



ISLAMIC FINANCE 1ST

Islamic Finance 1st is a Monthly Islamic Finance e-Notes published by SALIHIN Academy

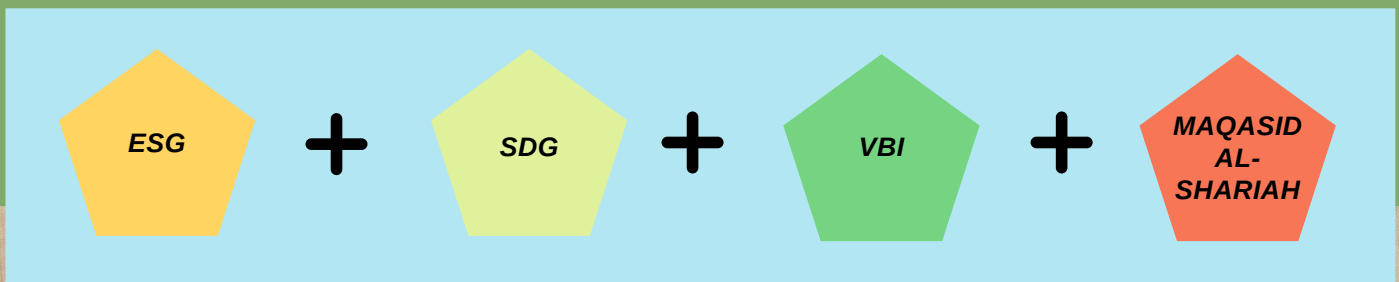
Sustainability & Islamic Finance

Editor's Note: The theme for this month Islamic Finance e-Notes is Sustainability and Islamic Finance, where in this edition, we aim to briefly highlight the concept of sustainability in Islamic finance. Sustainable financing is related to our previous month e-note's topic on Maqasid al-Shariah. Sustainable financing is developed based on the principles and values of Maqasid al-Shariah. The practice of sustainable financing leads to the achievement of several objectives of Shariah.

Sustainability

Sustainability is one of the most significant trends in financial markets where it is related or integrated with the following areas:

1. Sustainable Responsible Investment (SRI) - concept of investment desire by investors.
2. Corporate Social Responsibility (CSR) - concept of commercial operations desire by management of a corporation.



Sustainable Finance

Sustainable Finance incorporates climate, green and social finance while also adding wider considerations concerning the longer-term economic sustainability of the organisations that are being funded, as well as the role and stability of the overall financial system in which they operate (International Capital Market Association (ICMA), Zurich, 2020).



SUSTAINABLE DEVELOPMENT GOALS



Five Ps Model for Sustainable Development

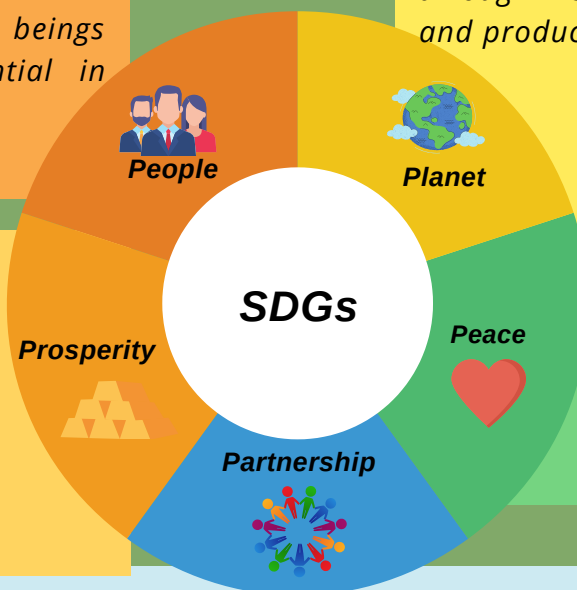
End poverty and hunger, in all forms and dimensions, and to ensure that all human beings can fulfill their potential in dignity, equality and healthy environment.

Protect the planet from degradation, through sustainable consumption and production, managing its natural resources and taking action on climate change to support the needs of the present and future generations.

Ensure all human beings can enjoy prosperous and fulfilling lives as well as economic, social and technological progress in harmony with nature.

Foster peaceful, just and inclusive societies; free from fear and violence.

Mobilize the means required through a revitalised Global Partnership with the participation of all countries, stakeholders and people.



Environmental, Social & Governance (ESG)

Environmental, social and governance (ESG) criteria are a set of standards to guide an operation of a company or use to screen potential investments by a socially conscious investor. This concept of investing is also known as sustainable investing, responsible investing, impact investing, or socially responsible investing. It assists investors to avoid investing in companies which may expose them to greater financial risk due to the wrong or ineffective decision that the company may employ with regard to the environment, social and governance aspects of their business operations (Investopedia, 2020).



Environment

Environment consists of everything that is around us. It can be living or non-living things.

- Carbon Emission
- Energy Usage
- Waste and Recycling
- Climate Change Risks
- Supply Chain Management
- Water Management



Social

Men are considered sociable when they live collectively in interacting populations, whether they are aware or not, and whether the interaction is voluntary or involuntary.

- Community Relations
- Customer Relations
- Employee Relations
- Human Capital Management
- Human Rights
- Health & Safety



Governance

Governance covers all of the processes of governing. It is the way that the rules, norms and actions are structured, sustained, regulated and held accountable.

- Accountability
- Bribery & Corruption
- Compensation Scheme
- Structure & Size of Board
- Transparency
- Ownership Structure

Value Based Intermediation (VBI)

An intermediation function that aims to deliver the intended outcomes of Shariah through practices, conducts and offerings that generate positive and sustainable impacts to the economy, community and environment, without compromising the financial returns to shareholders.



Financial Industry

- Greater innovation
- Enhanced efficiency
- Effective ecosystem



Customer/ Community

- Improve standard of living
- Fair & transparent treatment



Government

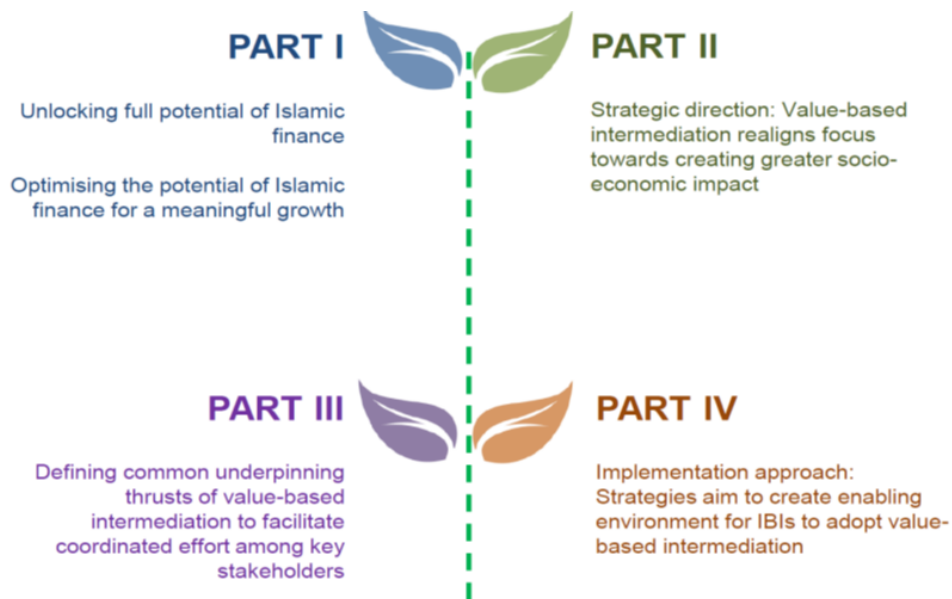
- Realignment of business focus with business agenda



Regulator

- Strengthened financial stability

Major Parts of VBI



Source: BNM, Value-Based Intermediation: Strengthening The Roles and Impact of Islamic Finance (2018)

VBI & Maqasid al-Shariah



Justice

- Minimise unjust elements (uncertainty, exploitation)



Wealth Circulation

- Equitable wealth distribution
- Prohibit wealth hoarding
- Encourage income generation
- Channel wealth to productive sectors



Wealth Preservation

- Recognise private ownership
- Prohibit transgression of rights of others
- Ensure valid transfer of ownership

Maqasid al-Shariah

*Necessities/ Essentials
(Daruriyyat)*

*Needs
(Hajiyyat)*

*Complementary/ Embellishments
(Tahsiniyyat)*

*Protection of Religion
(al-Din)*

*Protection of Life
(al-Nafs)*

*Protection of Intellect/ Mind
(al-Aql)*

*Protection of Human Being
(al-Nasl) / Family (al-'Ird)*

*Protection of Property
(al-Mal)*

Maqasid al-Shariah in Islamic Finance

*To circulate
wealth*

*To ensure
the continuity
of wealth
investment*

*To achieve
financial
transparency*

*To achieve
comprehensive
communal
prosperity*

*To prevent harm
& hardship in
wealth &
finance*

*To ensure
justice in
circulation of
wealth in
business
transactions*

- The well-being of the family, society, and nation are prioritized over the well-being of the individual.
- The well-being of the market conditions is important over the well-being of the individual's business operations.
- Public interest is at the forefront.
- Preventing evil and harm while promoting good and well-being.
- Preventing evil and harm are crucial over promoting good and well-being.



Comprehensive Picture of Sustainability

ESG



Environment



Social



Governance



VBI

PART I



PART II

Unlocking full potential of Islamic finance

Realigning focus towards creating greater socio-economic impact

PART III



PART IV

Defining common underpinning thrusts of value-based intermediation

Creating enabling environment for adoption of value-based intermediation

Maqasid al-Shariah

Necessities/ Essentials (Daruriyyat)

Needs (Hajiyyat)

Complementary/ Embellishments (Tahsiniyyat)

- Protection of Religion (*al-Din*)
- Protection of Life (*al-Nafs*)
- Protection of Intellect/ Mind (*al-Aql*)
- Protection of Human Being (*al-Nasl*) / Family (*al-'Ird*)
- Protection of Property (*al-Mal*)

Categories of Sustainable Financing

Climate Financing

Climate financing refers to local, national or transnational financing; drawn from public, private and alternative sources of financing that support mitigation and adaptation actions that will address climate change.

Green Financing

Green financing enables investors to finance green projects with a lower interest rate or tax incentives and rebates for environmentally friendly investments, funds or bonds.



1. EcoSave Savings Account-i

CIMB Islamic contributes 0.2% to green activities. As the allocation grows, more green projects would be funded.

2. CIMB SME Renewable Energy Financing

Microfinancing

Microfinancing provides small amount of loans with favorable terms that aims to aid in the revitalization of urban and rural communities.



**Modal Usahawan 1
Malaysia-i (MUS1M-i)**



**Cash Vantage Personal
Financing-i**



**Skim Pembiayaan Mikro-i
(MUsK)**



Xpress Cash Financing-i

Ethical Banking

Banks that operate their activities following from the outset the criteria of transparency, democracy and sustainability, together with the financial criteria of traditional banking.

Social Business

Businesses whose profits are reinvested in order to protect environment or promote development and solidarity.

Social Financing

Sustainable finance that involves social finance activities that enhance local communities and social development. These channels include, but are not limited to, community investing, social enterprise lending, sustainable business, philanthropic grant making, and program-related investments.

For example, First-Time Home Buyers Schemes: PR1MA & MYHOME Scheme

Socially Responsible Investment (SRI)

Investments that include ESG criteria other than economic criteria (risk, profitability and liquidity) including impact investments, whose purpose is to generate social and environmental impact as well as financial return.

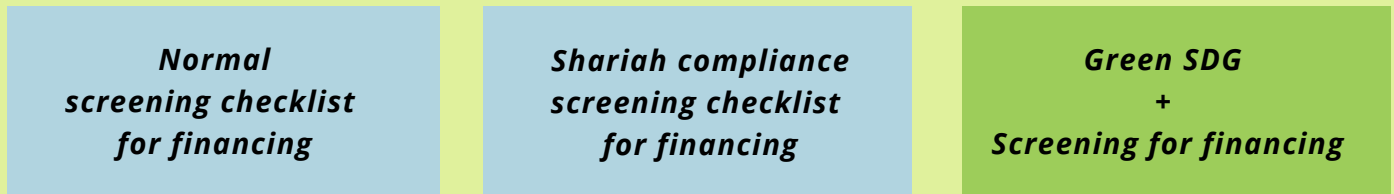


KHAZANAH
NASIONAL

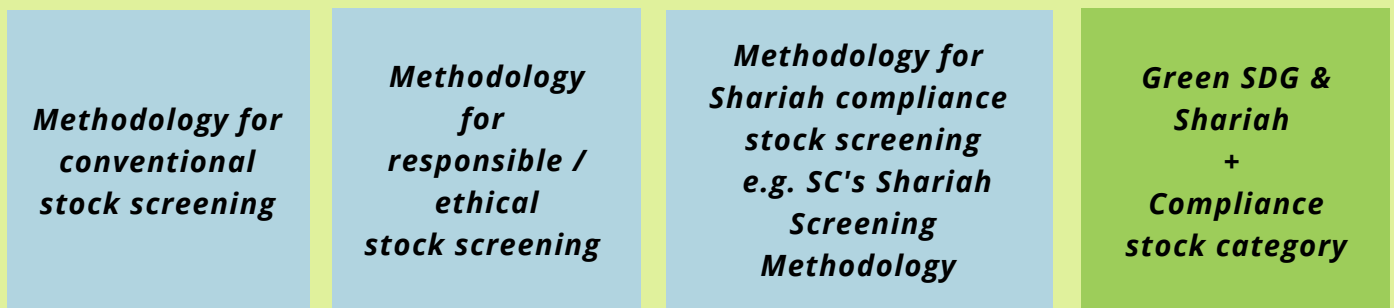
**USD 225 million Ihsan Sukuk
to fund the improvement of
education in Malaysia
Government schools under
the SRI Sukuk Framework.**

Criteria for Sustainable Financing & Investment

Suggestion for Green Financing Checklist



Suggestion for Shariah Compliance Investment Green Category



Examples:

-
- ✓ CSR Policies, Procedures, Departments
 - ✓ Financial Inclusion, Micro and SME Finance
 - ✓ Non-Profit Financing
 - ✓ Philanthropic and Social Programmes
 - ✓ Impact on the Environment and Social Activities
 - ✓ Assessing and Screening of Environment and Social Risks
 - ✓ Other Elements of ESG, SDG & VBI

Examples of Initiatives in Sustainable Financing & Investment



Finterra embarked on a program with timber-related agencies, where for every \$100 donated by a person to charitable causes listed on their platform, Finterra will match the donation amount with tree plantation. The initiative is well received as it helps to support the causes for the needy and also the environment.



SEDCO Capital Global Funds launched the first Shariah-compliant funds based on ESG principles.



Green Sukuk and Working Party (GSWP) to develop Islamic financial products for investment in climate change solutions.



Based in Singapore, ASFI is a multi-stakeholder platform bringing together industry academic, and science-based knowledge partners to support financial institutions in implementing ESG best practices.



Islamic finance sector in Malaysia contributed almost 20% (USD80.78 million) of financing for projects under Malaysia's Green Technology Financing Scheme.

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