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 has evolved across institutions, products & geography

<table>
<thead>
<tr>
<th>Time Line</th>
<th>1970s</th>
<th>1980s</th>
<th>1990s</th>
<th>2000s</th>
<th>2010s</th>
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</thead>
<tbody>
<tr>
<td><strong>Geography</strong></td>
<td>1. Gulf/Middle East</td>
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Sources: Islamic Market Face Finding Report, Deloitte Analysis
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Islamic Finance Today

Islamic Finance activities are geographically concentrated today, but have significant potential to reach wider audiences.
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 Intellectual
   - Posterity
   - Spirit of solidarity and mutuality
   - Respect, dignity and opportunity for all

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

The drivers of Islamic Finance assist in achieving the following goals:

- Shared Prosperity
- Inclusive Growth
- Human Well-being

Less information asymmetries
Source: IF, World Bank Report, Deloitte Experience
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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

<table>
<thead>
<tr>
<th>Islamic Finance Product</th>
<th>Potential of financing sustainable infrastructure investments through Islamic Finance Instruments</th>
<th>Sustainable Development Goal Addressed</th>
</tr>
</thead>
</table>
| Financial instruments   | • 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               | • Finance sustainable and affordable energy facilities  
                         • Build resilient infrastructure  
                         • Support sustainable agriculture | 2, 7, 9 |
| Funds                   | • Invest in businesses related to renewable energy, sustainable fisheries, forestry, agriculture, health and education | 3, 4, 7, 12, 14, 15 |
| Equity funding          | • 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               | • Increase the resilience of individuals and businesses to catastrophes or disasters | 11 |

Source: UN Foundation Report, Deloitte Experience
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However Islamic Finance still faces several challenges on a global level, thus limiting its potential in contributing to sustainable development.

1. There is a prevalent confusion globally that Islamic Finance is only for Muslim population.

2. Islamic products are more focused towards Sharia Compliance rather than market integration and risk-return characteristics.

3. Absence of money markets and short-term maturity investments makes Islamic Finance market less liquid therefore less attractive.

4. Central authorities and local regulators play a limited role in promoting Islamic Finance.

5. Institutional Framework & Policy are not well defined to achieve full potential.

6. Various interpretation of Islamic texts exist and there is a limited harmonization of Sharia law.

7. Rapid growth has led to complex product structure and investment practices.

8. Government and Large Corporates have not used Islamic Finance products to close funding gaps and maintain spending.

9. Traditionally, Islamic Finance has been branded & marketed solely on Islamic concepts.

10. Islamic Finance has not fully leveraged the potential of digitalization.

Source: Deloitte Experience

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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.

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.

Source: Deloitte Experience
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## Revisiting Policy Framework

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

### Sector

|-----------------|-------------------------------------------|----------------------------|-----------------------------------|-----------------------------------------------|
| Banking         | • 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. | • Harmonize Sharia governance, and interpretation of Sharia | • Introduce innovative risk-sharing products and services, rather than replicate conventional risk-transfer products. | • Enhance the scale and access to Islamic finance to include low-income earners  
• Bolster human capital  
• Increase Islamic finance literacy |
| Capital Markets | • Create a level playing field for debt and equity instruments  
• 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 | • Encourage investment in equities  
• Improve the scalability and liquidity of sukuk  
• Provide incentives for issuing long-term sukuk | • Introduce retail sukuk for smaller investors  
• Relax the condition for listing of companies |

Source: World Bank Report, Deloitte Experience
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

<table>
<thead>
<tr>
<th>Outcomes</th>
<th>Financial Institutions</th>
<th>Capital Markets</th>
<th>Social Sector</th>
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</table>
| 1. Financial Stability | • Equity-based Financing  
• New Equity-based Financial Firms  
• Organizational Diversity (VCs, PE firms) | • Expansion of Equity-based capital markets  
• Listing opportunities for medium and smaller firms  
• Public and private risk sharing *sukuk* | | |
| 2. Financial Inclusion | • Special units to provide microfinance to Islamic Banks  
• Organizational diversity (cooperatives, nonprofits)  
• Use of ICT to expand provision services | • Social *sukuk* to raise funds  
• Retail *sukuk* | • Integration with microfinance  
• *Waqf/zakat*-based MFIs  
• Subsidize MFIs |
| 3. Reducing Vulnerability | • Saving opportunities for the poor  
• Expansion of micro-*takaful* | | • Using zakat and *waqf* as safety nets  
• Use *waqf/zakat* to pay contributions for *takaful* |
| 4. Social and Environmental Factors | • Financing development of social sector | • Positive screening (along with negative screening)  
• Social *sukuk* | • Expand zakat and *waqf* base  
• Increase the efficiency and effectiveness of zakat and *waqf* |
| 5. Infrastructure Development | • Syndicated Finance | • Private/Public sector *sukuk* for infrastructures  
• Retail *sukuk* | | |

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.

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.

6. **Governmental & Regulatory Commitment**
   Government commitment by using Islamic Finance instruments & harmonization of Regulation will play a vital role in unleashing potential.
Thank You

Q & A
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