



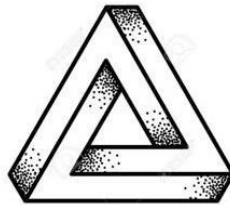
UKIFC



UNITED NATIONS



Scaling the Sustainability Mountain: Moving from Halal to Tayyib¹ : Integrating Islamic Finance & the SDGs



UK Islamic Finance Council
In conjunction with United Nations and Islamic Development Bank
Islamic Finance and the Sustainable Development Goals (SDGs)
Virtual Global Summit

Tan Sri Azman Mokhtar

Chairman, INCEIF² Malaysia

28th September 2021

¹ Halal means permissible and lawful, Tayyib means pure and wholesome

² International Centre International Centre for Education in Islamic Finance



1. Introduction

Greetings and peace and blessings be upon you.

First of all, let me thank the organisers UKIFC, the United Nations and the Islamic Development Bank for the opportunity to say a few words on how we can do better in implementing the 17 SDGs from the lenses of Islamic Finance.

In this regard, and in the context of today's virtual global summit, I am making the case for how the SDGs implementation in general and Islamic Finance in particular, need to urgently move from a predominantly Halal paradigm (that is to say being permissible and lawful according to Islamic law and jurisprudence) to Tayyib (meaning being pure and wholesome and closer to the ideals of the purpose or Maqasid Shariah of Islamic law, which is to ultimately establish social justice in this world). This aspiration to move from being merely halal to the ideal of Tayyib is a concept that is foundational in our Islamic tradition with the Holy Quran making reference to the word Tayyib no less than 40 times. The notion of a merely permissible minimal standard and a more aspirational and holistic solution is also evidently an idea that is both omnipresent and universal in the secular tradition. The notions of substance over form, legal and ethical, true and fair, justice and mercy, or to first do no harm and only thereafter to do good, of aesthetic form and utility function, and of moving from Good to Great are indeed familiar and fundamental expressions at the heart of some of our most essential disciplines, inter alia, in law, philosophy, auditing, economics, medicine, architecture and business management.

2. From Good to Great, Halal to Tayyib : a case for 7 transitions

We stand here today, on the occasion of another United Nations General Assembly and as part of the Faith in Finance Path to COP-26 later this year, against the stark backdrop of a still raging pandemic, an existential climate crisis and a world of startling inequality and want amidst much waste and plenty. There really is not much more to add to the current state of affairs. It's well documented from the recent UN IPCC report, to the clear evidence of the ravages from the hand of men, of the pandemic, climate change and its tragic human and economic costs, the raging inequalities and the despair of the precariat in the developed world, poverty in the less developed world and the refugee and humanitarian crises in between are just some of the overwhelming evidence.

While the challenges are indeed deep, complex, and daunting, we must 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. We can also take considerable comfort of the much greater awareness in the area of the SDGs and the MDGs before that, as the guiding and unifying force in international and national development. Of late especially, there has also been significantly stronger acceptance of the ESG and sustainability movement in the world of business and finance. Islamic Finance, with its ideal of social justice as its anchoring principle, has also made great strides, growing faster than so called conventional finance in many parts of the Muslim world in the last 40+ years especially.

Notwithstanding these positive developments and tailwinds, it is also obvious that the scale, intensity and interrelated nature of the parallel crises of pandemic, climate and inequality demands the possibility of a

much more urgent, radical and disruptive approach. It is in this context that there are at least seven essential transitions that are at various degrees of progress and why they need to move in quantum fashion, to move from good to great and indeed from halal to tayyib.

1. In business, to migrate from an axiom of a shareholder economy to a stakeholder economy, from only profits to profits with purpose, or even to profits *through* purpose
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 investing, to migrate from being merely compliant to more responsible investing and along the continuum to more sustainable investing and ultimately, impact investing.
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 human development, in all its multifaceted forms; to continue the war against poverty, to heal the immediate regress arising out of the pandemic, and to narrow the significant and widening inequalities within and between nations.
6. In implementing the 17 SDGs by 2030, to migrate to a deeper and broader conception of implementation; of bringing a whole-of-society approach, using the full suite of levers from governments, multilaterals, businesses, finance sector and philanthropy and civil society
7. In Islamic Finance, while much has been achieved, alhamdulillah, the time has come where, after more than four decades, the excuse of the mitigating circumstances of *darurah* (emergency) is wearing thin, and to accelerate the process of moving from being merely of halal form to the ideal of a more tayyib substance.

These seven transitions are by no means exhaustive, but they are fundamental and indeed they are interrelated and mutually enhancing. Islamic Finance and SDGs for example, while necessarily not exactly the same, are indeed similar, and more importantly, are compatible and complementary.

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. 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*”³ – 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

³ The flag of Islam is traditionally green

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-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 answers, but Finance does however have the possibility of redeeming itself through SDG, ESG, and Impact Investing and through a more Tayyib Islamic Finance. While this is good and necessary, it would not however be sufficient in itself, until the more fundamental and indeed foundational bases of the financial system are tamed and reformed. This will include a normalisation of monetary policy, a review and better control of fractional reserve banking and the debt industry, and the moderation and indeed control of the shadow banking system. Otherwise, the good work being done elsewhere would be akin to having good fishes swimming in a bad and contaminated aquarium.

4. The proof is in the Tayyib pudding: some practical 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 and 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 jointly developed in integrating the implementation of SDGs through halal and more tayyib Islamic Finance

1. In its current form with approximately USD3.7 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.
2. 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 outcomes⁴.
3. 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.
4. Use Islamic Social Finance levers such as waqaf, zakat and sadaqah to not just address needy asnaf⁵ 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. Some examples include KPJ Waqaf hospitals and clinics in Malaysia and the Myanmar Muslim waqaf hospital in Yangon.
5. 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.
6. Implement social protection insurance schemes that extend to informal and gig sector workers
7. Develop crypto stable coins based on Islamic financial tenets, anchored on an underlying such as gold, a digital gold dinar as such.
8. Develop a 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 infrastructure⁶.

⁴ 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.

⁵ Asnaf is the permissible recipients of zakat (alms) money, for e.g. the poor and destitute.

⁶ A reference business model is 8990, a company Khazanah invested in that is a builder of affordable housing in the Philippines where more than 90% of the customer base are from the unbanked.

5. Scaling the Sustainability Mountain: from Adam Smith to Adam - several paths to the top.

It's good to remind ourselves that 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 inevitably 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, 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 that 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 challenge⁷. 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 ascent⁸ through both SDGs and an Islamic Finance system that is halal but more so, tayyib. 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.

Azman Hj Mokhtar.

Kajang, Malaysia

24th September 2021

⁷ Al-Ahzab 33:72, the Holy Quran

⁸ Al-Balad 90: 11-17, the Holy Quran