In Person:

THE ROLE OF ISLAMIC FINANCE AS A CATALYST TO SUSTAINABLE ENTREPRENEURSHIP IN ACHIEVING SUSTAINABLE DEVELOPMENT GOALS AGENDA

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INTRODUCTION

Fairer and healthier planet have been the main agenda of governments around the globe since the last few decades. Global crisis like climate change, global warming, poverty, hunger, inequality and many more, have raised the concern on our planet sustainability. As a result, the United Nations Summit in New York from 25 to 27 September 2015 unveils the 2030 Agenda for Sustainable Development with 17 Sustainable Development Goals (SDGs) and 169 targets which are integrated and indivisible.[1] This agenda promotes transformation of thinking and approaches to be more inclusive, people-centred and to include sustainable development consideration where possible. The 17 SDGs represent shared vision of humanity and commitment between people and their leaders to ensure a well balance between social, economy and environment pillars. These are the three pillars of the SDGs that need to be addressed carefully by individual, institutions and nations.

In relation to the 17 SDGs, the governments around the globe should take bold and transformative measures to transform the current practices that are not consistent with the spirit of SDGs into a sustainable practices. It is timely to call all stakeholders in various geographical areas to act in collaborative partnership to materialise all suggestions in this plan. In fact, they should carefully examine the meaning of sustainable development (SD) with the aim to effectively undertake relevant actions to solve the problems. The Brutland Report, which was issued by the United Nations (UN) in 1987 defined SD as a "development that meets the needs of the present without compromising the ability of future generations to meet their own needs".[1] Subsequently, in 2016, the UN acknowledged that 'entrepreneurship' plays a key role in overcoming the SD challenges especially in the three pillars of SD (economy, social and environment).[2] Entrepreneurship would be effectively undertake their sustainable ventures when there is adequate financing available to them. It is believed that Islamic finance should assume this role industry such as risk sharing, inclusion and financing real economy are consistent with the SDGs agenda. This article aims to discuss the role of Islamic finance as

1 UN General Assembly. Transforming our World: The 2030 Agenda for Sustainable Development; Resolution Adopted by the General Assembly on 25 September 2015; United Nations: New York, NY, USA, 2015.

2 UN General Assembly. Entrepreneurship for Sustainable Development; Resolution adopted by the General Assembly on 21 December 2016; United Nations: New York, NY, USA, 2016.

a catalyst of sustainable entrepreneurship in achieving the Sustainable Development Goals. Islamic finance should play a key role in materializing this agenda due to its nature of impacting the real economy, financial inclusion and risk sharing approach. It is important for the players in Islamic finance industry to understand their role and deliver their duties accordingly.

The article is divided into 5 sections. The next section illustrates the concept of sustainable development goals. The third section discusses on entrepreneurship, entrepreneurs and their roles in supporting the SDGs. The fourth section discusses on the role of Islamic finance as a catalyst of sustainable entrepreneurship in achieving the SDGs agenda and the final section concludes the article.

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SUSTAINABLE DEVELOPMENT GOALS

The global crises have prompted the United Nation to issue "The 2030 Agenda for Sustainable Development" to replace the old Millennium Development Goals. This agenda is designed to tackle the key economic, social and environmental challenges or commonly known as "triple bottom line".[3] The Triple Bottom Line is an assessment to measure achievements not only by looking at traditional economics impact (i.e. profits), but, equally important, to evaluate the social and environmental impact in order to assess the achievement of SDGs.

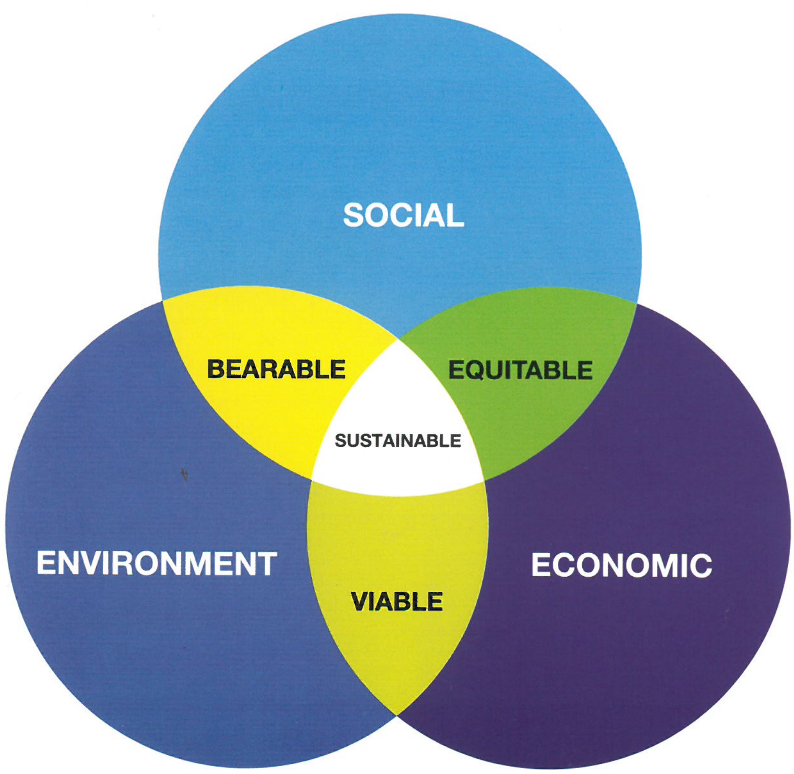

Figure 1: The Triple Bottom Line
Source: Ecopreserve.[4]

3 UN General Assembly. Transforming our World: The 2030 Agenda for Sustainable Development; Resolution Adopted by the General Assembly on 25 September 2015; United Nations: New York, NY, USA, 2015.

4 Alexa Stone, (2017). These 17 goals have a Triple Bottom Line. Retrieved: https://ecopreserve.net/sdg/ (1 March 2020)

Figure 2: Sustainable Development Goals

The 17 SDGs as illustrated in Figure 2 present the complex sustainable development challenges, which will motivate the public and private to take impactful actions through creative and integrated thinking. In fact, the UN has specifically identified entrepreneurship as an effective mechanism to address the SDGs.

ENTREPRENEURSHIP AND SUSTAINABLE DEVELOPMENT

The 17 SDGs (with 169 targets) provide business ideas in multiple areas to entrepreneurs and entrepreneurs to be, where, they could apply some form of innovation by injecting value added activities in the value chain. Literature documented that the Sustainable Development gives a wide range business opportunities to innovators and entrepreneurs.[5] In this context, entrepreneurs could strategically position themselves in the areas identified in the 17 SDGs by refining their know-how to reform the game plan of their business and industry to achieve the SDGs. Entrepreneurs with ‘sustainability mind’ could be a game changer by not only focusing in short term profits, but, to create more opportunity (and synergy with other players) by giving attention to bigger perspective of social, environment and economy of SD. For example, Goal No 12 ‘Responsible Consumption and Production’ presents wide range opportunities to commercial and/or social entrepreneurs. The objective of sustainable consumption and production is to reduce resource use, degradation and pollution, while, at the same time to increase quality of life. Market player with excess resources or products may work closely with those at deficit side. Instead of dumping excess food (i.e. expired or nearly expired foods), entrepreneurs in this industry could supply them to social entrepreneurs that have channel(s) to redistribute the products at lower costs or supply them to charity houses.

SUSTAINABLE DEVELOPMENT GOALS

ECONOMIC	SOCIAL	ENVIRONMENT
Entrepreneurship drives economic growth by creating jobs, promoting decent work and sustainable agriculture and fostering innovation.	Entrepreneurship promotes social cohesion, reducing inequalities and expanding opportunities for all, including women, young people, persons with disabilities and the most vulnerable people.	Entrepreneurship addresses environmental challenges through the introduction of new climate change mitigation and adaptation technologies and resilience measures, as well as by promoting environmentally sustainable practices and consumption patterns.

Entrepreneurship could create jobs and drive economic growth and innovation, improve social conditions and tackle social and environmental issues.

Figure 3: The Three Pillars of Sustainable Development Goals

5 Hart, S.L. and Milstein, M.B. (1999). Global sustainability and the creative destruction of industries. MIT Sloan Management Review, 41, 23.

The UN General Assembly in their resolution 71/221 has identified entrepreneurship as an important mechanism in tackling SD's problems. In many of the SDGs, entrepreneurship has been identified as one of the key actor. Regardless of firm's size (micro-, small- and medium-sized enterprises), they are considered important to play their role in promoting inclusive, stimulate new production processes and technology development, including the building of endogenous capacities enabling climate change mitigation and adaptation and enhancing energy efficiency, and sustainable industrialization that could create jobs and participate in achieving the SDGs

Further, entrepreneurship could play a significant role in the development of regional economic integration and become an important catalyst for implementing economic reforms, reducing trade barriers and decreasing trade costs. In fact, entrepreneurs can develop appropriate measures to tackle sustainable development challenges especially in the areas of utility services, education, health care, hunger eradication and the environment. In relevant areas, social entrepreneurship such as cooperatives and social enterprises would possibly involve in eradicating poverty and encourage social transformation through mobilising vulnerable groups such as persons with disabilities.[2]

ISLAMIC FINANCE AS A CATALYST OF SUSTAINABLE ENTREPRENEURSHIP

Islamic finance is developed based on Shariah rules and principles that reject the practices of riba (unjustified income), gharar (uncertainties) and maisir (gambling). On the other hand, Islamic finance promotes risk sharing, partnership and financial inclusion. Also, Islamic finance encourages financing of real economy and preventing undue speculations. Due to these good values, the UN General Assembly and Worldbank have endorsed Islamic finance's role as a catalyst for sustainable entrepreneurship in achieving the SDGs agenda. The UN General Assembly in their resolution 71/221 pointed out that 'women's empowerment, fairness, accountability and sustainability are embedded in its principles'.[2] In fact, Islamic finance can play significant role in the SDGs agenda and become 'a vital innovative financing modality to fill the SDGs funding gap'.[2] Besides the commercial Islamic finance mechanism (i.e. Islamic banks), there are Islamic social finance mechanisms that could possibly be used to tackle the SDGs challenges such as Zakat (mandatory almsgiving), Sadakah (charitable giving), Waqf (endowments).

Using the commercial and social Islamic finance mechanisms, Islamic finance industry should reach out to those in rural areas with limited or no access to financial or banking facilities, takaful and other financial services. Using the social finance mechanisms, SDG#1 on poverty eradication and SDG#2 on zero hunger could be addressed. Zakah and waqf institutions could distribute or use their funds in various SD projects in reaching out those in need. In fact, there is a project where commercial Islamic finance mechanism (i.e. Islamic banks) work in a collaboration with social Islamic finance mechanism (i.e. non-profit entities/non-governmental organisations) embark on a community project in agriculture based entrepreneurship to help the poor. The organizing bodies provides funding in acquiring seeds, agriculture land, transfer of agriculture technology and related assistance. In the other example, a waqf institution provides a waqf land for development of an affordable housing project undertaken by the government and developed by a sustainable entrepreneurship. The funding for the project was provided by a commercial Islamic finance mechanism (i.e. Islamic bank).

On the other hand, the commercial Islamic finance mechanisms in Malaysia have around 50 years of experience starting from a pilgrimage saving fund (i.e. Tabung Haji) to a window of Islamic banks and full fledge Islamic banks. Also, there are many Islamic financial institutions offering Islamic finance products or services to the general public. The Islamic financial institutions should seriously look into the SDGs agenda and place some form of priorities in financing sustainable entrepreneurship. Financial institutions should include additional criteria on Environmental, Social and Economy in their existing credit assessment evaluation.

2 UN General Assembly. Entrepreneurship for Sustainable Development; Resolution adopted by the General Assembly on 21 December 2016; United Nations: New York, NY, USA, 2016.

It is suggested that Islamic financial institutions to require sustainable entrepreneurship to prepare annual Sustainability Report that outlines their SDGs agenda, namely policies, strategies, actions taken during the financial year and impact from the SD project (financial and non-financial). Through the Sustainability Report, Islamic financial institutions could assess the value added for SD delivered by the reporting entity and its impact to SDGs agenda.

Finally, Islamic financial institutions could provide financing to projects that tackle SDGs challenges by using of various Islamic finance contracts. This depends on the purpose of financing and arrangement between parties in the projects. Sale Based contract such as Murabaha (cost plus), Bai Bithaman Ajil (deferred payment sale), Salam (agriculture financing) and Istisna'a (manufacturing and construction financing) contracts could be used when an SDG project involves sale between parties and the cost and profit are made known to the parties involved in the venture. Equity based contract such as Mudharaba (labour-capital relationship) and Musharakah (participative relationship) could be used when an SDG project involves partnership relationships with the expectation of sharing profits and losses between contracting parties. Rental based contract such as Ijarah Muntahia Bittamleek (lease of asset with options to transfer the asset ownership) could be used when an SDG project involves rental of assets. SDG projects could also be financed by using some other contracts like Bai Al Dayn (sale of debt), wakalah (Agency), Qard Hassan (benevolent financing) or combination of two or more Islamic contracts. These potential contractual relationships indicate that Islamic finance could play significant role in realizing SDGs agenda. Both commercial and social Islamic finance mechanisms could mobilize the contracts in the interest of contracting parties, human and planet.

BOX 1: CASE STUDY

In an interview with a Malaysian social entrepreneur who actively installed solar systems in remote areas in Peninsular Malaysia. He pointed out that commercial Islamic finance mechanisms should actively involve and provide financing in the following 2 scenarios:

Scenario 1:
Solar system at residential areas especially bungalow, semi-detached and detached houses. Some form of financing should be launched to assist house owners to acquire a solar system and to cover installation costs. On average, for houses with electricity bills at around RM200 need to invest around RM20,000 for the solar system and the return of investment is 5 years. This would reduce dependency on energy supplied by TNB and increase household useable income in the long run. Ultimately, this action would contribute towards clean energy objective and to save the planet.

Scenario 2:
To encourage installation of solar system at industrial and commercial building i.e. rooftop photovoltaic power station or rooftop PV system. Commercial properties like shopping complexes, factory and office buildings should invest in fixing solar panel on the rooftop. This system could generate adequate electricity for own consumption and it may also produce extra electricity that can be sold to the utility company. Entrepreneurs or building owners could grab the Investment tax allowance (ITA) from MIDA and could lower their financing cost under the Green Technology Financing Scheme. This action could also contribute to Green Building Index (GBI).

CONCLUSION

The recent global crisis have prompted the United Nation to take stern action by introducing the "The 2030 Agenda for Sustainable Development". The UN has also acknowledged the importance of Islamic finance in tackling the SDGs challenges. Islamic finance could offer various financing contract options and mechanisms as a vehicle to materialize the SDGs agenda. Sustainable entrepreneurs and the other SDG's actors should grab the opportunities and perform their duties in tackling the SDGs challenges. In fact, it can be safely said that Islamic finance is not operated at its full potential, where, they have much to offer such as risk-sharing, financial inclusion, fair distribution of wealth and justice for all. To solve the crises confronting the world, sustainable entrepreneurship should be encouraged, real economic development towards achieving the SDGs agenda should be promoted and financial inclusion should be widely practised. With the strategic advantages offered by Islamic finance, the global citizen could contribute at their level best to address the 17 SDGs challenges with the aim to protect the people and the planet in the interest of the future generation.

SELECTED KEY ACHIEVEMENTS

1. **Islamic Endowment Funds**
   Leverage on financial technology (such as blockchain) and waqf to provide alternative financing for SDGs agenda
2. **Sustainability Reporting Framework (SRF)**
   Bursa Malaysia developed SRF and the environmental, social and governance (ESG) index named as FTSE4Good.
3. **Affordable Housing**
   State governments in collaboration with private developers, Islamic banks and waqf institutions in building up affordable houses for B40 categories.
4. **Ecosystem for Islamic socially responsible investing (SRI) and green finance.**
   Malaysia has introduced several initiatives on sustainable finance to support the green agenda.
5. **Malaysia's SRI Sukuk Framework**
   Formulated by the Malaysian Securities Commission in 2014
   Malaysia issued its first green sukuk in 2017
6. **Global Islamic Finance and Impact Investing Platform (GIFIIP)**
   Established by the UNDP and Islamic Development Bank in 2016 to provide market-based solutions to development challenges and to position Islamic finance impact investing as an enabler of SDG implementation.
7. **Investment Account Platform (IAP)**
   Owned by a consortium of six Malaysian Islamic banks in 2016 as a financial intermediation in the Islamic financial system. It serves as a central marketplace to finance small and medium enterprises.

The SDGs agenda should be the business of all global citizen, and sustainable entrepreneurship should play significant role to protect the planet and conserve the environment. Islamic finance could offer their strategic advantages in materialising the SDGs agenda and connect sustainable entrepreneurs with the various SDGs actors. Islamic finance role as the catalyst of sustainable entrepreneurship should not only limited to Muslim, but, it should engage people from all races and religions in combating problems associating with SDGs. The Islamic finance commercial mechanism should support sustainable entrepreneurs in their sustainable entrepreneurship. The Islamic finance social mechanisms like zakat and waqf funds should address issues and dilemma faced by less privileged people such as poverty, hunger and inequality. Finally, both mechanisms should also work together and work in collaboration with the other SDG's actors to save the people and the planet.