



ISLAMIC

FINANCE AND SUSTAINABLE ECONOMY



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Why is there a need to establish a sustainable economy.

Sustainability is best defined as meeting the present needs without compromising the ability of future generations to meet these needs. Sustainable economy is part of this larger drive aiming at balancing economic development, social equality and environmental protection and spur prosperity that spans across generations.

In recent years, the global financial sector had seen many instances where financial malpractices had led to economic loss, often involving collateral damage of the innocent. Notably, the advent of the 2008 financial crisis serves as a stark reminder regarding the dangers of financial mismanagement.

Given the track record of the global economy, one has to question the sustainability of the overarching system that governs it. Moving forward, the issues that plague the system should be eradicated rather than repeatedly rectified.

Thus, given the current dilemma the economy faces, it is worth looking into alternatives that can better preserve the sustainability of the economy as a whole and the proposed best practices.

Islamic finance is a model that links finance with the real economy and balances rewards and risks in a fair and transparent manner.

What are the relevant developments taking place under the sustainable agenda

The past decade has seen a number of developments implemented under the global sustainable agenda.

The Global Alliance for Banking on Values (GABV)

founded in 2009 is a network of banking leaders around the globe with a common goal of advancing positive change in the banking sector towards the Real Economy. GABV upholds strict criteria for its membership in line with the triple bottom line (people, planet, prosperity) based on a sustainable economy, which includes a regulated financial services business model primarily driven by the principles of Sustainable Banking.

Bank Negara Malaysia recently announced the **Value Based Intermediation (VBI) initiative** with the aim to encourage the Islamic financial services industry to the next level of growth that is sustainable and with a clear value proposition. VBI aims to deliver the intended outcomes of Shariah through practices, conduct and offerings that generate positive and sustainable impact to the economy, community and environment, without compromising on the financial returns to shareholders. To date, nine Islamic banking institutions - Bank Islam, Bank Muamalat, CIMB Islamic, Agrobank, HSBC Amanah, Maybank Islamic, AmBank Islamic, Alliance Islamic and Standard Chartered Saadiq have formed the VBI Community of Practitioner. Bank Negara wants VBI to be a game changer giving equal weight to both economic value creation and upholding ethical

values.

The link between Islamic finance and sustainable economy

The international Islamic financial institution Islamic Development Bank has stated that its mission is to promote comprehensive human development, with a focus on the priority areas of alleviating poverty, improving health, promoting education, improving governance and prospering the people. In recent times, we can see that Islamic finance is not exclusive to Islamic countries as it has been making headway into an increasing number of Western countries.

Islamic finance is a model that links finance with the real economy and balances rewards and risks in a fair and transparent manner. As a system, it helps to stimulate economic activity and entrepreneurship whilst addressing poverty and inequality, ensuring financial and social stability, and promoting comprehensive human development and fairness.

With its focus on the relationship between sharing risk and profit and the social responsibilities of financial institutions and individuals, Islamic finance can contribute to a better balance between social and economic values.

For the world economy in general and the global financial sector specifically to experience a stable and sustainable growth trajectory, the latter needs to be built on the principles of justice and risk sharing.

Shariah-based finance is one alternative path towards that

end and can be achieved, among others via the following

- **Islamic Finance SRI**
Socially Responsible Investing is investments that influence corporations to show leadership in environmental sustainability, social justice, and corporate governance practices, pushed by a segment of the investment community has believed that it can and should (Chouinard Y., Ellison J., and Ridge R., 2011). Similarly, Islamic SRI has a similar rationale but governed by the set principles of Islamic law. There is now an increasing momentum of realizing the connectivity of Islamic funds with the global SRI initiative which stood at USD3.7 trillion in 2015 (Bank Negara Malaysia, 2015).
- **Green Sukuk**
One of the SRI initiatives in Islamic Finance that's attracting attention is Green Sukuk. Sukuks are financial products or shares based on a tangible asset relating to particular projects or special investment activity that are structured in line with Islamic law, which generate returns to investors whilst avoiding interest (riba) akin to a bond.
- **Zakat**
An obligatory contribution or alms which every Muslim is required to pay to the Islamic state or distribute to the poor. It constitutes as the third pillar of Islam, Zakat ensures that capital and wealth is not centralised, accumulated and stagnant under a single business entity or individual. It promotes a decentralised, even and fair financial system. Social and economic disparity stems from unequal distribution of wealth. Zakat can mitigate this by setting out provisions for the wealthy to give to the poor. Ultimately, it





redistributes the wealth more evenly. In an economy without interest, zakat will move in tandem with economic productivity. Thus, a prosperous economy would translate to higher zakat.

- **Waqf**

Complementary to Zakat, Waqf is the permanent dedication of property to be used for pious or charitable purposes. However, Waqf is not obligatory to all Muslims as opposed to Zakat. In Islamic finance, it is the disbursement of funds towards shariah compliant projects with the aim of providing perpetual benefit to society (MIFC, 2015). It highlights the social role of Islamic finance, in line with sustainability initiatives. Aside from social wellbeing, Waqf is historically proven to be a vital public finance instrument that also spurred economic growth and development (Hashim M.A., 2014) Waqf is a saving-investment mechanism where funds are diverted from consumption and invested in productive assets. It is also a channel for wealth distribution together with the types of contribution in Islam.

Maybank Islamic's Contribution To Sustainable Goals

The Maybank Group's sustainability strategy is well integrated into its business model and connected to our mission of humanising financial services.

As a financial institution, our presence underpins the productive economy of the countries in which we operate in. We help people buy homes, invest for the future, and grow their incomes. We are committed to the fundamentals of our business: advising customers based on their needs, providing access to financing, having fair terms and pricing and being at the heart of the community. As our business grows in volume and scope, our contribution to the region's growth increases.

As the Islamic banking arm of Maybank, we are guided by and aligned to the Group's comprehensive 20/20 Sustainability Plan which not only defines our focus areas, but also a framework to manage sustainability issues and meet stakeholder expectations. We want to create long-lasting meaning and value across the workplace, marketplace, environment, and community in ways that are globally significant and yet locally relevant.

Islamic Finance is based on principles that are inherently sustainable. Our Islamic business in

Malaysia has been growing much faster than the conventional banking.

That is why we are now proudly the fifth biggest Islamic bank in the world in terms of assets. As a financial institution, we have a significant role to play in developing and nurturing communities. How sustainability is governed and managed in the organisation is a crucial component towards enabling this role.

We have continued to demonstrate developments in our sustainability efforts by being financially resilient, empowering our local communities, and caring for our environment, via the following:

- To empower people and communities towards financial independence, we have Maybank Islamic MasterCard Ikhwan – a card that gives back in which every spending by customers, the Bank will contribute 0.1% for charity purposes.
- To align our environmental financing efforts with SGD13 Climate Action, we provide Green Technology Financing Scheme that aims to promote Green Technology by providing financing to companies that supply and utilise Green Technology.
- To provide Malaysians the opportunity to invest in a good cause via retail sukuk, Maybank was an agent of Malaysia's first Sustainable and Responsible Investment (SRI) Sukuk issued by Khazanah. The proceeds were channelled to Yayasan AMIR to improve accessibility of quality education in Malaysian government schools.
- To promote Islamic social finance as well as Environmental, Social and Corporate Governance (ESG) activities through waqf programme, we collaborated with Majlis Agama Islam Perak and approved an allocation of RM10 million to innovate a cash Waqf project.
- Collaborated with Yayasan Pelajaran Mara for a nurturing and holistic programme called Semarak Ilmu, which has benefitted more than 15,000 children, starting from the age of 7, from underprivileged families across the country, by giving them monthly pocket money, tuition classes and scholarships for their education from primary to tertiary levels. We believe children and youth must have access to education and the

opportunity to fulfil their potential.

- Collaborated with the National Heart Institute to effectively establish our commitment towards sustainable development in the area of children's health. To date, 66 patients from 6 nationalities, have received financial assistance from this programme and successfully undergone their surgeries.

Conclusion

The Maybank Group has undergone a thorough transformation, resulting in us being more agile and ready for change along with the world around us. We will continue to work based on our ESG framework.

In Islamic finance, productive consumption is being championed rather than excessive speculation which must be avoided. The value-driven nature of the Islamic economy requires people to be considerate of the needs of others, a prerequisite to building a good society.

Moving forward, we will solidify our commitment to champion the value propositions of Islamic finance - the potential it can play in supporting the United Nations' Sustainable Development

Goals (SDGs).
End

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