



Building on the Shoulders, Scaling the Sustainability Mountain:

*Transitioning from Halal to Tayyib in Islamic Finance,
towards a more Sustainable and Humane Economy*



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Keynote Address, Plenary Session 2

Azman Hj. Mokhtar¹

Chairman, MIFC² Leadership Council
Chairman, INCEIF³ University Malaysia
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¹ The views are the speaker's own and do not necessarily represent those of his affiliations, the usual caveats apply.

² Malaysia International Islamic Finance Centre (MIFC)

³ International Centre for Education in Islamic Finance (INCEIF)



1. Introduction

Assalamualaikum wrb, peace and blessings be upon you.

First of all, let me start by saying Alhamdulillah, by His Grace and Blessing we are gathered here today for the 15th ICIEF (International Conference on Islamic Economics and Finance). A special word of thanks to the organisers, the International Islamic University Malaysia (IIUM), the Ministry of Finance (MoF) Malaysia, Bank Negara Malaysia, and the International Association of Islamic Economics (IAIE) for the opportunity to say a few words on how finance, and Islamic Finance in particular, can better support and drive a more humane and sustainable economy, that may then, in turn, support and shape a more socially just and progressive society.

Let us start with some numbers. As we know, Muslims represent some 24% of the world's population and 9% of the world economy as measured by GDP. A distribution of the 57 OIC member countries in the pantheon of 195 nations of the world also shows a very large divergence between wealth, economic activity and resources – from the richest to the poorest and then some in between. Perhaps, this large divergence in itself should get us to reflect on the famous verses in *Surah Al Hujarat ((49:13) “O Mankind, indeed We have created you from male and female and made you into nations and tribes that you may know each other”*. I reflect that perhaps this is the riddle that Allah SWT, the Most Wise, the Most Bountiful wants us to consider that He could have made each nation and tribe sufficient in itself - in terms of economic factors such as natural resources, human capital, technological capability and so on - but in spreading these endowments throughout the Ummah and indeed all the world's nations is actually a sacred call, a grand and divine design for us to work together, to help and complement each other, between the rich and the needy, the surplus to the deficit: to exchange, to invest, to finance, to produce and to trade – and in our good complementarity that we may attract the blessings of good exchange.

Then we hear that Islamic Finance today has been growing rapidly at some 11% CAGR with Islamic financial assets estimated at some USD 4.5 trillion. Alhamdulillah, while these past 40 to 60⁴ years have indeed seen tremendous progress across-the-board, we should also note that this USD 4 trillion+ represent only about 1% of the stock of global financial assets of some USD450 trillion. While we note that definition of Islamic financial assets is arguably too narrow (89% of that number is Islamic banking assets and sukuk i.e. more debt or credit-based assets, and less so equity let alone charity based assets) while the global stock of financial assets is certainly inflated by a cocktail of conditions on steroids, including heightened financialization, unnatural monetary policy and all manner of erstwhile exotic and increasingly normalised financial instruments – unbridled debt, CMOs and CDOs, hedge funds, derivatives to the nth degree, and now the cryptos and metaverse to boot, we also recognise this for a sense of perspective.

Third, to also recognise the economic and societal backdrop of this so-called perma and poly crisis world where three fundamental and inter-related crises are plaguing us today. First, the planetary crisis (climate change, environmental pollution and biodiversity loss), second the economic crisis (economic inequality, cost of living, jobless growth) and third, the inhumanity crisis (wars, genocide, migration, modern slavery,

⁴ In Malaysia, for example, the first Islamic bank, Bank Islam, was incorporated in 1983, while Lembaga Tabung Haji (the Pilgrims Fund) started in 1963.

mental health pandemic) and to recognise that these crises, are actually symptoms of the root cause that behind every crisis is actually a **moral** crisis⁵.

2. From Good to Great, Halal to Tayyib : a case for five transitions

Indeed we stand here today, against this alarming backdrop with such deep, complex, and daunting challenges, we must try to remain balanced and not understate the case that there has also been progress on many fronts, and there are also strong tailwinds that we can further harness. The significant march of progress in international development in the post war years, for example, from the 1950s onwards, has seen to the significant upliftment of billions out of poverty, of higher life expectancy, in literacy and educational achievements are just some of the cases in point.

In Malaysia for example, alhamdulillah, by many economic development measures such as the eradication of hard-core poverty, life expectancy and infant mortality, there has been great strides achieved over the last 67 years as an independent nation. A strong and stable financial system, administered by key financial institutions including the Ministry of Finance, the central bank, Bank Negara Malaysia, the Securities Commission and others have been the bedrock of such a system. The Islamic banking and finance system has been a big part of this journey over the last 40 years since the inception of Islamic Banking in 1983 and Islamic asset management in 1963 with the formation of Lembaga Tabung Haji. Today⁶, in Malaysia, some 45% of banking assets or about RM 1 trillion and some 64% of the capital markets or approximately RM2.3 trillion are Syariah-compliant. Alhamdulillah.

While there has been of late some pushback and reversals internationally on the ESG movement, the overall momentum of finance and business trends and practices are by and large still anchored on a sustainability and an overall stakeholder and not just a shareholder economy framework. It is in this context that this historic moment is especially opportune for Islamic Finance and Economics (IFE), with its ideal of social justice and an ethical core as its anchoring principles. Indeed, this is more so with the system building blocks put together over the last four decades, the rapid development henceforth, the concurrent multiple crises in the global system including the global economic and financial system and the moral relativity – some would say bankruptcy – of the so-called conventional financial system, this ought to be the moment for IFE to shine and share its light not just to the Ummah but indeed the world at large. The challenge is of course to translate the pristine theory into pragmatic practice in a world that is indeed still swimming in a froth of a riba-based system and a world still mired in elements of a post-colonial some may say neo-colonial order.

But we must continue to persevere, and it is in this context that we should continue with at least five essential transitions. Transitions that are at various degrees of progress and why they need to move in more imaginative, bold and quantum fashion:

1. In economics, to migrate from an axiom of a shareholder economy to a stakeholder economy,
2. In finance, to migrate, indeed to return to a notion that finance is there to serve the real economy, which is then, in turn, to ultimately serve a better society. There is much evidence that the reverse is the case today.
3. In business and investing, to ensure that businesses extract not only profits but to move to an axiom of profits with purpose, or even to profits *through* purpose. And to migrate to more responsible investing and along the continuum to more sustainable investing and ultimately, impact investing.

⁵ Al-Quran (Surah Saba' 34:15-16)

⁶ As at end of 2022. Source: BNM and Securities Commission

4. In climate action and the environment, it is of course to make the urgent transition to net zero carbon, but to also drive greater awareness and action on the other aspect of the environment, that is better outcomes on biodiversity and nature.
5. In Islamic Finance, while much has been achieved, alhamdulillah, the time has come where, after more than four decades, to move, where appropriate, beyond the mitigating circumstances of *darurah* (emergency) underpinnings, and undertake a bolder conception of the principles of *maslahah* (public interest), and to accelerate the process of moving from being of the important base of halal form to the ideal of a more tayyib and impactful substance. As we undertake this exciting next wave of Islamic Finance, it is appropriate to caveat that there is much wisdom to undertake such change with careful balance, building on the shoulders of the decades of development and indeed not to throw the baby out with the bath water.

In fact, alhamdulillah, I believe, it is with much foresight that the stewards of the financial system here has put in place key building blocks such as the VBI (Value-Based Intermediation) Framework of the Bank Negara, the Maqasid Shariah Guidance principles of the Securities Commission and the ongoing work of the MIFC Leadership Council with the industry to build a deeper and more impactful Islamic Financial system, of not just the important syariah compliant i.e. halal system but also a syariah impactful and enhancing or halal and tayyib ecosystem.

These transitions are by no means exhaustive, but they are fundamental and indeed they are interrelated and mutually enhancing.

3. Good tailwinds and some headwinds – how green is your love?

Nonetheless, the proverbial glass is perhaps half full at best in a chalice that is perpetually expanding, such is the dynamic nature of our challenge. While we take heart in some strong good tailwinds, there are at least three strong headwinds that we need to cross:

1. *Greenwashing* – notwithstanding the significant progress made in business and finance in recognising and adopting SDGs and the ESG movement, there is also a palpable scepticism in what has been now called greenwashing. How is that SDG became ESG but has now been affected by too much “MSG”? The credibility and sustainability of the sustainability movement rests on our ability to overcome this, through achieving real authenticity and impact. There are tools that we need to harness further that include clearer taxonomies and measurement systems, better aligned incentives, consumer and employee checks and balances, and stronger legal and regulatory oversight. Ultimately, a business case for green businesses need to be made and the impact of technology, the right financial innovation (for example carbon markets and blended finance) and consumer activism (premium pricing for truly green products) are powerful levers to achieve this.
2. *“Green-flagging”*⁷ – I have coined this to refer to the excessive labelling of products to be Islamic, when in substance many of these products while ostensibly halal, fall short and in many cases far short from the ideal of being tayyib. A common criticism in both scholarly and popular circles for example include debt instruments including sukuk and mortgage products are often just as if not more expensive or punitive as conventional products. Furthermore, in terms of financial inclusion, many lament that Islamic Finance in its current form need to do more to give more access to the many needy people and companies that are currently excluded. While indeed, Islamic Finance does not operate in a vacuum away from a sea of conventional global financial system, the evolution of Islamic Finance with its full suite of services and products from banking, non-

⁷ The flag of Islam is traditionally green

banking, capital markets, private equity, venture capital and indeed Islamic Social Finance (zakat, waqaf and sadaqah) and a value-based intermediation framework, the building blocks are in place for Islamic Finance to be more confident and innovative to break this mould of merely “green-flagging”. There is certainly an urgent and significant need and opportunity in a post-pandemic world.

3. “*Greenspanning*” – I have also coined this term, in reference to the unusual and ultimately irresponsible and deleterious monetary policy that the world has had to contend with especially over the last 13 years or so from the Global Financial Crisis. In fact, this unusually loose monetary policy has its origins as far back as 1987 when the so-called Greenspan put that effectively acted as a backstop to markets essentially resulted in a prolonged one-way bet on capital values going up, on debt being cheap, and ultimately widening the income and wealth gaps between the capital haves and have nots. As Piketty pithily says $r > g$. Such unconventional policy has many names including quantitative easing, money printing and permanent Fed puts is part of a bigger megatrend of financialization which ultimately skews and distorts investment decisions, social policy and geo-economics among others. It is, for example, very difficult for investments into developmental SDG anchored projects to compete with the raw returns from a frothy, liquidity driven stock market. For Islamic Finance, this “Greenspanning” of the world has also meant a huge build-up in debt and the riba-based industry, the very antithesis of its financial stability based model. There are no easy solutions here and is indeed a subject that will need its own conference to address but perhaps it’s worth noting some emerging trends in a deglobalized and more fragmented world of greater regional cooperation, more diversified reserves holding and de-dollarization.

4. The proof of the pudding is in the practice: some examples and aspirations

While the philosophy, policies and the politics of these transitions, will necessarily be at the macro-level, ultimately the impact and value will be established at the micro, firm level – at companies, development projects or in touching the lives of people. In this regard, this is a sampling of some practical ideas and examples of projects or products that can be developed in integrating the implementation of a more humane and sustainable economy, through the levers of finance and Islamic Finance that is not just halal but also halal and tayyib.

1. In its current form with approximately USD4.5 trillion of assets, Islamic Finance is still heavily skewed towards murabaha financing, with its structure while technically halal is often criticized as being having more debt-like features rather than equity and participatory characteristics such as ijara and musyarakah structures. As such, any endeavours to move into such equity-based structures and vehicles like Islamic private equity, venture capital and crowdfunding would be a step toward being more tayyib. Included in this is to expand and scale the Investment Account Platform scheme under Bank Negara that works to convert debt capital into equity investments.
2. Use Islamic Social Finance levers such as waqaf, zakat and sadaqah and related forms of philanthropic capital to not just address needy asnaf⁸ but to also build capacity for the needy – for example in build schools and education centres for digital skills, hospitals and clinics and deploying blended finance and technology into the mix. There are many examples already including the KPJ Waqaf hospitals and clinics in Malaysia, the Myanmar Muslim waqaf hospital in Yangon. INCEIF, for example is currently working with Lembaga Zakat Negeri Kedah and paddy farmers in the rice bowl state of Kedah in northern Malaysia, so far, alhamdulillah turning some of the farmers from zakat recipients to zakat payers.

⁸ Asnaf is the permissible recipients of zakat (alms) money, for e.g. the poor and destitute.

3. Scale further the use of Islamic Blended and Social Finance through platforms such as I-Tekad developed by Bank Negara that brings the power of finance to slice, dice, blend and empower from different capital sources including zakat, qard hassan, grants and indeed risk capital.
4. Sharpen the use of social impact sukuks to fund both commercial and more developmental outcomes such as the Khazanah Sukuk Ihsan (2017) that financed a not for profit public education Trust School project.
5. Convert or at least carve out large portions of Sovereign Wealth Funds in many resource rich Islamic countries to become Sovereign Development Funds, where the targeted outcomes are multidimensional to include economic, strategic and societal outcomes⁹.
6. Increase financial inclusion to the unbanked and underbanked through more cost efficient platforms of digital banks. In particular, this platform could be used to better develop entrepreneurship especially among the micro enterprise and SME sector. Malaysia's central bank is currently evaluating bids for licences for this.
7. Implement social protection insurance schemes that extend to informal and gig sector workers
8. Develop or at least consider crypto stable coins based on Islamic financial tenets, anchored on an underlying such as gold, a digital gold dinar as such.
9. Develop more holistic sectoral development – for example a more halal and tayyib affordable housing sector and supply chain, encompassing sustainable building materials such as carbon neutral cement and steel, deploying equity based risk sharing financing and working in partnership with federal and state governments for land and related infrastructure

5. Scaling the Sustainability Mountain: attempting the noble ascent, fulfilling the sacred trust.

It's good to remind ourselves that even in the secular Western canon, before Adam Smith wrote *The Wealth of Nations*, he had written an earlier seminal piece called *The Theory of Moral Sentiments* where he said “*To restrain our selfish, and to indulge our benevolent affections, constitutes the perfection of human nature*”. Indeed, the Enlightenment and the Scottish Enlightenment from whose wells Adam Smith both developed and drew from, gave much of the modern world its current forms, its considerable progress, but also its manifold challenges. As such, it is appropriate I believe, to think of another shift, that is not to not just go back to the notion of Adam Smith not as a prophet of unbridled and wanton capitalism, but Smith as a thoughtful moral philosopher, steep in the conception of a humane capitalism, but, if anything, to go further back to Adam himself, the first man, to the *fitrah* of our common forefather.

Indeed, in Islam, the chain of prophets are bookended by Adam a.s. and Muhammad SAW as the last and seal of prophet, and the message of the prophets were all ultimately the same; to guide and locate human beings correctly in our relationship with our Creator as a servant, in our relationship to be of service to our fellow men and to be a reliable steward for the environment and other species. The Quran narrates that this heavy trust (*amanah*) was offered to all of creation including the mighty mountains but they all said no save for our forefathers who – perhaps foolishly or at least recklessly - accepted the challenge¹⁰ as a *khalifah* (vicegerent).

But we have faith, that in His Mercy, we have been granted free will and the tools to undertake this challenge. Our diversity is indeed a blessing that we need to harness, and there are parallel and complementary paths to do what the Quran describes as a noble ascent¹¹. Indeed, in Malaysia,

⁹ Khazanah Nasional in Malaysia between 2004 and 2018 developed an investment style as a SDF. Malaysia recently reinforced a more developmental role for sovereign funds through the Perkukuh program.

¹⁰ Al-Ahzab 33:72, the Holy Quran

¹¹ Al-Balad 90: 11-17, the Holy Quran

alhamdulillah, in a multi-ethnic, multi-cultural location in both history and geography, where we have always been where the trade winds and the great civilizations meet, we have always put a premium for a more balanced, harmonious and sustainable development; of growth with equity, of progress with humanity, of more public civility and a civilizational approach, anchored on the ideals of Justice (*Al-Adil*) and Excellence and Humanity (*Al-Ihsan*.)

In these disturbing times, indeed in these financial times, in a world lost with multiple crises, and misery and want amidst so much wealth and powerful technology; Islam and Islamic Finance and Economics is indeed part of Allah's infinite Mercy and Guidance, the Light to begin to heal the Ummah and indeed Mankind. We know this as an article of faith, the time has now come for us to translate this into practice.

The building blocks have been diligently been put in place by the pioneers of Islamic economics and finance over the last 40 to 60 years at least. The need has never been greater in these financial, indeed financialised times. We have been gifted the divine sources of Quran and Seerah and in the continuum of time and development, we must now update our collective efforts in good ijtiḥad to develop a sustainable and humane system of economics and finance that is more halal as well as tayyib. For the Ummah and indeed for all Mankind.

Ladies and gentlemen, brothers and sisters –

This is a call to action; a worthwhile ascent, that we may scale this sustainability mountain together in order to fulfil this sacred trust insyaAllah.

وَبِاللّٰهِ التَّوْفِیْقُ وَالْهَدَایَةُ وَ السَّلَامُ عَلَیْكُمْ وَرَحْمَةُ اللّٰهِ وَبَرَکَاتُهُ

Azman Hj Mokhtar.

Kajang, Malaysia

20th February 2024

Reference Supporting Slides: source – MIFC Leadership Council

Formation of MLC to drive the next phase of Islamic finance



MIFC vision and key priorities

Global gateway for Islamic finance markets in Asia and OIC



- Connect businesses, investors and other stakeholders to Islamic finance opportunities in Asia and OIC
- Specialise in sustainable finance and halal economy
- Industry-led initiatives, supported by Malaysia's talent services ecosystem

MIFC key 5-year priorities for the Islamic financial market

- Improve IF industry's global distribution capabilities to better tap opportunities outside of Malaysia.
- Facilitate nascent Islamic financial innovations, including scaling up of new products and services.
- Strengthening Malaysia's competitiveness as an Islamic finance gateway.
- Strengthen global partnerships to advance Islamic financial innovations beyond Malaysia's borders
- Enhance the role of Islamic finance to support national halal agenda

Source: BNM Financial Sector Blueprint 2022-2026

Key strategic thrusts and priorities of Islamic capital market

Shaping a stakeholder economy with SRI and ICM



Source: Capital Market Masterplan 3 (2021-2025)

"The MIFC Leadership Council (MLC) will provide thought leadership, drive strategy formulation and implementation to enhance Malaysia's position as an international gateway for Islamic finance."

Tan Sri Nor Shamsiah Mohd Yunus, Governor BNM @ GIFF2022 (5 October 2022)

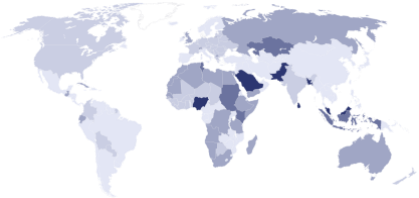
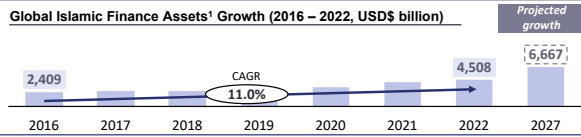
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A Journey of Driving Sustainable Growth over the last 40 years

Global Islamic finance has made significant advancement with an estimated USD4.5 trillion market, going at 11% CAGR, double by 2030



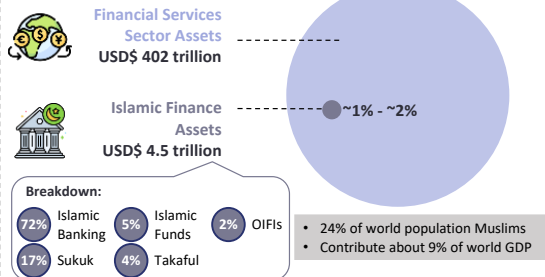
Significant developments have been made to promote the expansion of IF into other regions globally



Legend:
Less matured IF market
More matured IF market

However, IF activities on a global scale remain small in comparison to conventional finance

Global Financial Services Sector & Islamic Finance Assets (2022, USD\$ trillion)



- 24% of world population Muslims
- Contribute about 9% of world GDP

Notable developments of IF in non-muslim countries:

- London Stock Exchange listed >USD\$ 50 bil sukuk
- Luxembourg's Central Bank became the first European Central Bank to join the IFSB
- Australia licensed its first Islamic bank

Thus, there is an opportunity for IF to gradually evolve and expand its presence and impact on a global scale due to:

- Rise of challenges faced in the Western financial system (e.g. collapse of Western financial institutions such as Silicon Valley Bank)

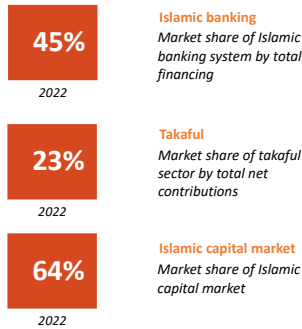
Note: Total Islamic Finance Assets include Islamic banking, sukuk, Islamic funds, takaful and other Islamic Financial Institutions (OIFIs) (e.g. Islamic FinTechs) as per the IFDI report
Source: "Islamic Finance Development Report 2023", ICD-LSEG; McKinsey Panorama; EY Analysis

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Islamic Finance in Malaysia: A Comprehensive Landscape



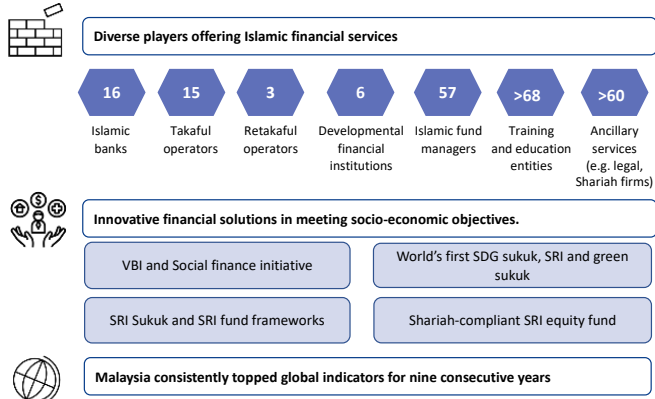
Solid position of banking, takaful and Islamic capital market



Spearheading sustainability objectives



Key achievements and ecosystem



Source: BNM Annual Report 2022, Bursa Malaysia, Securities Commission, Refinitiv

The future of Islamic finance in financial times

FIRESIDE CHAT WITH TAN SRI AZMAN MOKHTAR (CHAIRMAN OF MIFC LEADERSHIP COUNCIL) AT THE GLOBAL ISLAMIC FINANCE FORUM 2022



AWARENESS

- 01** We are living in financial times
Financialization is one of the great megatrends besides the free markets and globalization. The global stock of financial assets is about US\$470 trillion, (according to Tan Sri Andrew Sheng)
- 02** The global financial system is broken
The global financial or architectural system is broken based on rising issues e.g. inequality, severe climate change, and inflation. This fractured system causes increasing financial crises that have been on the rise over the last 25-30 years.
- 03** But, the financial system has nonetheless created value
Despite its flaws, the current financial system has also proven to offer value to the market, from creating career opportunities to providing financial accessibility through loans
- 04** Islam and Islamic Finance as the solutions
Islam is syumul (complete), perfect, rahmatul al alamin, Islamic finance involves the prevention of harm, attainment of maslahah and benefits, circulation of wealth, social justice etc.

AUTHENTICITY

- 05** Overcoming greenwashing
With proper measurement, data tracking, leadership, governance, laws and regulation, civic awareness, consumer rights, and employees, organizations that claim to uphold ESG and SDG values may be better held accountable for their actions.
- 06** Overcoming green-flagging
Green flagging is a phenomenon that involves organizations or individuals who overclaim themselves as Islamic, overcoming this hinges on moving from form to substance and on to spirit or from halal to toyyib.
- 07** The risk of "green-spanning"
It was derived from the term Greenspan Put, a monetary policy response to financial crises by Alan Greenspan. It led to periods of extreme speculation led by investment banks overvaluing the put's repurchase agreements and creating successive asset price bubbles.

ACTION

- 08** Halal to Toyyib
Leaders must now pivot the focus within the Islamic finance sector to other pressing topics such as affordable housing, the night market economy, and the equity market. "Are we answering the needs of society? This is what we need to do and is the challenge behind halal to toyyib."
- 09** Together!
Stakeholders must come together to support one another. Finance has to serve the real economy, and the real economy has to serve society. We must work together to bring Islamic finance in Malaysia forward for the ummah and as an example to the world."
- 10** Malaysia Boleh!
Many times this nation has come together to come through many things. We should recognize and build on their (past leaders) shoulders. E.g. in 1998, We established Dana Modal, Dana Harta, banking consolidation, and selective capital controls - we came together and solved it.

SUMMARY OF THE FIRESIDE CHAT ON THE FUTURE OF ISLAMIC FINANCE PRESENTED AT GIFF 2022 BY TAN SRI AZMAN MOKHTAR IN CONVERSATION WITH ISRAHIM BANI OF ASTRO AWANI. THIS INFOGRAPHIC IS PREPARED BY MLC SECRETARIAT OF WHICH THE CONTENT WAS ALSO ADAPTED FROM SUMMARY KEY TAKEAWAYS PREPARED BY UMAR MUNSHI OF CTRIF.



KUALA LUMPUR, July 27 (Bernama) – Bank Negara Malaysia (BNM) and the Securities Commission (SC) have been taking steps to ensure the sustainability and effectiveness of the Islamic finance system by raising the standards to not only halal, but also 'halalan thayyiban' (lawful and good).

Prime Minister Datuk Seri Anwar Ibrahim said BNM and the SC have charted the course towards halalan thayyiban via the **Malaysia International Islamic Financial Centre** through collaborations with the industry and the Islamic finance ecosystem, including zakat and waqf boards, the banking system, Islamic stock market and sukuk.

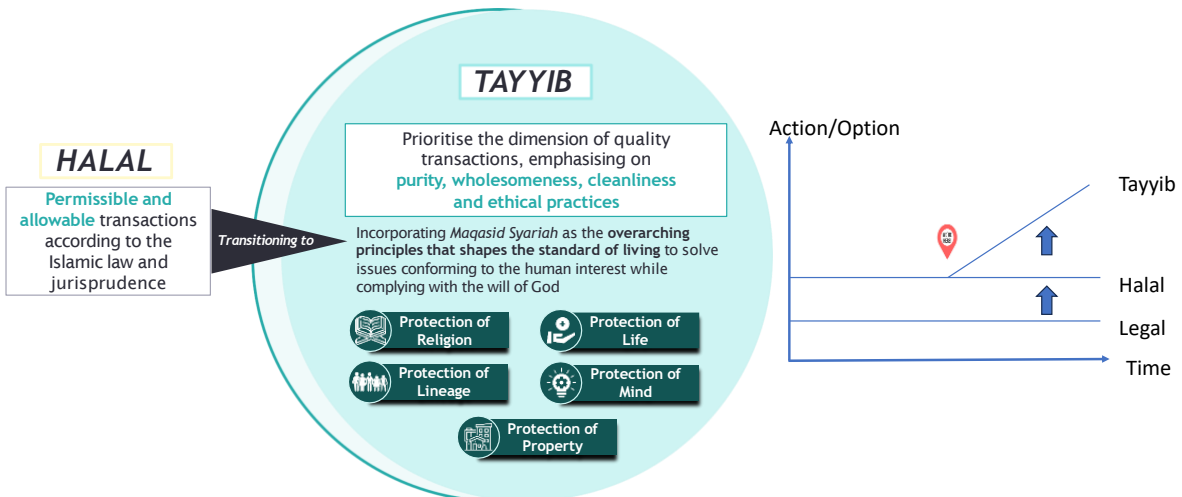
"Insya-Allah (God willing), these efforts will help to enhance the Islamic financial system in Malaysia and further strengthen our position as a leader in the global Islamic economy," he said at the launch of the Madani Economy: Empowering the People, here, today.

"A holistic and Madani national development effort cannot be achieved without a financial system that is fair, just and based on Maqasid Shariah (the objectives and purposes behind Islamic rulings)," he said.

<https://www.mof.gov.my/portal/en/news/press-citations/bnm-sc-beefing-up-islamic-banking-finance-through-mifc-pm-anwar>

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Moving forward, Islamic Finance will transition beyond Halal to encompass Tayyib principles



4