Islamic Economic Studies
Vol. 24, No. 1, June, 2016 (139-145)

11th IDB Global Forum on Islamic Finance:
Experts Outline How Islamic Finance Can Support Achieving the SDGs

The 11th IDB Global Forum on Islamic Finance was held on 16 May 2016 in Jakarta. The Islamic Research and Training Institute (IRTI) and Bank Indonesia jointly organized it as part of side events of the 41st Annual Meeting of the Islamic Development Bank Group. The theme was: 'Role of Islamic Finance in Achieving the SDGs'.

In a keynote address, Indonesian Finance Minister Dr. Bambang Permadi Brodjonegoro said if well harnessed, the various aspects of Islamic finance could help achieve several SDGs targets, including poverty reduction, financial inclusion, and reducing inequality.

The Minister explained that Islamic social finance instruments of *zakāh, awqāf* and microfinance perform the socio-religious role of curbing poverty as well as the role of creating economic activity. *Ṣukūk,* on the other hand, he added, could support building of infrastructures that will improve people's living conditions.

In his opening remarks, IDB President, Dr. Ahmad Mohamed Ali commended IRTI and Bank Indonesia for organizing the forum, saying Islamic finance has a crucial role to play in achieving the SDGs targets of curbing poverty and fostering financial inclusion.

The opening speeches were followed by two panel discussions on the role of Islamic finance in the SDGs.

During the first session, a former Governor of State Bank of Pakistan, Dr. Ishrat Husain, listed four areas through which Islamic finance can facilitate achieving the SDGs. These are reducing income inequality, fostering financial inclusion, use of *Ṣukūk* for infrastructure, and ensuring financial stability.

He said there is need to be conscious of the fact that Islamic finance cannot solve all the problems in the world, and therefore advised for a focus on the four listed areas for maximum impact.

Dr. Ishrat Husain also urged for changes affecting legal and regulatory frameworks as well as product innovation in Islamic finance, to ensure Islamic finance plays a significant role in realizing the SDGs in IDB member countries.

Governor of the Central Bank of The Gambia, Mr. Amadou A. Colley, in his presentation, said the roles of central banks are crucial in ensuring that Islamic finance supports the SDGs targets of poverty alleviation and financial inclusion.

He said authorities should come up with regulations towards boosting Islamic microfinance, which can assist the poor and promote economic activity at the local level. "Regulatory impediments need to be removed to allow microfinance work well so that we can achieve the SDGs in our countries," he explained.

Deputy Governor of Bank Indonesia, Dr. Perry Warjiyo, in his presentation, outlined a framework for the use of Islamic finance in meeting the SDGs, especially the targets of ending poverty and fighting inequality. The framework showed that if *zakāh* and other Islamic social finance instruments are properly mobilized, these targets can be met easily.

In the second session, panelists discussed the global perspectives of the role of Islamic finance in the SDGs. They are Dr. Jemilah Mahmood, under-secretary of the IFRC; Dr. Edy Setiadi, Deputy Commissioner of the Indonesian Financial Services Authority, Otoritas Jasa Keuangan, (OJK); and Mr. Punky Sumadi, Director of BAPENAS.

******

Forum on Ṣukūk: 1st Annual Islamic Finance Conference: Ṣukūk for Infrastructure Financing and Financial Inclusion Strategy

The Islamic Research and Training Institute (IRTI), a Member of the Islamic Development Bank Group, held a forum to discuss the role of *ṣukūk* in infrastructure financing and financial inclusion.

IRTI jointly organized the forum with the Indonesian Financial Services Authority (OJK) on 17 May 2016, under the auspices of the 1st Annual Islamic Finance Conference, in conjunction with the 41st IDB Group Annual Meeting which held in Jakarta, Indonesia. The forum was aimed to promote the use of

Islamic financing modes to fund infrastructure projects and to enhance financial inclusion.

During the forum, experts and policymakers discussed the issues surrounding regulatory frameworks and *ṣukūk* issuance for infrastructure financing. They concluded that *ṣukūk* have an important role to play in provision of critical infrastructure in IDB member countries, although far-reaching legal and regulatory changes are required across jurisdictions.

In his opening remarks, Finance Minister Dr. Bambang Permadi Brodjonegoro, said Indonesia's use of *ṣukūk* products in infrastructure financing has helped to build critical infrastructure like railways and roads. The Minister explained that *ṣukūk* is becoming more relevant in infrastructure financing today because of its flexibility and underlying assets, adding that various *ṣukūk* forms and structures exist, thereby giving prospective users a range of options.

"*Ṣukūk* naturally controls the needs of financing, which are based on underlying assets. It also provides a protective mechanism and natural hedging, making the industry more sustainable," Mr. Brodjonegoro said.

The Minister said *ṣukūk* are now being used to raise funds and to finance projects in 30 jurisdictions across developing and developed countries, including the United Kingdom, South Africa, Hong Kong, and Luxembourg. He said also retail *ṣukūk*, which are growing in Indonesia, foster financial inclusion, reduce inequality, and provide equal access to investment products across the strata of the society.

IDB Vice President for Corporate Services, Dr. Ahmet Tiktik, said since governments' resources are not adequate to meet the massive funding required to build critical infrastructure, Islamic finance modes like *ṣukūk* offer viable alternative funding sources. He expressed IDB's readiness to continue to provide support for infrastructure financing in member countries.

The opening speeches were followed by a lecture on structuring *ṣukūk* to mobilize financing for infrastructure projects, delivered by Prof. Michael McMillen, Adjunct Professor of Law, University of Pennsylvania, United States, and subsequently by three panel discussions.

In his presentation, Prof. McMillen identified the legal and regulatory constraints impeding private sector involvement in *ṣukūk* issuance in OIC countries. “In OIC jurisdictions, it is not possible to get satisfactory legal opinions, which means no ratings,” he said.

Other trends he cited are issues related to collateral security, predominance of *murābaḥah ṣukūk*, and poor data collection and provision. In his conclusions, he highlighted the need to emphasize private sector *ṣukūk* issuances to bring the private sector into infrastructure financing, and improved transparency in provision of *ṣukūk* data. Prof. McMillen also noted the “too much ado” about the concepts of ‘asset-based’ and ‘asset-backed’ in *ṣukūk* issuance, given that in reality no real transfer of assets is involved in sovereign *ṣukūk*.

He recommended substantive legal and systemic reforms on the issues raised, especially special purpose vehicles, bankruptcy and insolvency, collateral security, and legal structure and functioning. “Islamic finance should take the lead; shape the outcome from inception rather than making piecemeal amendments to principles designed for interest-based finance,” Prof. McMillen said.

Panel Session I

The first panel session discussed policy and strategy to enhance infrastructure development and financial inclusion. Prof. Suahasil Nazara, Chairman of Indonesian Fiscal Policy Agency, discussed the Indonesian fiscal policy to enhance infrastructure development and financial inclusion. He noted that because of the huge gap between available resources and infrastructure needs, the Indonesian government is taking advantage of *ṣukūk* to source funds for infrastructure projects.

Mr. Sarjito, Deputy Commissioner, Capital Market Supervision, OJK, made a presentation with the title, “Capital Market Strategy to Enhance Infrastructure Financing and Financial Inclusion: the Case of Indonesia.” He cited some of the key impediments to *ṣukūk* issuances, including that *ṣukūk* is more costly than regular bonds, only Shariah-compliant companies can issue *ṣukūk*, and ignorance in the society.

Dr. Walid Abdelwahab, Director of IDB Infrastructure Department, gave an overview of current developments, as well as opportunities and challenges IDB faces in infrastructure financing in member countries.

Panel Session II

In the second session, Dr. Robert Pakpahan, Indonesian Director General of Budget Financing and Risk Management, led discussion on retail *ṣukūk* issuance in

Indonesia and its role in promoting financial inclusion. He noted that retail *ṣukūk* inculcates savings culture among the people and promotes financial inclusion.

Mr. Rafee Hanef, CEO, CIMB Islamic, who presented the Malaysian experience in retail *ṣukūk*, explained that the country has enacted enabling regulations that promoted retail *ṣukūk*, which broadened the investor base by exposing investors directly to *ṣukūk* rather than through mutual funds and other channels.

Mr. Oussama Abdel Rahman Kaissi, Head of the IDBG's Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC), represented by an official of the corporation, presented the experience of ICIEC in *ṣukūk*.

Panel Session III

The final panel session focused on country-specific experiences on use of *ṣukūk* for infrastructure financing. Mr. Isa Rachmatarwata, Deputy Minister of Finance, gave a presentation on the experience of Indonesia, while Dato' Noorizah Hj Abd Hamid, CEO of PLUS, presented the Malaysian experience. They both concluded that *ṣukūk* have the potential to provide alternative financing for infrastructure in the two countries.

Mr. Neil D. Miller, Global Head of Islamic Finance, Linklaters LLP, presented the experience of the Gulf Cooperation Council (GCC) countries, noting that *ṣukūk* regulations and practices as well as Sharī'ah ruling vary across the GCC. He recommended standardization of Sharī'ah rulings to facilitate *ṣukūk* issuances across the sub-region.

******

IDB Group and OIC Launch 'Islamic Microfinance for Poverty Alleviation and Capacity Transfer' Program during Islamic Microfinance Seminar in Indonesia

The Islamic Development Bank (IDB) Group and the Organization of Islamic Cooperation (OIC) have launched a program aimed at developing and promoting Islamic microfinance in member countries.

The 'Islamic Microfinance for Poverty Alleviation and Capacity Transfer' (IMPACT) program was launched during a seminar on Islamic Microfinance for

Poverty Alleviation in OIC Member Countries, jointly organized by the Islamic Research and Training Institute (IRTI) of the IDB Group and the OIC.

Hosted by the Bogor Agricultural University on May 14, the seminar was organized in conjunction with the 41st Annual Meeting of the IDB Group in Indonesia.

The IMPACT program provides a platform for experts to share and deepen their understanding on Islamic microfinance models as well as create tools and infrastructure to disseminate best practices. It also aims to promote Islamic microfinance with the poor client's needs at the centre, providing the enabling environment and tools for microfinance institutions to do business and help them thrive.

IDB Group and OIC initiated the program in response to the IDB President's call for experts in Islamic Finance to take advantage of existing technologies and business approaches to develop 'Smart Islamic Microfinance'.

More than 40 experts and practitioners from 12 OIC member countries gathered during the seminar to discuss the development of the Islamic microfinance and to share experiences on innovative best practices.

Experts discussed issues and offered ideas and solutions to develop the Islamic microfinance sector in five key areas: a) Technology; b) Advocacy; c) Operations; d) Monitoring & Evaluation; and e) Policy and Standards.

Some of the key observations and conclusions regarding Islamic microfinance include:

- Islamic microfinance institutions are very different from conventional microfinance. They do not charge interest and work on profit- and risk-sharing basis. Their relationship with the client is not a creditor-debtor relationship.
- Islamic microfinance institutions engage and treat their clients as business partners. As business partners, they add value in the relationship and provide 'smart finance'. This is how Islamic microfinance institutions can create sustainable jobs even in the most difficult and fragile situations.
- The central premise of Islamic microfinance institutions is that social networks among partners have value. The collective value of all social

networks and the dispositions that arise from these networks are to do things for each other. The social capital resources (e.g. trust, norms and networks of association or *ukhuwah*) inherent in social relations could facilitate collective action for a common purpose. All these would bring efficiency to Islamic microfinance institutions.

- The innovations in Islamic microfinance and its ability to generate employment and alleviate poverty through trading and investing with clients have made it possible for microfinance institution to do business with the poor. However, such good practices are not well known and expertise and experience gained from innovative pilots scattered in various countries.

Mr. Anas Elhasnaoui, CEO of IBF Group, said, "Islamic microfinance is about economic empowerment of the poor". He shared the experience of how Bank of Khartoum in Sudan was able to invest USD 4 million venture capital *muḍārabah* investment and partner 600 poor in the Abu Halima Greenhouse project.

"Islamic Microfinance Institutions treats their clients as business partners not as debtors," noted Mr. Nasser Faqih, Team Leader of the Deprived Families Economic Empowerment Program (DEEP) in Palestine. He cited how the same microfinance with two sources of funding, one from IDB and the other from a conventional donor treated their clients differently depending on which window they borrowed from.

******