
Fifth Visiting Scholar, SC-OCIS Scholar
in Residence Programme 2016/2017

CHAIR'S OPENING REMARKS

DATUK ZAINAL IZLAN ZAINAL ABIDIN

Deputy Chief Executive, Securities Commission Malaysia (SC)

One of the key issues raised was the need to develop the right ecosystem to position Islamic finance and ICM to utilise SRI, which is gaining significant traction in the conventional space. This is important to ensure that Islamic finance and the ICM remain relevant as a sound ecosystem that is able to meet long-term funding required for infrastructure projects. In the case of Malaysia, we have a comprehensive ecosystem, which has proven to be facilitative, effective and quite successful. We are also expanding ICM to include the sustainable and responsible investing angle.

The SC is doing this from a `5*i*'s approach, which are Issuance, Investors, Instruments, Internal culture and governance, and Information architecture. We are looking at these five `i's at various stages. In a few of the cases, we have the support of the industry. This is not for the short-haul but rather for a long-term development that we have to undertake together.

The *Islamic Fund and Wealth Management Blueprint* launched early 2017 has three strategic thrusts in which one of them is to position Malaysia as a regional centre for Shariah-compliant SRI. This is also in line with our theme for this year's roundtable. There are nine broad recommendations in the Blueprint that require collective and collaborative efforts to enable the achievement of the objectives. All the three cases by our representatives from three different organisations will share what they have done in relation to the theme of today's roundtable.

PRESENTER 1

Waqaf Saham Larkin Sentral

JAMALUDIN MD ALI

Chief Executive, Waqaf An-Nur Corporation, Malaysia

We have introduced the *waqf* shares concept for the development of the Larkin Sentral Property, initially owned by Johor Corporation (JCorp). It was taken over from a private company and in 2006, JCorp endowed the majority of its shares in Larkin Sentral to an entity known as Waqaf An-Nur Corporation (WANCorp). JCorp views Larkin Sentral as a public utility company as it operates and owns both the transportation terminal and wet market. The bus terminal is one of the biggest in Malaysia with a capacity to accommodate nine million people using buses within the peninsular Malaysia, Singapore and Southern Thailand.

JCorp is also involved in CSR where a portion of the profits is channelled toward CSR activities. Prior to 2000, CSR activities were not really structured, and then we decided to make it well structured, more systematic, transparent and sustainable. At the same time, we tried to make sure that it was aligned to Islam and it was the reason that JCorp established a company called WANCorp in 2000.

We collaborated with the Johor Islamic Religious Council in which it gave us empowerment in the sense that we had the Memorandum of Agreement (MOA) whereby WANCorp was appointed the special manager for our *waqf* asset. In 2000, JCorp endowed a portion of its shares, the listed shares together with the unlisted shares to WANCorp, which comprised the shares of KPJ, a listed company on Bursa Malaysia.

JCorp owned about 60% and a portion of about 7.1% were endowed by this entity, WANCorp together with the unlisted companies as well as the shares of Larkin Sentral. Now it is fully *waqf* and we have one building in Johor. Over the years, if you look at the numbers in 2006, JCorp endowed the shares which were worth about RM140 million in terms of the market value at that time. It had quadrupled to RM630 million and the benefit in the form of dividend that we received from the listed and unlisted companies was RM202 million, and total assets was about RM850 million. We benchmarked against the Bursa Malaysia's Index from 2006 to 2017, and from the Bursa indication, it increased by almost 100%. However, in our case, it was about 200%. Our shares outperformed the market, during this period. From the benefit which was the dividend received from these companies, 90% had been distributed to our CSR activities and 5% was contributed to the Johor State Religious Council. About RM5 million was given to them.

Every year, we receive a dividend of about RM10 million whereby RM5 million is reinvested, and then another RM5 million is channelled to the charitable activities. The dividend received is channelled to four main areas. First, the mosque management. JCorp builds mosques and manages our own mosques. We are also involved in healthcare, education and training, and social economic development. The sixth mosque developed is the Masjid Sultan Iskandar located in Johor Bahru. It can accommodate 5,000 people. The cost to build the mosque was contributed by the JCorp group of companies with the total amount of RM28 million. Five more mosques are also located in Johor. Its uniqueness is that three of them are located in shopping complexes. The seventh mosque that we are going to develop will be at our headquarters in Johor. Next year, another mosque will be set-up above a shopping complex.

Secondly, as healthcare has become costly, we are involved in setting up hospitals through the Klinik Wakaf An Nur and dialysis centre. Some of the dividends received are distributed to build a hospital in Pasir Gudang, Johor. We also have 22 clinics across the country including in Sabah and Sarawak. The fee charged is only RM5 to receive medical treatment from the doctors who are attached to KPJ hospitals. There are 66 dialysis machines at the centres. These clinics are located at the compound of the mosques in every state. We also have mobile clinics to make it accessible for patients in the rural areas. The interesting part is that, even though it is located in mosques, about 10% of the patients are non-Muslims.

On education, there is no sponsorship provided but we have conducted a number of programmes in collaboration with the Ministry of Education to encourage students to understand entrepreneurship and how they can build their career to set up a business or work in a business entity. We have trained about 34,000 students and formed Alumni of

Bestari with 2,000 members whereby 20% of them are involved in business.

Secondly is the *Mutawwif* Training programme which is an initiative to ensure that the *mutawwif* (the tour guide) is competent in handling the pilgrims to perform their *hajj*, and *umrah*. We have worked with Tabung Haji (Hajj Pilgrim Fund Board) to train 1,355 *mutawwif*. Based on our assessment, about 60% are part-time *mutawwif.* From this, they receive a side income. Another 10% are full time *mutawwif* who are attached to travel agencies.

Thirdly is the social economic development. We are also involved in microcredit financing. WANCorp has a *waqf* community centre to train single mothers in improving their income and a *Waqf* Brigade, which is involved in CSR activities. Our microcredit, Dana Niaga is based on *qardhul hasan* concept with no charges. This is given out to those who want to start a business or expand their business operation with a minimum amount of RM3,000. Almost 400 entrepreneurs mainly women have received our funding from this initiative. At the same time, we also organise training for underprivileged groups in the rural area. We have a programme at the *waqf* community centres where we teach them to become tailors. Out of 165 participants, 18 have started their own businesses either at home or in our shoplots at a reasonable rental.

The fourth one under the Waqf Brigade deals with providing humanity aid and the search and rescue operations. It is based on volunteerism whereby 100 of our employees are involved in the Waqf Brigade which also includes our teams from KFC and Pizza Hut. This is supported by the medical and operation aid by KPJ Healthcare Bhd. These are all the CSR activities, where the team participates in rescue, blood donation, builds homes and others. In addition, we conduct surveys as part of our assessment to gauge the public awareness of our brand.

What is our long-term strategy? From 2000 to 2006, we were exclusive having only JCorp carrying out *waqf*. In 2017, we changed our approach from being exclusive to inclusive to get people and the public to participate in our *waqf* activities. Waqaf Saham Larkin Sentral was launched in May 2017. Larkin Sentral, is a rundown building where bus tickets are sold and there is no online ticketing system. The upgrading of the terminal is much needed to cater for the lower and middle income groups who travel around the country.

We require about RM85 million to upgrade and refurbish the terminal to have a better parking space and online ticketing system. There are bus and taxi services, a wet market and bazaar stores. Currently, there are about 1,000 small traders in operation of whom 60% are Malay Muslims, and 40% are non-Malays. There is also a mosque, clinic and other facilities. Out of the total cost of RM85 million, RM15 million is allocated for the terminal operating system, RM14 million will be utilised for the wet market, and RM27 million for the multi-storey carpark.

The uniqueness of our offering is that Larkin Sentral is a public utility commercial building and we are offering shares to the public to subscribe. The concept is very simple but because it is in the form of shares, we need to produce a prospectus and register with the SC. This prospectus is just like the IPO prospectus which contains the information about Larkin Sentral and its accounts. The concept is that the subscribers or the *waqif* will subscribe to the shares and immediately will endow the shares to Waqaf Saham Larkin Sentral. What do they get? Apart from doing good, there will be a 7% individual tax deduction and 7% more will be deducted from the total of companies' aggregate income. With the upgrading, we expect improvements in terms of income, profitability gain for these companies and some portion of the dividend will be redistributed to tenants of the terminal in terms of lowering the rental payment. Most importantly is that the *waqf* is transparent because there is a financial disclosure. Any dividends that we receive, we then will give reasonable rental rate to the eligible tenants of Larkin Sentral and contribute a portion of about 10% to the state religious council for its distribution towards education, healthcare and to the needy. These programmes are supported by the Johor Group authority, the Ministry of Finance and the SC's Shariah Advisory Council.

PRESENTER 2

Quantum Solar Park Malaysia – Green Sukuk

LEE CHOO BOO

Group Managing Director / Chief Executive Officer, ITRAMAS Corporation, Malaysia

On 17 August 2017, Quantum Solar Park, a consortium led by ITRAMAS Corporation was given the right to develop three 50MW AC solar photovoltaic plants. The concession is a 21-year power purchase agreement with our national utility company, Tenaga Nasional under a Build-Operate-Own privatisation model.

The background to the large quota of renewable energy (RE) goes back to 2010 when the government wanted to encourage the implementation of RE and introduced 'Feed in Tariff' (FIT) Programme with high tariffs. Unfortunately, some parties took advantage in securing the FIT quota. Instead of delivering the quota given (by constructing the plants), they sold the rights/quotas for a quick money. At some point, the profit margins became too small and projects could not take off. There were also issues in getting financing especially for the smaller projects as banks are not familiar with such (green) projects. As a result, there were not enough solar plants being constructed.

By 2015, the government realised that they were behind in the implementation of the RE target. The 10th Malaysia plan target was to achieve 985MW by 2015 or 5.5% of the RE mix in power generation. However, at that time, the store capacity was about 350MW and the solar accounted only for 220 MW. Now the National Renewable Energy Policy and Action Plan 2020 target has set 11% RE in terms of generation mix, which led to the development of this project.

In terms of project overview, TNB has actually set a guideline of maximum 50MW per site. This is because there is no storage in solar PV plants. Therefore, TNB cannot afford to transmit excess power from particular location to another. That will be contributing to a large amount of losses. Our projects are located in Gurun, Kedah; Machang, Terengganu; and Jasin, Malacca – all in the Malaysian peninsular. The total project cost, including the building, sub-station and part of the transmission line to link to the injection points is approximately RM1.25 billion and financing structure was 80:20 debt to equity ratio. The off-taker in Peninsular Malaysia is TNB.

The concessions were granted to three companies – Quantum Solar Park (Kedah), Quantum Solar Park (Melaka) and Quantum Solar Park (Terengganu), which are all part of the ITRAMAS Corporation. A special purpose vehicle (SPV), Quantum Solar Park Semenanjung (QSPS) was formed as the holding company for the three companies to raise the required funding.

Scatec Solar Solutions was appointed as the engineering procurement contractor (EPC) and the original equipment manufacturer (OEM) contractor. But the way it will be structured is that ITRAMAS would be the contractor of the sub-EPC. The reason is that we would like to build capacity in the local solar industry and ITRAMAS has the experience. The management of all local sub-contractors will be undertaken by ITRAMAS.

In terms of the social impact and sustainability, this project is significant. It has created about 3,000 jobs, and there are about 1,500 workers in the field to complete the plant by June 2018. We have made a conscious effort to hire as many Malaysian workers. This project is sufficient to power up 93,000 households for the next 21 years and will reduce a total of 193 tonnes of carbon per year and very importantly, the development of local solar industry. This is in line with the Malaysian National Agenda of Renewable Energy and global trends towards RE and solar plants. On value chain, the projects goes all the way from the project development to the operation and maintenance. These would include engineering design, geological, hydrological, soil investigation all the way to high voltage substation building and grid connection and the detailed engineering, the plant design, contracting procurement and constructions. The projects are currently in progress and after June, the Commercial Operation Date would be operation and maintenance for 21 years.

The first site is in Kedah, which involved building the transmission line from the plant to the sub-station and the land size is approximately about 183 acres. It is a big area and involves about 189,000 solar modules. The project in Terengganu has a different challenge because of the potential flooding. Now, investors are requiring mitigation of risks and we have to do 100 years flood data instead of 50 years, so the platform has to be 5 meters above sea level. It requires more land because the solar irradiance is lower in Terengganu. Therefore, there is variation in terms of land size and 190,000 panels as well. There is a different challenge in Malacca where there is an oil palm plantation with a lot of organic content in the soil. The challenge is how to flatten the area.

These projects are financed via sukuk with 36 tranches, from 1-year to 18-year notes based on the Shariah principle of *murabahah*. QSPS is the issuer for the green sukuk. The first power plant project was funded through a portfolio mechanism which was the first project of its kind in the country where three companies/projects are housed into one structure. Naturally, investors are concerned about the risk.

Essentially, the three companies operate their projects independently. They are linked to QSPS, the holding company as a solution to mitigate risks. However, when there is an issue or failure at one site, it will not affect the other two. This is ‘ring fencing’ where each company has its own separate contract with the lessor.

Furthermore, there is a strong contractual structure. Optimal risk allocation and the finance service cover ratio is between 1.8 - 2.5, above the minimum 1.25. Financial modelling is based on the P90 scenario rather than P75 or P50. P90 meaning there is a 90% probability that the production estimates will exceed in any given year. We have a contingent equity of RM50 million allocated in case of cost overrun and bank guarantees coverage.

How do we incentivise people to go into green sukuk? When this project was first awarded, the main consideration was timing. The government was in a hurry to accelerate the energy delivery as we were facing many challenges to put the financing in place. We spoke to the Asian Development Bank and several foreign banks. At that time, one of the main considerations was timing. We found out that for the banks to come in, you need to conduct a social impact study and an environmental impact study and it will take a long time, like nine months. Bank loans were not really an option because we need long tenure.

The SC, the Malaysia International Islamic Financial Centre and the World Bank provided assistance on how to make the three projects issue a green sukuk. When we realised that it would not take much effort and time to certify the projects as green, we went ahead. It was less than a month so we would be able to meet our deadline in terms of obligations. Our green sukuk was certified by CICERO as `dark green’ which is the highest category. For our rating, it was AA.

The sukuk issuance is a landmark because it is the largest green sukuk to date. It has received numerous awards - Deal of the Year in Dubai; the Asia Best Practice Citation in the Project Finance International awards organised by Thompson Reuters; the Alpha Southeast Asia Best Sustainable Finance deal; the most Innovative Islamic Finance Deal in Southeast Asia in 2017; and recently the Deal of the Year for Project Infrastructure Finance by Islamic Finance News.

PRESENTER 3

Cenviro Sdn Bhd – Leading the Green Revolution

KHALID BAHSOON
Managing Director, Cenviro

Cenviro is 100% owned by Khazanah Nasional and its direction was to build an environmental-friendly company, which contributes to the nation as best as possible. Cenviro owns and operates the largest waste management integrated facility. It has high standard facilities that provide waste management solutions including collection, management, recycling, recovery and final disposal. Under the *Scheduled Waste Act*, the *Environment Qualities Schedule Waste Regulation 2005*, it handles 76 out of 77 scheduled wastes in Malaysia such as industrial, petroleum and chemical wastes.

There are a few companies within the Cenviro Group. Idaman handles all the municipal or household wastes in the northern region of Kedah and Perlis. Shan Poornam Metals, a company located in Penang handles all the electronic waste i.e. telephones and computers discards. They recover 98% of the waste that it receives such as gold, platinum, silver which we then resell to the market. Kualiti Alam, the main company is based in Seremban, Negeri Sembilan and manages the industrial waste facilities.

Today, we produce 38,000 tonnes of the municipal waste daily and unfortunately 95% of this waste goes to the non-sanitary land fill which are dump sites. There are only 14 sanitary landfills in the country and every attempt so far to build waste to energy plant for the municipal waste has failed. The government has a serious issue and I believe we are at a national crisis now. The Government targets about 40% of the waste to be diverted from the landfill in order to reduce carbon dioxide. The renewal energy target is for 2,080MW to be installed, which we are nowhere near there.

This gives you an indication of all the dumpsites in the country. About 95% of which are non-sanitary means the smelly stuff that comes from the trash, liquid that goes down the sink and pollutes the water that we drink. Cenviro has come out with several plans to mitigate this problem. The fastest way to go is from waste to energy facilities that is common all over the world.

Over the last 20 years, Kualiti Alam, which is the subsidiary of Cenviro, took waste management as a national interest. Every company in the industrial production must have some way to dispose its waste. Industrial companies intending to invest in Malaysia would enquire about the waste management facilities. Where can they dispose waste? As foreign direct investments grow, the number of industries would grow and therefore more wastes are generated. In 2013, we built a facility called the Environmental Preservation and Innovation Centre (EPIC) which is a training and education centre. This is to raise the bar on waste management awareness in Malaysia. We have a programme called 'Recycle for Life' and the Cenviro Ecopark is expected to be the Silicone Valley for recycling in Malaysia and the region.

Kualiti Alam's total land size is 240.6 acres which has an integrated waste facility. We have a restricted landfill which is technically secured that puts the final residue from industrial waste as opposed to sanitary landfill which is for the municipal waste. This secured landfill covers 40.6 acres of the site. We have two incinerators that have been running for the last 17 years. However, in 2014 we decided to build a scheduled waste to energy rather than purely incineration as part of our green initiatives. We are installing a 2MW of self-producing power for our own consumption. Our waste to energy plant which is 3.4MW will export to the grid and is able to deal with 100 tons of scheduled waste per day.

We have the first non-incineration clinical waste treatment facilities. Before 2013, we were not even in the clinical waste business but today we handle 99% wastes from the private hospitals including Kumpulan Perubatan Johor and Colombia Hospital. This facility does not burn but treats and sterilises the waste. At the end, the residue goes back into our waste to the energy plant to produce energy because it has a very high calorific value. The secured landfill has actually been used for 15 years and instead of finding new land to build a new secure landfill, we decided to construct a vertical landfill. This is basically building a geogrid wall around the existing landfill and reusing it and for another 30 years using the same site.

Our Cenviro EcoPark is in a 100-acre site where we have EPIC and we are developing all the recycling and recovery facilities. We are starting a project, a Waste, Electrical, Electronics, and Equipment (WEEE) project, which is white goods - all your refrigerators, washing machines, air conditioners and microwaves can be sent here to be recovered. This project is targeted to ready by February 2019. In addition, we are also doing PET (polyethylene terephthalate) bottles in collaboration with F&N and Coca Cola as well as the public to recover bottles that will be recycled into fibre to produce clothes or shoes.

The WEEE plant is fully automated and we remove all the chlorofluorocarbon (CFC) gas, to make sure the refridgerators are safe before we process them. In terms of the environmental impact, this is what Kualiti Alam has been saving for the environment. We are removing CFC gases, pesticides, solvents, carbon dioxide reduction and thus, protecting the environment. EPIC conducts training to the public, government with the aim of raising the level of waste management in Malaysia. The focus areas are human capital development, innovation, green economy, public awareness and social responsibility. We have collaborated with various groups such as the Chartered Institute of Waste Management, which provide professional certification in the Waste Management sector in Malaysia. The EPIC building itself is a platinum-rated building index.

Another programme, a CSR programme that we are working on is `Recycle for Life'. Our idea is to provide every student in Malaysia a smart card to encourage and teach them how to recycle. Students bring their recyclables to school where we will weigh them and credit their cards with cash. They can then use this card to purchase their stationery, food at canteen or at any merchant shop that accepts the cards, which include Giant and Mydin hypermarkets; Popular book store, etc. It is also linked to an application where you can actually go to an e-wallet where you can spend the money anywhere. We also donate 3% of our purchases to MyKasih Foundation which is given back to the community.

The government's target is to have 22% recycling by 2020 and we believe by using this card, we can achieve 40%. We have already launched the programme in Kedah and Perlis in March 2018. The social impact is that we are keeping Malaysia healthy as the waste is channelled to the right place. We are encouraging 4R, upgrading knowledge and community service and social awareness as part of our community initiatives. These are the SDGs which Cenviro are contributing to and we are moving towards the circular economy and the whole concept of recovery.

One of the key things about a green bond or a green sukuk is how we define green. It is because the standard of green in developing countries versus developed countries is different. For example, in Malaysia if we have 95% of non-sanitary landfill, and where we build a sanitary landfill, that is a move towards green and we need to take it one step at a time.

Then we talked about Islamic finance which should have the real social impact and I support the idea of *waqf*. We should be looking at the social impact when we talk about Islamic finance. How do we go down to the ground and actually make the people benefit from the various activities? We hope for a positive environmental and social impact and we think these are the key principles. As the verse 141 of *Surah Al An'am*, "But waste not by excess, for Allah loveth not the wasters". We need to recycle, recover and keep waste away from dumpsites.

KEY TAKEAWAYS

This session demonstrates real cases and projects for the industry to learn and relearn from the experience. Challenges and issues that were faced by these entities may help the industry to relook into areas of improvements in the effort to build a sustainable Islamic finance.

Ecosystem to Spur Innovation

Facilitative ecosystem plays an important factor to ensure timely innovation and ongoing review of the social and economic needs of the society. This includes the ability of business and social entities to implement new innovation that can benefit the *Ummah*. A key factor that will shape the landscape is the willingness of policymakers to review and enhance existing infrastructure and policies to enable Islamic finance grow with sustainability while being impactful to the economy. Strong leadership, be it at the institutional or individual level is a must. The efforts undertaken by SC in paving ways for greater sustainability agenda has resulted in several important milestones e.g. SRI and green sukuk.

Market players, for example, would have an expectation for the regulators to play a role and define what is green in a market and what is green for this region. For example, in the case of Cenviro, the challenge that it faced when it was looking at green concepts was the benchmark e.g. in Europe if you do waste to energy, you are considered green. If you do anything else lower than waste to energy, you are not green.

Awareness is Key

Educating and changing mind-set of key investors is pertinent. We must learn why we are not that successful in creating public awareness for some projects that can create impact to the real economy and society at large. When we talk about investments, we are still profit centric. For example, in terms of subscription of the *waqf* shares, at the moment JCorp only get only 5% of the total offer, which is about RM5 million. The total number of *waqif* is about 8,000, 10% of the *waqif* are basically non-Muslims. Sceptics and low awareness require investment and resources. In the case of *waqf* share, it involves the public; an unfamiliar structure for many, thus the challenge is real and daunting. To create awareness, JCorp has spent about RM1 million and yet it is not easy to get subscribers. Among the approaches that JCorp is exploring includes working together with various parties including non-Muslim stakeholders e.g. the Chinese Chamber of Commerce particularly in Johor as well as communicating such benefits through the radio i.e. Fly FM and social media.

In further understanding the *waqf* share, let us see how it is different. The investors will buy the *waqf* shares and endow the shares to WANCorp. Eventually WANCorp will own 100% of the shares. The total amount that is required is about RM85 million and is divided into two parts. The first part is the development of the refurbishment or upgrading of the terminal itself, plus the installation of the terminal operating system. The second is the purchase of land, as well as the building of the multi-storey car park.

The level of awareness and education may vary according to nature of the project. Although many institutional investors are aware of green bonds and sukuk development, continued and a greater degree of awareness is still necessary.

This relates to the earlier discussion on building relevant trust and impact. This calls for the industry to collaborate effectively, track and monitor the outcomes of the effort.

SUMMARY OF RESEARCH PAPER PRESENTATION

PRESENTER

Dr Salman Syed Ali
Fifth Visiting Scholar, SC-OCIS
Scholar in Residence Programme 2016/2017

Based on key findings of the research paper entitled `Promoting Equity-Based Islamic Finance: Macro and Micro Considerations', the presentation contextualises how systems created culture and practices which relates to the mindset of equity culture needed to better undertake equity-based Islamic finance. From the macro side, there are numerous discussions on why there are smaller offerings on the equity instruments in Islamic finance in general. Many highlighted the supply side as the issue due to banks being regulated in a certain manner that they may have limited appetite to step into the equity market, and it is also due to past trainings of bankers, making it more difficult for them to adopt the change. From the demand perspective, it is important to understand the types of finance solutions, which customers require for the supply side to deliver.

Murabahah is the mostly used form of financing as compared to any other contracts. In the past, debt was considered vital for modern commerce. When the financial crisis hit, the situation reversed, and the world was crippled with too much debt that it became 26% of the world's GDP in 2005. People began to wonder if there is any optimal debt to equity ratio that if it goes beyond a certain point, that debt is bad for growth. There are different supply side factors e.g. tax systems, the bankers, the human psychology etc. that contribute to this situation. This is simply the empirical evidence to the mode of finance used by Islamic banks. Using the data from 2012, more than 78% is *murabahah*, 11% is leasing and hire purchase. *Mudharabah* and other types of financing are very small which is less than 2%. This trend is similar in many countries including Kuwait, Saudi Arabia, Jordan, Germany and Egypt.

The focus is on the reasons for seekers of finance not using *musharakah* which I would highlight on a survey carried out in Saudi Arabia. For small businesses i.e., small manufacturing businesses, the one identified reason for not opting *musharakah* was that they wanted to remain as the sole owner since the business turnover was high and they did not want to lose the authority of controlling the management. Other reasons included avoiding the disclosure of information, lack of trust in partners (worry if the partner will misuse the business) and limitation to expand the business as they would be obligated to get approval from the partner. Those who opted for *musharakah* was mainly because of the needs for technical and managerial support along with their finance. Another reason why people opted for *musharakah* was to diversify their financial resources especially when they were under financial pressure. This is an old study by Abalkhail and Presley in 2002. There was another study done in Australia, a non-Muslim environment, where 59.5% of small firms indicated their willingness to use profit and loss sharing because it provided risk sharing apart from linking cost of funds to profitability. For those who did not prefer the option, it was due to the intervention in management that would increase complexity of decision making. The point to focus is on the delusion of control, be it from the Muslim or the non-Muslim society.

In relation to this, there is a large literature on the relevance of optimal ownership and optimum control literature. What this paper attempts to do is simply trying to build a model, taking the returns and riskiness of the project, and adding the third element which is how much control you can exercise in that. This takes into account the population who will opt for a *murabahah* and *musharakah* type of contract. This paper focuses on the role of demand, and analyses how the risk, return and ownership concerns of the seekers of the fund affect their choices among Islamic finance contracts i.e., between *murabahah*, *mudharabah* and the partnership. *Murabahah* contract dominates the investors as banks are not concerned with the ownership dilution cost to their entrepreneurs under the partnership. Where the accounting for this cost is complex, a simple model though can show that with limited liability rule, high-risk entrepreneurs seek *murabahah* and low-risk entrepreneurs seek partnerships. Without limited liability, low and high-risk entrepreneurs prefer *murabahah* while an intermediate risk entrepreneur seeks partnerships. Banks do not derive any benefit or utility from ownership whereas entrepreneurs derive the utility from retaining control of the ownership. This element is not priced in the partnership profit sharing ratio.

Hence, that constitutes the reason why people do not opt for this as entrepreneurs think that they are not being compensated for the loss of their control.

The theoretical model that is derived from this paper explains further that this behaviour where it takes into account expected returns and riskiness of the projects. Diagrams and findings of these equations are carried out with a discrete probability distribution. This illustrates entrepreneurs' choices as they have various reasons not to opt for partnership. That is what I have attempted in a micro model. In the macro model, I look into the capital flow. There are four types of flow based on the IMF components i.e. FDI that is mostly equity, equity portfolio inflows, portfolio debt inflows and other liabilities. If we could divide these two, the other liabilities and debt portfolio, calling it as the debt-based finance, and you can look at the portfolio equity investment and FDI of the countries as an equity.

Based on this segregation, we can look at the factors and discover the relevant trends. For most of the countries, debt portfolio investment is the highest and FDI is the lowest. In addition to these trends, I further examined relevant rules and regulations as well as governance using some descriptive variables such as governance, accountability and political stability, governance effectiveness, regulatory quality, rules of law, or corruption to see if these factors matter. The results confirm that they do indeed matter, based on the available data from 17 Organisation of Islamic Cooperation (OIC) countries. For every system, the culture helps perpetuate the system. If you want to do equity financing, we need an equity culture encompassing rules of law, governance and information sharing as well as credit rating bureaus to help increase trust among the people. It is important to note that this research is not to suggest complexity of equity financing. Instead, it is to analyse from the demand-side point of view and the factors that will promote equity-based products.

SESSION 4

Conclusion and Recommendations

CHAIR'S OPENING REMARKS

Dr Basil Mustafa

Oxford Centre for Islamic Studies, UK

RAPPORTEUR 1

Siti Rosina Attaullah

Manager, Malaysia International Islamic Financial Centre

RAPPORTEUR 2

Dr Adam Ng

Deputy Director, Research Management Centre International Centre for Education in Islamic Finance, Malaysia

RAPPORTEUR 3

Dr Farizal Mohd Razalli

Head for International Mobility, Faculty of Social Sciences and Humanities, Universiti Kebangsaan Malaysia

CHAIR'S OPENING REMARKS

DR BASIL MUSTAFA
Senior Bursar, Oxford Centre for Islamic Studies, UK

This deliberation offers an opportunity to ponder over issues relating to social finance, impact investing, the role of ICM in facilitating change towards sustainable economic growth and the size of the challenges presented by the inequality gap and climate change. All of these are important contemporary issues of which are relevant to our societies. Delivering a long-term social impact and investing starts with a vision and certain values. Both components are inspired by the faith in Islam with its worldview of sharing prosperity, alleviation of poverty and economics inclusion.

It is said that humanity has not found a better way to effect change other than role modelling which still stands as the most viable way to effect change. For example, the Vanguard Group, an investment management company has exceeded expectations in terms of profit and the service it has made to society.

To share two stories, one is about Banco Real of Brazil. It is an old commercial bank that was turned into a new venture by Fabio Barbosa, Chief Executive Officer (CEO) in 1998. Despite being in a difficult situation, it has sealed certain values whereby it managed to turn into a new bank, enabling it to serve a new society. In 2008, Banco Real was named by World Bank as the sustainable bank of the year and it won the Financial Times Sustainable Awards, which is the overall emerging market prize. Banco Real began its successful journey in becoming a globally prominent entity by positioning value at the hearts of its business strategy. Barbosa believed that banks have a societal role in its mission towards its financial goals. It can integrate sustainable practices into its business models and at the same time, it can make profit. Barbosa introduced a transformative sustainability initiative that included social and environmental risk analysis, ethical investment funding, and microcredit operation in addition to reducing waste.

According to the bank, credit is suspended to companies that do not comply with the social and environmental obligations which include using slave labour, asbestos or manufacturing weapons. This was an unprecedented move for a commercial bank. In 2004, the bank rejected loan applications from 27 companies because they did not meet the condition. It grew from strand to strand in 2007 whereby its total asset was US$90.2 billion and revenue for that year was US$17.7 billion. Within the same year, the bank also employed 24,750 employees. It can happen with a vision and a set of values.

The second example is from the Muslim world that happened in the late 1960s. It is from the late Solah Atiyyah who was raised in a poverty-stricken village called *Tafahnah Al-Asyraf* in Egypt. After graduating as an agricultural engineer, he started a business alongside his eight other friends whereby each contributed 200 Egyptian pounds. Solah Atiyyah aspired the idea that God is the 10th partner of our business and 10% of our profit will go to a social impact project or charity. This was his vision based on his values whereby his vision was to eliminate illiteracy, poverty and disease in his province through business and charitable projects.

Over the next 40 years, he established schools, colleges, hospitals, orphanages and even a railway that helped to serve to connect these projects with the rest of the country. This story is a legacy of Solah Atiyyah on what he did to inspire young people and demonstrate that a successful business can be integrated with social benefits.

RAPPORTEUR 1

SITI ROSINA ATTAULLAH

Manager, Malaysia International Islamic Financial Centre

Rafe Haneef pointed out that Islamic finance has passed the survival mode to set the footprint of the industry. To ensure sustainability of the industry from the perspective of growth and qualities, this requires the industry to shift to a higher objective – for both equity and debt instruments to be not only Shariah compliant but also sustainable from an ESG perspective.

Daud Vicary started off his session with Kenya's project on how a donation of US$1.25million from the *zakat* fund given by the state of Perlis in Malaysia was channelled to help Kenya. As a result, each family successfully harvested 180kg green gram from 2kg certified green seed, which was then used for health, education and savings. What is even more admirable is how the communities decided to pay back the *zakat* and helped to create a compounding impact to benefit another one million of Kenya's population.

To highlight key `action calls' and `suggestions' that are directed to the expectation of the session - how can the capital markets take the lead in this sustainability agenda? What are the essential considerations to outline a roadmap in championing this area?

Throughout Daud's presentation, he raised six key aspects of suggestions and considerations for a sustainable roadmap of the Islamic capital market that became the crux of the discussion:

1. The importance on focussing on the real economy and impact. He called for more

innovation and instruments that are truly risk sharing and real economic performance based.

2. The approach to a sustainable roadmap is ground up rather than top down. Great projects would drive wider involvement. This relates to his earlier points where he highlighted that market forces are changing, technology is fast moving and real projects would bring change.

3. The link to Social Finance. His case study on Kenya clearly demonstrated how social finance can make an impact and drive real economy.

4. To build an environment and processes that are based on relevance, trust and impact, where the industry needs to change a predominant attitude that focuses more on form rather than substance.

5. Education to raise awareness as essential aspects in this process.

6. Understanding the demands of millennials. He shared some key statistics to reflect expectations of the millennials who are now inclined towards ESG compliance.

Building from his presentation, the three respondents, Professor Ashraf, Professor Belal and Aamir further shared several important suggestions:

1. Professor Ashraf further discussed the aspect of the real economy and the roles of social finance. He emphasised that if both parties – the business and philanthropy entities, systematically focuses on the outcomes, this could achieve a win-win situation. He also emphasised the importance of raising awareness as new innovations will create a new set of clients. To elaborate this, Professor Ashraf shared ISRA's recent innovation temporary cash, *waqf* as an example, where there are operational aspects and the implementation process that requires awareness and education to the investors or financial institutions.

2. A key point by Professor Belal is how Mathematics plays a key role as a practical method in supporting areas mentioned by Daud Vicary. For example, efficient allocation of capital and its link to the real economy. Building ground up momentum can be achieved by designing instruments customised for the objectives of finance – to reflect specificities that Islamic finance carries.

3. Aamir Rehman expanded the discussion on the roles of social finance and its importance in building the brand of 'Trust, Relevant and Impact' to the industry. The size and participation of Muslims in social finance reflect the potential and importance of social finance. In enhancing the brand

of Islamic finance, scale and customers' experience will have important impressions to the brand creation of the industry.

4. Another two important aspects highlighted by Aamir are for the industry to look into past assumptions that may no longer be applicable, and the importance of listening to be disengaged.

Among the suggestions and action calls are the following:

- The importance to drive the demand side. As a summary, it is an important component of the ecosystem in charting the long-term progress of the sustainability agenda.

- To explore positive screening rather than the current negative screening, which was highlighted by Dato Dr Nik Ramlah. Dato Nik also touched on the point of understanding millennials' expectations on return on investments coupled with preference to ESG.

- From the aspect of implementation, CSR and banking should be integrated rather than compartmentalised into two different segments. Relating to this point by Professor Akram, Dato' Redza also shared how the Global Alliance for Banking on Values implants the sustainability aspects into its vision and mission, which can be a lesson for the industry.

- There is a need to discuss strategies and explore ways to ensure that the industry is not relying on incentives to drive sustainability; hence, the earlier aspect on the demand side is vital.

The 'call to action' points provided a checklist on what are the considerations and areas that we as an industry need to look into in developing a sustainability roadmap for the Islamic capital market. This could be carried out by integrating all views or developing an action plan that can help realise future opportunities and the impact it serves for the society.

RAPPORTEUR 2

DR ADAM NG

Deputy Director, Research Management Centre, International Centre for Education in Islamic Finance, Malaysia

On mitigating inequality and climate change consideration for economic transformation, the first speaker Paul Milon from BNP Paribas highlighted the business economic and humanity case for action. It is no longer a case based on thought but it requires the action to address issues. Paul Milon highlighted several examples of sustainability investing to create positive environmental and social impact.

In the case of sustainable sukuk, one of the key issues is that the market is still in its infancy stage. The key takeaways are on the allocation of capital, responsible stewardship, transparency and commitment. More emphasis should be given to the enhancement of social impact and the reduction of inequality itself. This aspect was not clearly presented in the analysis. There is also the need to assess the consideration on real strategic and organic growth of consideration. For example, it should not be green washing such as pursuing energy efficiency through 'clean' coal (which is more cost effective than renewable energy such as solar and wind). Rather, companies embracing energy efficiency should pursue green projects on the basis of protecting the environment.

Monem Salam discussed happiness and the concept of materiality through the social environmental scoring. Saturna has also developed a social transparency and social qualities score. It has come up to the social consolidated score which is quite common across other data providers such as MSCI, Bloomberg and so forth. Then, Monem emphasised the role of fund managers and fund owners, as well as the importance of ESG integration and impact investing. While it is quite common for a large corporation or a listed corporation to disclose their ESG performance, there is also a need to have a measurement of small-medium enterprises (SMEs) compliance with environmental and social responsibility. In the case of Malaysia, there are a few banks that are embarking on this journey, whereby they are able to measure the SME compliance which is known to be difficult. It is easy for SMEs to be considering these issues. There are the initiatives by Malaysian Global Innovation and Creativity Centre (MaGIC) whereby it has the impact driven organisation or impact driven enterprise. This is linked to Siti Rosina's point on social enterprise which can be a part of the scoring so called ecosystem.

In the next discussion by Professor Sayed Azam-Ali, he highlighted two issues which we can consider adapting to change and the skills to adapt. He highlighted poor cases of research among the OIC countries. Muslim countries are in the frontline of climate change impact to the agriculture sector. While 81% of Malaysians are worried about climate change, we do not know whether Malaysians will take action at the grass root level to combat climate change especially if they have to pay a higher price for energy efficiency or renewable energy.

The interesting point by Professor Sayed is the call for adaptation of 'return on investment' taking into account human capital development and agricultural diversification, and nutrition. Recently, we developed and termed a few matrices such as the Environmental profit and loss, Social Return on Investment and the Return on Ethics. These are soft intangible matrices but have intangible benefits that perhaps the millennials would be looking forward to.

Our final speaker, Dr Liza Mydin highlighted an interesting case on income and health inequality. While income inequality has reduced in Malaysia over the years, there is a rise of wealth inequality. Dr Liza gave a good contrast between the EPF or known Kumpulan Wang Simpanan Pekerja and Amanah Saham Nasional Bhd. Another key takeaway is that CSR should not be driven by instant gratification or instant publicity but it should be an organic growth. Dr Liza proposed a model for consideration encompassing the need for a central management and dataship for both social and environmental issues to manage the potential use of cash *waqf* and having tax relief to be invested in the SRI sukuk to promote sustainable programme, and empower the B40 households.

There is a need to have a framework of macro, micro, meso and meta-economic known as systemnomic. These are used to analyse human economics which is understood as complex living systems, evolving within a dynamically changing complex heterosystem. It is no longer the issue of top down or bottom up but it is the whole ecosystem. The systemic or system thinking is important to champion this noble cause.

Professor Dato' Dr Azmi Omar highlighted the role of INCEIF as the key education arm to incorporate social finance sustainability into its co-curriculum. Professor Engku highlighted the need to increase market awareness, Dato' Redza talked about enhancing retail products which can also reduce carbon footprint. The debate between who is the true asset owner comes to the shareholder or the people, and this was highlighted by Professor Belal. He mentioned the need for civil society to drive shareholders. Supporting his points, Hafiz from the World Bank raised the need to have a regulatory role of value-based intermediation by BNM, SRI Sukuk Framework by the SC, and to develop a *fiqh* of integrated ecosystem on top of just Shariah compliance which is the way forward as a point raised by Datuk Dr Daud Bakar on Shariah Scholarship and activism. To end with a quote used during the case study on the Banco Real by Dr Basil, "Instead of just say the next quarter, how about the next quarter of the century?".

RAPPORTEUR 3

DR FARIZAL MOHD RAZALLI

Head, Programme for Strategy and International Relations, Universiti Kebangsaan Malaysia

Datuk Zainal Izlan Zainal Abidin opened session three by emphasising the need to provide for the right ecosystem to move forward in enhancing the value of Islamic capital market through social and impact investment. It is important to learn from past lessons and to manage future challenges. In summary, there are three elements which firstly is the need to have strong leadership, be it at the institutional level or individual level. Secondly, there are the issues of empowerment, which is often recognised by many of us, authorities especially, governments, all stakeholders. The most challenging aspect is how to manage these issues. Thirdly, is the public relations (PR) or the advocacy aspects. The presenters highlighted the importance in having good products and ideas, but these must come with strategies for implementation. With a good PR plan, upcoming challenges can be faced with ease.

Jamaludin, our speaker in session three shared his personal experience of JCorp, focusing on the Larkin Sentral project where he presented the challenges and steps towards offering shares to the public and getting buy-in from various stakeholders. This is a challenge that needs to be addressed with stakeholders. The test is to see if Islamic finance moves beyond the elitist discussion and whether it is inclusive.

The Larkin Sentral project is an innovative structure but we need to understand and address the challenges and issues if these were to be replicated by other states. Collaboration between the parties in the state of Johor manifest the importance to have strong leadership among the authorities and the willingness to empower.

It enables empowerment and how the company and people, can really take on this idea of social investment with its social impact. These are in reference to the two case studies – energy sectors and waste management projects as presented by Lee Choo Boo and Khalid Bahsoon respectively.

The QSP project managers addressed the challenges by approaching the public in the respective ways. This also touches on PR and advocacy through QSP. They approached all the main stakeholders especially the main investors and managed to convince the people by having reputable contractors into the projects.

In the case presented by Khalid Bahsoon, on the waste management by Cenviro, it involves not only the corporate shareholders, they even go to as far as engaging students through the innovative Smart Card whereby they can use this Smart Card to sell recyclable products. It educates the younger generation on the importance of savings and the understanding on social entrepreneurship that also is part of social and impact investment. Cenviro sold their ideas for this project and it proves that it is not only possible to gain profit but it also proves to be beneficial to the economy. This is where Khazanah plays a strong leadership in attaching national interest into commercial projects in all their initiatives. More creative and innovative ideas are therefore, needed.

With regard to *waqf*, and the two other case studies on energy and waste management, where they link the financial community and society with other relevant stakeholders, i.e. government and regulators, there is a need for a clear roadmap on how to plan a synchronised action for the people to take ownership. The issue is how do we replicate successes and address the challenges in order to invest for profit and also endow for common good.

ROUNDTABLE SPEAKER PROFILES

HRH Sultan Nazrin Muizzuddin Shah

Sultan of Perak, Malaysia
Royal Patron for Malaysia's Islamic Finance Initiative

His Royal Highness Sultan Nazrin Muizzuddin Shah is the 35th Sultan of the state of Perak, Malaysia. He ascended to the throne on the 29 May 2014, upon the demise of his father, His Royal Highness Sultan Azlan Muhibbuddin Shah.

His Royal Highness is currently the Royal Patron for Malaysia's Islamic Finance Initiative and previously the Financial Ambassador for the Malaysian International Islamic Financial Centre (MIFC). His Royal Highness is Chancellor of the University of Malaya; Honorary Fellow of Worcester College, Oxford, and of Magdalene College and St Edmund's College, both Cambridge; Member of the Board of Trustees of the Oxford Centre for Islamic Studies (OCIS); Royal Fellow of the Institute of Strategic and International Studies, Malaysia; and Royal Fellow of the Malaysian Institute of Defence and Security.

His research interests are in the areas of economic and political development in Southeast Asia, economic growth in developing countries and economic history. He has written articles and spoken on a wide range of issues including constitutional monarchy, nation-building, governance, Islam, Islamic finance, ethno-religious relations, education and socio-economic development.

His Royal Highness holds a BA in Philosophy, Politics and Economics from University of Oxford and a PhD in Political Economy and Government from Harvard University.

Tan Sri Dato' Seri Ranjit Ajit Singh

Chairman

Securities Commission Malaysia

Tan Sri Dato' Seri Ranjit Ajit Singh is the Executive Chairman of the Securities Commission Malaysia (SC). He was previously Managing Director of the SC and has extensive experience in the field of finance and securities market regulation and has spearheaded many key initiatives in the development and reform of Malaysia's capital market.

Tan Sri Ranjit was appointed the Vice-Chairman of the governing Board of the International Organization of Securities Commissions (IOSCO), the global body of capital market regulators and was elected as the Chairman of IOSCO's Growth and Emerging Markets Committee (GEM), the largest Committee within IOSCO, representing 107 countries. Tan Sri Ranjit is also the Chairman of the ASEAN Capital Markets Forum (ACMF), a body tasked to spearhead market integration efforts within the region and comprises capital market authorities from ASEAN.

Tan Sri Ranjit chairs the Securities Industry Development Corporation (SIDC), the Malaysian Venture Capital and Private Equity Development Council (MVCDC) and the Capital Market Development Fund (CMDF). He is also the Vice-Chairman of the Asian Institute of Finance and a member of the Board of the Labuan Financial Services Authority and the Financial Reporting Foundation as well as a board member of the Malaysian Institute of Integrity (IIM).

Tan Sri Ranjit is trained as a financial economist and accountant. He holds a Bachelor of Economics (Honours) degree and a Master of Economics degree in Finance from Monash University, Melbourne. He was also conferred the degree of Doctor of Laws honoris causa by Monash University Melbourne. He is a fellow of CPA Australia and has worked in academia, consulting and accounting in Australia and Malaysia.

Note: Tan Sri Dato' Seri Ranjit Ajit Singh retired as Chairman, Securities Commission Malaysia on 31 October 2018.

Dr Farhan Nizami

Director

Oxford Centre for Islamic Studies, UK

Farhan Nizami CBE (D.Phil. Oxon) is the Prince of Wales Fellow in the study of the Islamic World, Magdalen College, University of Oxford and the Founder Director of the Oxford Centre for Islamic Studies. He read Modern History at Wadham College.

From 1983, he was a Fellow of St Cross College, Oxford: Rothman's Fellow in Muslim History and subsequently Fellow in Islamic Studies.

He is an Emeritus Fellow of St Cross College and a member of the Faculty of History and of Oriental Studies at University of Oxford. He is Founder Editor of the *Journal of Islamic Studies* (OUP, 1990-to date); Series Editor, *Makers of Islamic Civilization* (OUP, 2004-To Date). He specialises in Muslim social and intellectual history.

Datuk Zainal Izlan Zainal Abidin

Managing Director, Development and Islamic Markets
Securities Commission Malaysia

Datuk Zainal Izlan Zainal Abidin is Managing Director for Development and Islamic Markets at the Securities Commission Malaysia (SC). He joined the SC in 2011. He is also Chairman of Capital Markets Malaysia, an entity established by the SC to promote the Malaysian capital market.

He has over 25 years' experience in the financial services industry, primarily in the capital market. He began his career with Citibank Malaysia before joining MIDF Amanah Asset Management (MIDF Asset). During part of his tenure with MIDF Asset, he was seconded to Schroder Investment Management in London. He was CEO/Director of MIDF Asset and Head of the Asset Management Division of the MIDF Group before joining i-VCAP Management, an Islamic fund management firm, as its first CEO.

He holds a Bachelor of Science in Economics degree (dual concentration in Accounting & Finance) from The Wharton School, University of Pennsylvania, USA, and is a Chartered Financial Analyst (CFA) charterholder. Datuk Zainal Izlan presently sits on the Technical Committees of the Islamic Financial Services Board (IFSB) and the Finance Accreditation Agency Malaysia. He is also a member of the Malaysian Institute of Accountants' Islamic Finance Committee. He was previously President of CFA Malaysia, Vice Chairman of the Malaysian Association of Asset Managers (MAAM) and Chairman of MAAM Islamic Fund Management Sub-Committee.

Note: Datuk Zainal Izlan was appointed Deputy Chief Executive of the SC on 5 April 2018.

Rafe Haneef

Chief Executive Officer
CIMB Islamic Bank, Malaysia

Rafe Haneef became the CEO of CIMB Islamic Bank Bhd on 4 January 2016 and is in charge of the CIMB Group's Islamic banking and finance franchise. CIMB Islamic operates as a parallel franchise to the Group's conventional operations and covers Islamic wholesale banking, Islamic consumer banking, Islamic commercial banking and Islamic asset management and investment.

Rafe has 20 years of experience covering a range of businesses and functional roles gained from three global banks, an international asset management company and a legal firm, at various financial centres including London, Dubai and Kuala Lumpur.

He read Law at the International Islamic University Malaysia (IIUM) and also holds an LL.M degree from the Harvard Law School. He was admitted to the Malaysian Bar in 1995 and qualified for the New York State Bar in 1997.

Rafe first joined HSBC Investment Bank plc, London in 1999 and thereafter HSBC Financial Services Middle East, Dubai where he set up the global sukuk business in 2001. Subsequently, he became the Global Head of Islamic Finance business at ABN AMRO Dubai in 2004 covering both consumer and corporate businesses. In 2006, he moved back to Malaysia with Citigroup Asia as the Regional Head for Islamic banking, Asia Pacific. He later joined HSBC Amanah in 2010 as the CEO, Malaysia and Managing Director of Global Markets, ASP.

Daud Vicary Abdullah

Managing Director
DVA Advisory, Malaysia

Daud Vicary Abdullah is currently Managing Director of DVA Consulting an Islamic finance advisory company. He is the former President and CEO of International Centre of Education in Islamic Finance (INCEIF), the global university of Islamic Finance, which is a unique post-graduate institution focused only on Islamic finance. He has been in the finance and consulting industry for over 44 years, with significant experience in Asia, Europe, Latin America and the Middle East. Since 2002, he has focused exclusively on Islamic finance where he has contributed to a number of books on the subject and has co-authored a book on Islamic finance entitled *Islamic Finance: Why it makes sense*. He is also a frequent speaker and commentator on matters relating to Islamic finance.

Prior to INCEIF, Daud was the Global Islamic Finance Leader with Deloitte. He was also previously Acting CEO of the Asian Finance Bank, an Islamic bank based in Malaysia, and was the first Managing Director of Hong Leong Islamic Bank. During his time at Deloitte, he helped to establish the first Islamic Bank in China and during his career; he has been instrumental in advising regulatory institutions on the establishment of Islamic Finance Operations.

He is a Chartered Islamic Finance Professional (CIFP), a qualified accountant and FCPA (Australia), Distinguished Fellow of the Islamic Banking and Finance Institute of Malaysia (IBFIM) and a former Board member (2003 – 2007) of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). He was the recipient of the 2015 LARIBA award for Riba Free Finance and received a Congressional citation for his work in Islamic finance.

Currently, Daud acts as a Consultant to the Gateway Group, is a member of the Global Group in Islamic Finance & Investment (Global IFIG), under the Foreign & Commonwealth Office, UK, a member of the Steering Committee for The Royal Award for Islamic Finance, a member of the Islamic Finance Committee at the Malaysia Institute of Accountants (MIA), a member of the Board of Trustees of RFI Foundation and an advisory Board member of several Fintech Companies and Chairman of the Board of Advisers at both IslamicBanker.com and the Astana International Financial Centre (AIFC). He is currently advising the International Federation of Red Cross and Red Crescent Societies on Islamic Finance.

Professor Dr Ashraf Md Hashim

Chief Executive Officer, ISRA Consultancy
Member, Shariah Advisory Council of the Securities Commission Malaysia

Professor Dr Ashraf Md Hashim is the Chief Executive Officer of ISRA Consultancy. He is also a Senior Researcher at International Research Academy for Islamic Finance (ISRA) and a Professor at INCEIF.

Dr Ashraf currently sits on Bank Negara Malaysia's Shariah Advisory Council as its Deputy Chairman and the SC's Shariah Advisory Council. He is also a member of the Shariah Committee for the International Islamic Liquidity Management Corporation (IILM) and Chairman of the Shariah Committee of Bursa Malaysia. In addition, he also serves as a member of the National Fatwa Council of Malaysia and is a registered Shariah adviser of the SC, advising a few REIT companies particularly in Singapore. He is also a member of the Shariah Committee for Tabung Haji (Pilgrimage Fund) and the Association of Islamic Banking Association Malaysia (AIBIM). He is actively involved in many consultation works related to Islamic finance in Malaysia and abroad, among others the Islamic Bank of Australia (Project) and Noor Takaful Nigeria (Chairman of Advisory Council of Experts). Recently, he was appointed as Chairman for Panel of Experts in Muamalat Matters under the Islamic Development Division, Prime Minister's Department Malaysia.

Dr Ashraf obtained his PhD (Islamic Law) from the University of Birmingham, UK, Masters in Fiqh and Usul Fiqh from the University of Jordan and a BA in Shariah from the Islamic University in Madinah, Saudi Arabia. He is also a holder of Postgraduate Diploma in Shariah Law and Practice (DSLP) from IIUM.

Dr Belal Ehsan Baaquie

Professor
International Centre for Education in Islamic Finance, Malaysia

Dr Belal Ehsan Baaquie received his primary training in theoretical physics at Caltech and Cornell University. He spent over 30 years at the National University of Singapore, and extended his research from physics to finance.

For the last 20 years, Dr Baaquie has applied the mathematics of theoretical physics to finance and economics, having published many books and research papers on this subject. Dr Baaquie is currently a professor at INCEIF.

Aamir A Rehman

Senior Advisor
United Nations Development Programme

Aamir A Rehman is an asset manager, author, and advisor. He has board-level and senior executive experience in investment management, strategy, and is a consultant to multilateral organisations. He currently serves as a Senior Advisor to the United Nations Development Programme (UNDP) on catalysing Islamic finance in service of the Sustainable Development Goals.

Aamir is a partner at Hoopoe Capital, a financial firm serving US clients seeking investment solutions and social impact. He is also an advisor to Fajr Capital, a private equity group of which he was a co-founder and managing director. In addition to his work with UNDP, Aamir Rehman is a consultant to the World Bank Group's Finance and Markets Global Practice. He serves on the boards of directors of Dinar Standard, an advisory and research firm, and Fajr Capital Advisors, a member of the Fajr Capital Group.

He is a Senior Fellow at the Richard Paul Richman Center for Business, Law, and Public Policy at Columbia University. His contributions to the center relate to emerging economies, financial markets, and capital flows, with a focus on the Middle East.

Aamir is the author of the books, *Dubai & Co.: Global Strategies for Doing Business in the Gulf States* (McGraw-Hill, 2007) and *Gulf Capital & Islamic Finance: The Rise of the New Global Players* (McGraw-Hill, 2009). He is also author of numerous articles on international business strategy, the Gulf states, capital flows, and socially responsible investments.

Aamir holds a bachelor's degree from Harvard College, a master's degree in Middle Eastern Studies from the Harvard Graduate School of Arts and Sciences, and an MBA from the Harvard Business School.

Paul Milon

ESG Integration and Sustainability Specialist
Asia Pacific Consultant Relations and Investment Specialist
BNP Paribas Asset Management, Hong Kong

Paul Milon joined BNP Paribas Asset Management (BNPP AM) in January 2008 and has more than 10 years of experience in the asset management industry. In his current position, he leads ESG (Environmental, Social and Governance) integration by Asian investment teams, as well as BNPP AM's sustainability initiatives in Asia Pacific, in close collaboration with BNPP AM's Global Sustainability Centre. As a member of the investment organisation, he also works closely with Asian investment teams to market these capabilities to sales and clients globally, including representing BNP Paribas Asset Management's investment capabilities to the investment consultant community across the region.

Prior to that, Paul held various positions within BNP Paribas Asset Management in Hong Kong and Paris. In his previous position, Paul launched and managed the award-winning BNPP AM Investment Academy in Asia. Before relocating to Hong Kong, he worked as an ESG analyst in the ESG Research team in Paris.

Paul holds a Master's in Management with a major in Entrepreneurship from the EDHEC Business School, France.

Monem Salam

President and Executive Director
Saturna, Malaysia

Monem Salam is the President and Executive Director of Saturna Sdn Bhd, Saturna Capital's wholly-owned Malaysian subsidiary, and a Director at Saturna Capital. He received his degrees from the University of Texas: BA (Austin) and MBA (Dallas).

He worked as the Chief Investment Officer for ITG & Associates (Dallas) until 1999; then as a representative with Morgan Stanley (suburban Dallas) until joining Saturna Capital in June 2003. He served as the Director of Islamic investing and Deputy Portfolio Manager to the Amana Mutual Funds Trust until moving to Kuala Lumpur in 2012 to oversee Saturna.

Monem is Adjunct Professor at IE Business School and speaks at Islamic finance/investment conferences worldwide and he is co-author of *A Muslim's Guide to Investing and Personal Finance*. Monem has authored the chapter on Islamic Investing in both *Contemporary Islamic Finance*, and *Islamic Capital Markets* as well as contributes articles to leading Islamic financial magazines. As a recognition of his achievements in Islamic economy, Monem was ranked among 500 of the Islamic world's most prominent and influential leaders by ISLAMICA 500 in 2015.

Professor Sayed Azam-Ali

Chief Executive Officer
Crops For the Future, Malaysia

Professor Sayed Azam-Ali is the CEO of Crops For the Future (CFF), the world's first and only centre dedicated to research on underutilised crops for food and non-food uses. Prior to CFF, Professor Azam-Ali was the Vice-Provost (Research and Internationalisation) at the University of Nottingham Malaysia Campus. He co-ordinated the successful bid by the University of Nottingham to co-host the global CFF organisation against stiff international competition.

In 2017, he was elected as Chair of the Association of International Research and Development Centers for Agriculture (AIRCA), a nine-member alliance focused on increasing global food security by supporting smallholder agriculture within healthy sustainable and climate-smart landscapes. He is also the Chair in Global Food Security at the University of Nottingham. He was recently appointed as the Food Security Subject Matter Expert for the Government of Malaysia's new 30-year transformation plan 'TN50'.

Professor Azam-Ali holds a PhD in Environmental Physics from the University of Nottingham. He has over 100 publications in peer-reviewed journals, symposium proceedings, book chapters and one textbook.

Dr Liza Mydin

Head, Strategic Research and Reporting

Maybank Islamic, Malaysia

Dr Liza Mydin is currently the Head of Research and Reporting unit in the Strategy Department of Maybank Islamic. She holds a PhD degree from INCEIF, The Global University of Islamic Finance.

Dr Liza previously worked at PricewaterhouseCoopers and was a part of their Global Islamic Finance Advisory team. In 2010, she joined Al Rajhi Bank Malaysia as the Vice President of Compliance and served the bank until 2014 where she provided advisory, review and implementation of regulatory requirements. In 2016, Liza undertook a Visiting Scholar position at the George Washington University, Washington DC and was involved in conducting post-doctoral research for the Islamicity Index Project.

She has written a number of books and articles about the Islamic economy, governance and ethical behaviours. She presented an Islamic Institutions Governance Paper at the Harvard Law School in 2014. She co-authored two books in 2017 titled, *Reformation and Development in the Muslim World* by Palgrave Macmillan and *Resource Rich Muslim Countries and Islamic Institutional Reforms* (currently in Press) by Peter Lang.

Jamaludin Md Ali

Chief Executive
Waqaf An-Nur Corporation, Malaysia

Jamaludin Md Ali is the Chief Executive of Waqaf An Nur Corporation Bhd, a waqf entity established by Johor Corporation (JCorp) to manage its assets. He is also the Senior Vice President, Corporate Responsibility Division of JCorp.

He started his career with Malayan Banking Bhd as a Trainee Officer from March 1982 until May 1982; and was subsequently with Permodalan Nasional Bhd until May 1991 as an International Fund Manager. He joined JCorp in June 1991 and in 1996, was appointed Chief Executive of JCorp's Investment Division, a position which he held until 1996.

He was appointed Managing Director of Johor Capital Holdings Sdn Bhd in January 1998 and held the position until December 1999. In January 2000, he was appointed as Senior General Manager of JCorp until December 2000 and was subsequently promoted to Group Chief Operating officer of JCorp from 2001 until 2006. He was appointed as a Director of QSR Brands Bhd (QSR Brands) and KFC Holdings (Malaysia) Bhd (KFC Holdings) in June 2006 and was appointed as Managing Director for both QSR Brands and KFC Holdings in June 2006 and July 2006, respectively. He retired as Managing Director for both QSR Brands and KFC Holdings in December 2012. In 2012, he was appointed as Executive Director of Kulim (Malaysia) Bhd until 2016. He has 27 years of experience in investment and corporate finance, more than six years' experience in managing an international franchised restaurant chain, retail and food processing operations and four years in the plantation sector. He presently holds directorships in several companies within the JCorp Group.

Jamaludin graduated with a Bachelor of Economics (Honours) Degree from University of Malaya in 1982 and holds a Master of Business Administration from the University of Strathclyde, Glasgow, UK which he obtained in 1987.

Lee Choo Boo

Group Managing Director/Chief Executive Officer
ITRAMAS Corporation, Malaysia

Lee Choo Boo has more than 30 years of experience in advanced semiconductor manufacturing, LED, Intelligent Transport System (ITS) and Renewable Energy industries.

He started his career as an equipment engineer in Hitachi Semiconductor Malaysia in 1985 before moving on to Hewlett-Packard Malaysia (HPM) in 1987 as a mechanical design engineer for electrophotographic products. He subsequently held numerous engineering and management positions in Research and Development, Product Development and Manufacturing for High Brightness LEDs. His research work in the area of Electrophotographic Printheads earned him the distinction of becoming the first Malaysian engineer in HPM to obtain a United States patent. He left HPM after 10 years to join Read-Rite Malaysia, a US-based disk drive company, as Director of Operations responsible for the entire engineering and manufacturing functions with a workforce of over 4,500 people.

He founded ITRAMAS Corporation Sdn Bhd in 1999, going into the areas of Solid State (LED) product manufacturing, Intelligent Transport Systems, Security and Surveillance Solutions and Large Scale Solar (LSS) PV Power Plant development and construction. He sits on the board of Quantum Solar Park Malaysia Sdn Bhd, the largest Solar Power Plant (SPP) developer in the country.

He was the first Deputy President of ITS society of Malaysia and is currently an Industry Advisory Panel Member of Monash University's School of Electrical and Computer System Engineering.

Khalid Bahsoon

Managing Director
Cenviro, Malaysia

Khalid Bahsoon is the Managing Director of Cenviro Sdn Bhd and a Director of Cenviro Sdn Bhd's Group of Companies since 2013. He also sits on the Board of E-Idaman Sdn Bhd Group and Shan Poornam Sdn Bhd Group. He is responsible for Cenviro Group of Companies' restructuring and rebranding, and managing operations of both scheduled (hazardous) and non-scheduled (non-hazardous) waste industries to becoming a sustainably growing company.

In 2010, Khalid was appointed the CEO of Mardec Bhd, an integrated rubber company. Prior to this, he was the CEO of Recycle Energy Sdn Bhd, operating a municipal waste to energy plant in Malaysia. He previously served as the Group CEO for Core Competencies Sdn Bhd, a corporation that was involved in waste-to-energy projects in Malaysia. He was responsible for the restructuring and strategise for the growth of the Group.

Khalid has over 20 years of experience including but not limited to corporate restructuring, crisis management and business stabilisation in many parts of the world including the UK, Sierra Leone, Angola and Malaysia.

He holds an LLB (Honours) degree in Law from the University of London.

Dr Salman Syed Ali

Lead Economist, Islamic Research and Training Institute/
SC-OCIS Scholar in Residence 2016/2017

Dr Salman Syed Ali is Lead Economist at the Islamic Research and Training Institute (IRTI), Islamic Development Bank. He was also the SC-OCIS Visiting Fellow in Islamic Finance at OCIS, Oxford University (2016-2017). Previously he served as Manager of Research Division at IRTI, and earlier as the Director of Research and Director of Training in the International Institute of Islamic Economics (IIIE) at International Islamic University Islamabad (IIUI).

He holds B.Sc. (Hons) in Economics from the International Islamic University, Islamabad, Pakistan and Ph.D. from the University of Pennsylvania, US His areas of interest are Islamic finance, capital markets and game theory. He has a number of research articles and publications to his credit. He has been an organiser and moderator for a number of major conferences in his field. He is currently the editor of the journal, Islamic Economic Studies. He represented the Islamic Development Bank (IsDB) in the Technical Committee and various Working Groups of the IFSB. During his career at IRTI, he has led many research projects for IsDB and for other international organisations as well as contributed in many key development initiatives and policy reports for the progress of Islamic economics and finance.

Dr Basil Mustafa

Senior Bursar
Oxford Centre for Islamic Studies, UK

Dr Basil Mustafa is the Nelson Mandela Fellow in Educational Studies at OCIS. He held an Associate Fellowship at the Saïd Business School, University of Oxford (2010-2012) and was an Associate Tutor at the Department for Continuing Education, University of Oxford (1998-2008). He was awarded a Visiting Professorship at the International Business School, Universiti Teknologi Malaysia (2014-2017).

Basil has special interest in e-learning and distance learning programmes. His taught courses at the Oxford University Department for Continuing Education include 'Islam in the Modern World' and 'Islam and the West'. He has contributed to the Leadership Development Programme of the Executive Education Centre, Saïd Business School. At the Saïd Business School, Basil has participated as lecturer at the Oxford Leadership Advantage Programme for State Farm Insurance, USA, and coached leadership competency workshops for the Abu Dhabi Civil Service Department (2009-2011). He has been a speaker and coach for the Program for Advanced Leadership and Management, Madinah, Saudi Arabia.

Siti Rosina Attaullah

Manager
Malaysia International Islamic Financial Centre

Siti Rosina Attaullah is currently working in the MIFC Promotions Unit of Bank Negara Malaysia (BNM). She began her career with BNM in 2005 in the Islamic Banking and Takaful Department.

She joined KFH Research Limited, the former investment, advisory and research arm of Kuwait Finance House after seven years with BNM. As the Head of Islamic Capital Markets Research Unit, she was responsible for overseeing research and advisory services for Islamic finance, namely Islamic banking, takaful, sukuk, Islamic fund management, financial inclusion, as well as regulation and financial stability matters. Her portfolio at KFHR comprised projects with multilateral organisations, a pension fund, corporate clients and KFH's subsidiaries in Turkey, Saudi Arabia and Bahrain.

Apart from her roles in KFH Research, she was involved in projects with several institutions. Among others, she was appointed as national consultant for a talent migration research in ASEAN for a multilateral development bank. In addition, she was involved in developing a learning framework through the Panel Development Committee of the Finance Accreditation Agency. She also had the opportunity to handle a global event for the Association of the Islamic Banking Institutions in Malaysia (AIBIM). She also delivered a number of regulatory and market research on Islamic finance to several clients.

Siti Rosina received her Master's Degree in Finance from the University of Warwick and Bachelor of Economics (Honours) from Universiti Utara Malaysia. She is a proud alumni of the MOSAIC International Leadership programme, an international leadership programme organised by the MOSAIC UK, founded by HRH The Prince of Wales.

Dr Adam Ng

Deputy Director, Research Management Centre
International Centre for Education in Islamic Finance, Malaysia
SC-OCIS Scholar-in-Residence 2014/2015

Dr Adam Ng is Deputy Director of Research Management Centre and Assistant Professor at INCEIF. He is also a Fellow at the London-based Royal Society of Arts, and has been working on several sustainable finance research projects for the General Council for Islamic Banks and Financial Institutions (CIBAFI), Ministry of Energy, Green Technology and Water of Malaysia, Khazanah Nasional, CIMB Islamic, among others.

A co-author of a book, *Social Capital and Risk Sharing: An Islamic Finance Paradigm* (Palgrave Macmillan, New York), his research has been published in Renewable and Sustainable Energy Reviews, Energy Economics, Economic Modelling and the Asian Institute of Chartered Banker. Adam was Research Associate at the Oxford's Global Economic Governance Programme (2015-2016) and SC-OCIS Scholar-in-Residence in Islamic Finance (2014-2015).

During his service at BNM, he contributed to strategic initiatives in Islamic financial infrastructure development and central banking collaboration, principally the establishment of IILM in 2010. He served in the pioneering team of the newly established supranational institution formed by 12 central banks and one multilateral development banking group, and laid the foundation for the issuance of the world's first A-1 rated US dollar short-term sukuk.

He received a PhD in Islamic Finance from INCEIF and a Bachelor of Civil Law from University of Oxford.

Dr Farizal Mohd Razalli

Head, Programme for Strategy and International Relations
Universiti Kebangsaan Malaysia

Dr Farizal Razalli holds a PhD in Political Science from the prestigious Sciences Po, Paris, France where he specialises in energy and foreign policy. Doing research has been part of his DNA where he spent most of his professional career spanning over 11 years in corporate and academic research.

Among the institutions he has been affiliated with are the Asian Strategy & Leadership Institute (ASLI), Khazanah Nasional (Khazanah), FLACSO, Buenos Aires, Lee Kuan Yew School of Public Policy, Singapore and the Centre des Etudes de Relations Internationales (CERI), Paris. Currently, he is the Head of Programme for Strategy and International Relations at the Universiti Kebangsaan Malaysia (UKM).

He is currently a consultant to the World Bank Group on Islamic Finance and PPP and also sits on the Advisory Board of the Paris-based AB Artho Consultancy for sustainable and luxury tourism and lifestyle. He formerly advised Wisma Putra's division on Regional Cooperation on European and Latin American affairs apart from consulting the Strategic Planning Division, Tenaga Nasional Bhd, the Malaysian Parliament on ASEAN Fact Finding Committee on the Drug Menace (AIFOCOM) as well as ASEAN Inter-Parliamentary General Assembly (AIPA).

Wan Abdul Rahim Kamil

Project Director and Consultant
Securities Commission Malaysia

Wan Abdul Rahim Kamil currently serves as an Islamic capital market consultant with the SC.

Throughout his three decades of involvement in Islamic finance, he is personally credited with several of the Islamic finance innovations introduced in the market such as Ar-Rahnu (Islamic 'pawnshops'), Murabahah Notes Issuance Facility (MuNIF) commercial papers, Islamic bonds *(sukuk)* issued under the contracts of *musharakah, qard al-hasan* and *bay bi-thaman ajil* and the first Islamic asset-backed securities (ABS).

He holds a professional membership from the Institute of Statisticians (now merged with The Royal Statistical Society) UK. He also holds a post-graduate degree from the International Institute of Islamic Banking and Economics, Republic of Northern Cyprus. Wan Rahim is currently an Academic Fellow at Kolej Universiti Insaniah, Kedah Darul Aman, Malaysia. Having had exposures from the mid-1970's at Aseambankers, Bank Islam Malaysia, Abrar Discounts and the SC, Wan Rahim is regarded as a specialist in ICM and liquidity management.

Badlishah Bashah

Assistant General Manager, Islamic Capital Market Development
Securities Commission Malaysia

Badlishah Bashah began his career with the Arab Malaysian Development in financial services before joining Bank Bumiputra Malaysia in the Corporate Banking Division and was involved in some of the project finance syndications such as PLUS, Gas Malaysia, and PUTRA LRT. In 1995, he joined Abrar Discounts where he arranged the first *murabahah* Notes Issuance Facility and *Al Bai Bithaman Ajil* Sukuk with warrants. During this period, Abrar became the largest adviser for sukuk issuance. In his position as head of the capital market department, he arranged a total of RM3 billion worth of Islamic papers.

He joined the SC in 2008 and was involved in the development initiatives under Development and Islamic Markets Business Group. He holds a degree in General Management from the Southern New Hampshire University and Masters in Accounting and Finance from the University of Hull.

ACRONYMS AND ABBREVIATIONS

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
AGBS	ASEAN Green Bond Standards
AGM	Annual general meeting
B40	Bottom 40% households with monthly income below RM3,900
CDP	Carbon disclosure projects
CEO	Chief executive officer
CFC	Chlorofluorocarbon
CFF	Crops for the future
CO^2	Carbon dioxide
CSR	Corporate social responsibility
EFP	Employees Provident Fund
EPC	Engineering procurement contractor
EPIC	Environmental Preservation and Innovation Centre
ESG	Environmental, Social and Governance
FDI	Foreign direct investment
FIT	Feed in tariff
GABV	Global Alliance of Banking for Values
GBP	Green bond principles
GCC	Gulf Cooperation Council
GDP	Gross domestic product
GRI	Global Report Initiative
ICM	Islamic capital market
ICMA	International Capital Market Association
IDB	Islamic Development Bank
IFRC	International Federation of Red Cross
IFSB	Islamic Financial Services Board
IMF	International Monetary Fund
INCEIF	International Centre for Education in Islamic Finance
INDC	Intended National Determined Contribution
IRTI	Islamic Research and Training Institute
ISRA	International Shariah Research Academy
Jcorp	Johor Corporation
KWAP	Kumpulan Wang Persaraan (Diperbadankan)
LIBOR	London Interbank Offered Rate
MaGIC	Malaysian Global Innovation & Creativity Centre
MIFC	Malaysia International Islamic Financial Centre
MOA	Memorandum of Agreement
MSCI	Morgan Stanley Capital International

MW	Megawatt
OCIS	Oxford Centre for Islamic Studies
OECD	Organisation for Economic Cooperation and Development
OEM	Original Equipment Manufacturer
OIC	Organization of Islamic Cooperation
PR	Public relations
PRI	Principles of responsible investment
QSPS	Quantum Solar Park Semenanjung
RE	Renewable energy
SC	Securities Commission Malaysia
SDG	Sustainable Development Goal
SME	Small and medium-sized enterprise
SPV	Special purpose vehicle
SRI	Sustainable and responsible investment
TCFD	Taskforce on Climate Change Financial Disclosure
TNB	Tenaga Nasional Bhd
UN	United Nations
UNDP	United Nations Development Programme
UNPRI	United Nations Principles for Responsible Investing
UK	United Kingdom
US	United States of America
WANcorp	Wakaf An-Nur Corporation
WEEE	Waste, Electrical, Electronics and Equipment