

2030 Agenda for Sustainable Development

The role of Development Finance Institutions in achieving the Sustainable Development Goals (SDGs): the Case of Islamic finance

➤ ***Alignment with Sustainable Development Goals (SDG)***

➤ ***Islamic Finance: Key Challenges***

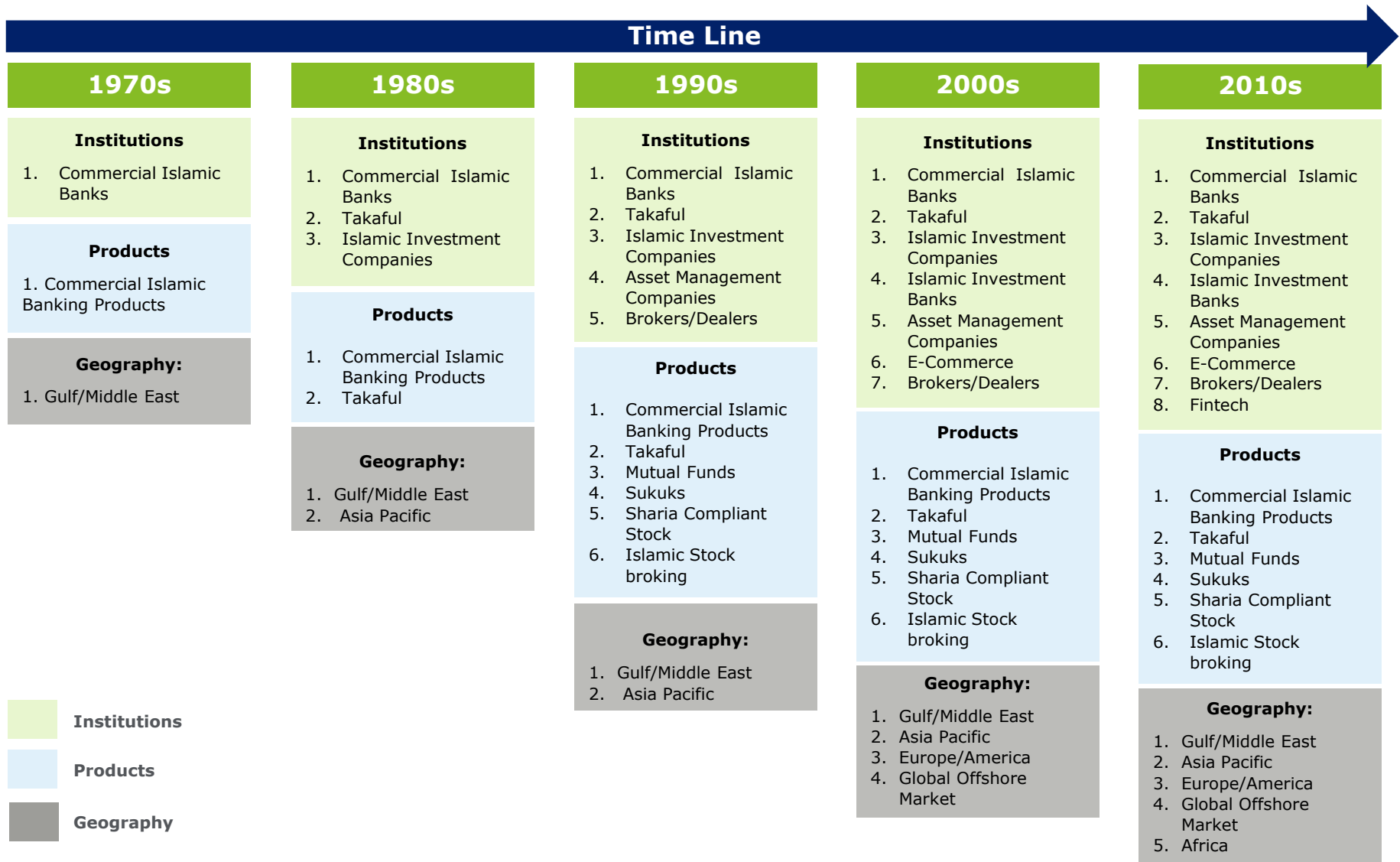
➤ ***Sustainable Infrastructure Investments***



19 November 2017

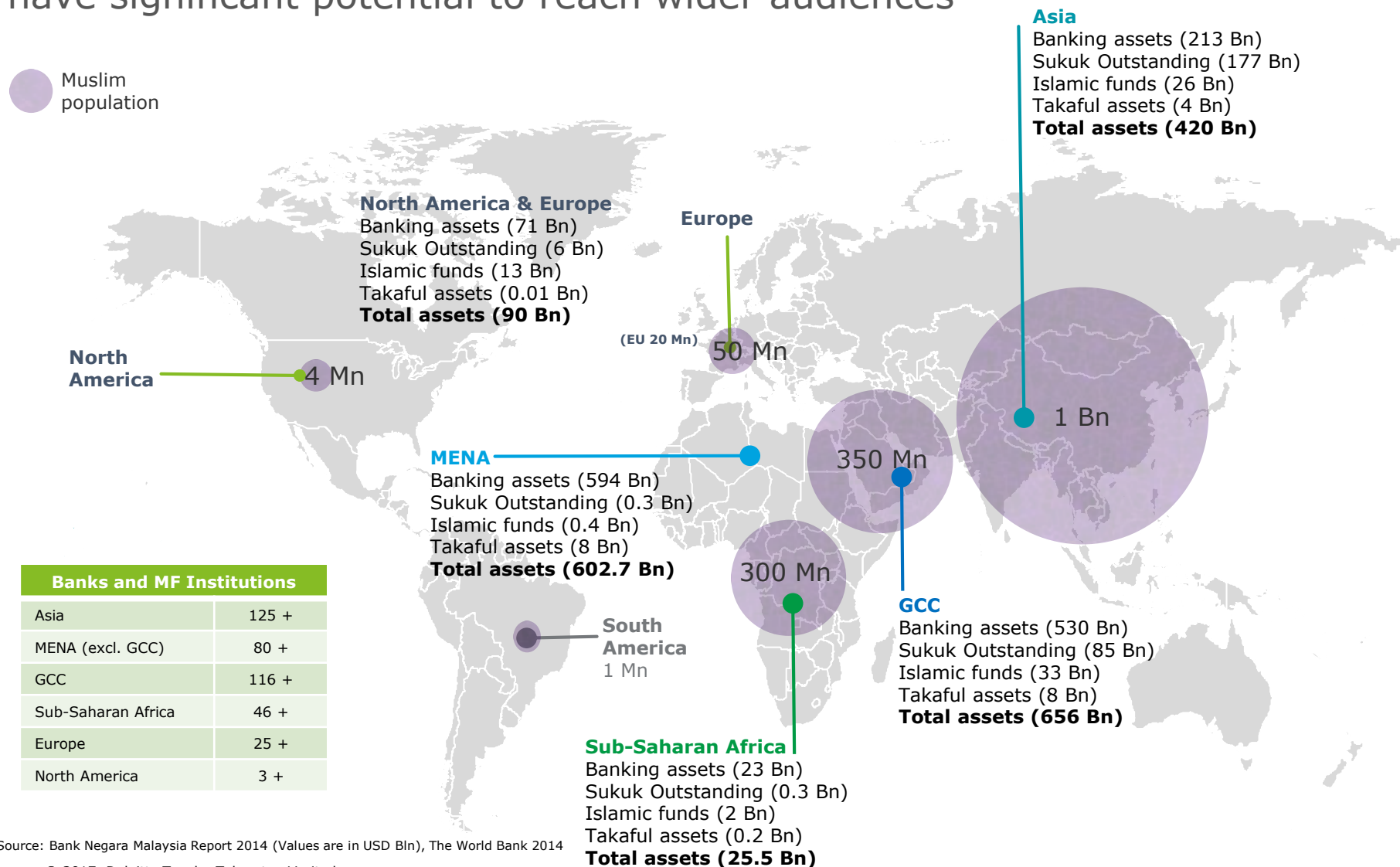
Islamic Finance Evolution

Islamic Finance has evolved across institutions, products & geography



Islamic Finance Today

Islamic Finance activities are geographically concentrated today, but have significant potential to reach wider audiences



Source: Bank Negara Malaysia Report 2014 (Values are in USD Bn), The World Bank 2014

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Islamic Finance Principles

Principles of Islamic Finance are focused on shared prosperity, inclusive growth and wellness of human being...

1. Governance

- Clear and secure property rights
- Contract enforcement
- Capable and trustworthy systems
- Stakeholder oriented governance
- High standards of ethical commitment



Transparency & Accountability

2. Values

- Justice
- Freedom of Religion and Intellect
- Posterity
- Spirit of solidarity and mutuality
- Respect, dignity and opportunity for all



Less information asymmetries

Source: IF, World Bank Report, Deloitte Experience
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3. Risk-sharing

- Prohibition of interest
- Asset-backed and equity financing
- Exchange and trade
- Entrepreneurship



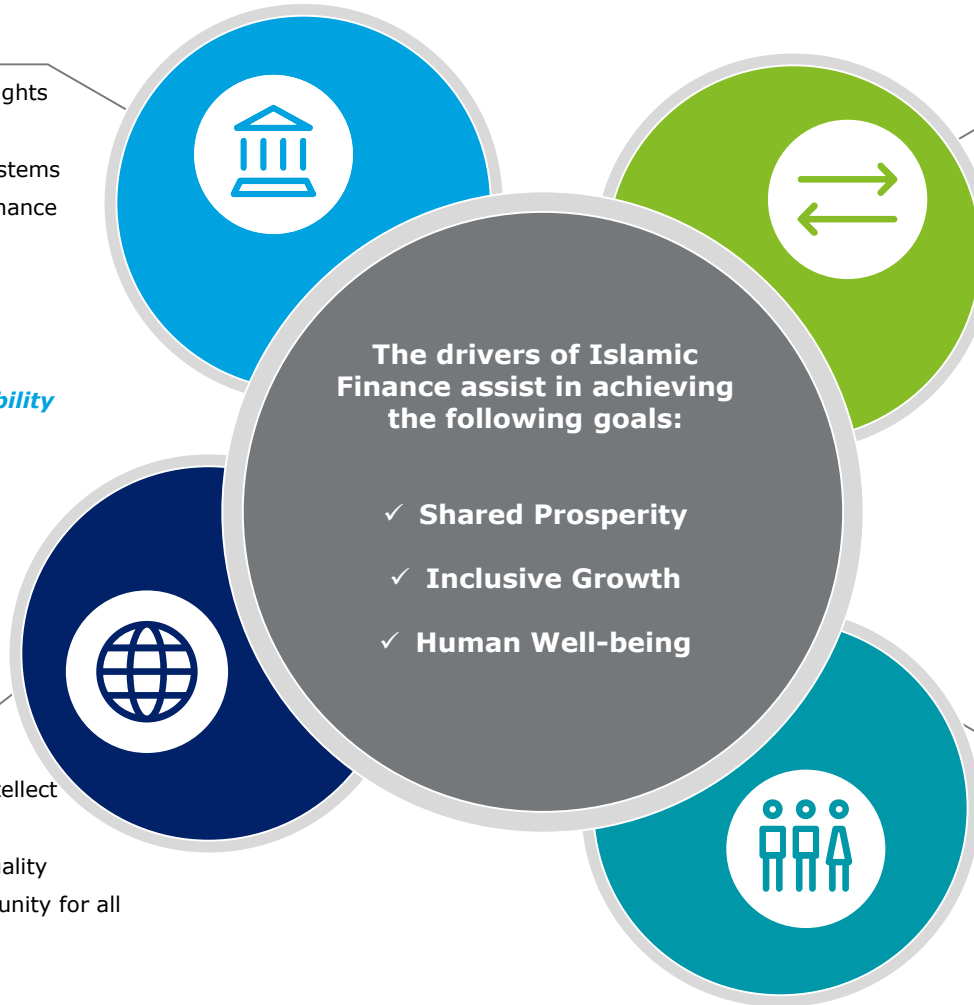
Elimination of unsecured debt, more innovation and entrepreneurial spirit

4. Inclusion

- The main Islamic products are focused on inclusion and availability for all



Redemption of the rights of the less privileged in society



Islamic Finance and SDG Alignment

...translating in principle into products and goals that are well aligned to SDG's. It could therefore assume a pivotal role in transforming the world

17 GOALS TO TRANSFORM OUR WORLD



Islamic Finance Product	Potential of financing sustainable infrastructure investments through Islamic Finance Instruments	Sustainable Development Goal Addressed
Financial instruments	<ul style="list-style-type: none"> Mobilize resources to finance infrastructure development projects Promote investments in climate change solutions Fund health programmes in developing countries Finance SMEs and start-ups, contributing to more inclusive growth 	3, 6, 8, 11, 13
Contracts	<ul style="list-style-type: none"> Finance sustainable and affordable energy facilities Build resilient infrastructure Support sustainable agriculture 	2, 7, 9
Funds	<ul style="list-style-type: none"> Invest in businesses related to renewable energy, sustainable fisheries, forestry, agriculture, health and education 	3, 4, 7, 12, 14, 15
Equity funding	<ul style="list-style-type: none"> Support financial inclusion of the poor through innovative business models, reducing poverty, inequalities, empowering women and promoting peaceful and inclusive societies 	1, 5, 10, 12, 16
Insurance	<ul style="list-style-type: none"> Increase the resilience of individuals and businesses to catastrophes or disasters 	11

Key Challenges in Islamic Finance

However Islamic Finance still faces several challenges on a global level, thus limiting its potential in contributing to sustainable development

- 01** There is a prevalent confusion globally that Islamic Finance is only for Muslim population
- 02** Islamic products are more focused towards Sharia Compliance rather than market integration and risk-return characteristics
- 03** Absence of money markets and short-term maturity investments makes Islamic Finance market less liquid therefore less attractive
- 04** Central authorities and local regulators play a limited role in promoting Islamic Finance
- 05** Institutional Framework & Policy are not well defined to achieve full potential
- 06** Various interpretation of Islamic texts exist and there is a limited harmonization of Sharia law
- 07** Rapid growth has led to complex product structure and investment practices
- 08** Government and Large Corporates have not used Islamic Finance products to close funding gaps and maintain spending
- 09** Traditionally, Islamic Finance has been branded & marketed solely on Islamic concepts
- 10** Islamic Finance has not fully leveraged the potential of digitalization

Creating an Enabling Environment

With the right enabling environment, Islamic Finance could achieve its full potential and become a catalyst for large scale, sustainable infrastructure investments

Revisiting Policy Framework

Sound institutional framework along with appropriate public policies channeled through right governance and leadership is vital to achieve full potential in achieving Sustainable Development & Shared Prosperity

1. Institutional Framework & Public Policy

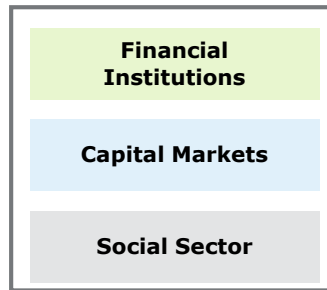
2. Governance & Leadership

3. Financial & social inclusion (redistribution)

4. Risk Sharing & entrepreneurship

Aligning Channels

Institutional framework should be implemented through the right channels, with effective regulations



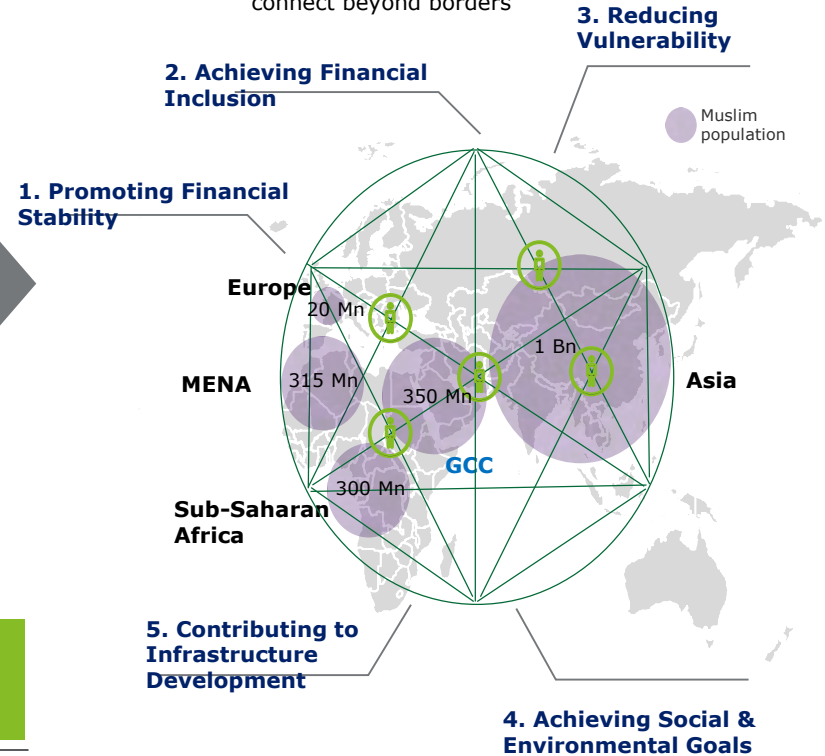
Addressing Key Success Factors

The key challenges when addressed can unleash the full potential of Islamic Finance



Outcomes aligned to SDG 2030

The right ecosystem can unleash the potential of Islamic Finance and achieve shared prosperity. Digitalization can reach wider audiences and connect beyond borders



Revisiting Policy Framework




Policy effectiveness in Banking & Capital markets is vital to further develop Islamic Finance and boost shared prosperity

Sector	1. Institutional Framework & Public Policy	2. Governance & Leadership	3. Risk Sharing & entrepreneurship	4. Financial & social inclusion (redistribution)
<p>Banking</p>	<ul style="list-style-type: none"> • Consistent implementation of the Basel and Islamic Financial Services Board (IFSB) framework. • Systemic risks in dual banking systems (conventional and Islamic) need to be sufficiently addressed. • Implement cross-border supervision. • Improve liquidity & ensure stability. 	<ul style="list-style-type: none"> • Harmonize Sharia governance, and interpretation of Sharia 	<ul style="list-style-type: none"> • Introduce innovative risk-sharing products and services, rather than replicate conventional risk-transfer products. 	<ul style="list-style-type: none"> • Enhance the scale and access to Islamic finance to include low-income earners • Bolster human capital • Increase Islamic finance literacy
<p>Capital Markets</p>	<ul style="list-style-type: none"> • Create a level playing field for debt and equity instruments 	<ul style="list-style-type: none"> • Incorporate higher ethical standards through transparent governance mechanisms and a robust regulatory framework • Improve Sharia governance and interpretation of Sharia • Provide disclosures relevant to sharia compliance • Strengthen resolution frameworks and investor protection mechanisms 	<ul style="list-style-type: none"> • Encourage investment in equities • Improve the scalability and liquidity of sukuk • Provide incentives for issuing longterm sukuk 	<ul style="list-style-type: none"> • Introduce retail sukuk for smaller investors • Relax the condition for listing of companies

Aligning Channels

Role of Islamic Financial Institutions, Capital Markets and Social Sector will be pivotal in achieving SDG's in countries with serious commitment to Islamic Finance

Potential of Various Channels of Islamic Finance to meet SDGs and Enhanced Shared Prosperity

Outcomes	 Financial Institutions	 Capital Markets	 Social Sector
1. Financial Stability	<ul style="list-style-type: none"> Equity-based Financing New Equity-based Financial Firms Organizational Diversity (VCs, PE firms) 	<ul style="list-style-type: none"> Expansion of Equity-based capital markets Listing opportunities for medium and smaller firms Public and private risk sharing <i>sukuks</i> 	
2. Financial Inclusion	<ul style="list-style-type: none"> Special units to provide microfinance to Islamic Banks Organizational diversity (cooperatives, nonprofits) Use of ICT to expand provision services 	<ul style="list-style-type: none"> Social <i>sukuks</i> to raise funds Retail <i>sukuks</i> 	<ul style="list-style-type: none"> Integration with microfinance <i>Waqf/zakat</i>-based MFIs Subsidize MFIs
3. Reducing Vulnerability	<ul style="list-style-type: none"> Saving opportunities for the poor Expansion of micro-<i>takaful</i> 		<ul style="list-style-type: none"> Using zakat and waqf as safety nets Use waqf/zakat to pay contributions for <i>takaful</i>
4. Social and Environmental Factors	<ul style="list-style-type: none"> Financing development of social sector 	<ul style="list-style-type: none"> Positive screening (along with negative screening) Social <i>sukuks</i> 	<ul style="list-style-type: none"> Expand zakat and waqf base Increase the efficiency and effectiveness of zakat and waqf
5. Infrastructure Development	<ul style="list-style-type: none"> Syndicated Finance 	<ul style="list-style-type: none"> Private/Public sector <i>sukuk</i> for infrastructures Retail <i>sukuks</i> 	

Source: World Bank Report, Deloitte Experience

Waqf: Endowments, foundation, trust

Addressing Key Success Factors

Islamic Finance can unleash its full potential by enhancing its identity, leveraging digital strategies and offering a wider product suite to widen maturities and increase liquidity

1. Digitalization

Digitally driven Islamic institutions can achieve competitive cost structures, reach wider audience and increase geographic presence

2. Rebranding

A progressive approach to branding is imperative due to changing demographics, digitalization and a shift towards socially responsible investing

3. Innovation & Product Suite

Innovate Islamic Finance products and services, rather than replicate conventional risk-transfer products

6. Governmental & Regulatory Commitment

Government commitment by using Islamic Finance instruments & harmonization of Regulation will play a vital role in unleashing potential

4. Liquidity & Maturity

Investors seek a variety of products with different maturity and a liquid market that match their risk and investment horizon

5. Harmonization of Sharia

Harmonize Sharia governance, and interpretation of Sharia across markets



Thank You

Q & A



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