



**ISTANA ISKANDARIAH
KUALA KANGSAR**

**ADDRESS BY
HIS ROYAL HIGHNESS
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INITIATIVE
AT THE
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**“ENHANCING THE VALUE OF ISLAMIC CAPITAL MARKET
THROUGH SOCIAL AND IMPACT INVESTMENT”**

Bismillahirrahmanirrahim. In the name of God, the most Merciful and Beneficent.

Distinguished guests, ladies and gentlemen.

Assalamualaikumwarahmatullahiwabarakatuh.

May peace be upon you.

1. Let me start by extending my appreciation to the Securities Commission Malaysia and the Oxford Centre for Islamic Studies for inviting me again to the SC-OCIS Roundtable on Islamic Finance. This is an event I keenly look forward to every year, as it is a highly interactive and constructive thought-leadership forum, in an area of knowledge that is very dear to my heart.



2. I have observed that the past eight Roundtables have consistently focussed on very interesting and challenging contemporary issues facing the financial world, and have explored how Islamic finance can proactively prepare itself in order to remain relevant. Bearing in mind that the finance sector has been progressively widening its objectives to include social, sustainable, responsible and environmental considerations, the need for Islamic finance to capitalise on this broader trend is even more crucial. The subject matter to be discussed this weekend is therefore very apt and timely.

THREATS TO MANKIND

3. Humanity is constantly faced with major challenges. Over the last quarter of a century, around a tenth of the Earth's wilderness has been destroyed. If current trends continue, future generations may be deprived of the beautiful natural surroundings with which God has adorned the world. Such a scenario presents a serious threat not only to endangered species, but also to mankind itself.

4. Climate change is referred to by some economists as one of the greatest market failures in human history, with potentially highly disruptive implications for the social well-being, economic development and financial stability of current and future generations. A recent report from the Climate Change Working Group of the United Nations Environment Programme (UNEP)



Finance Initiative contained the disturbing forecast that economic losses due to climate change could reach USD 1 trillion a year by 2040.¹

Nearly a third of the world's population is now estimated to risk exposure to deadly heat-waves as a result of climate change.²

5. There also appears to be a strong correlation between climate change and inequality, in which those groups already in disadvantaged positions, are likely to suffer disproportionately from the adverse effects of climate change. This then contributes to even greater inequality.

6. There is a critical need to address the humanitarian needs which arise due to climate change as well as natural disasters, epidemics and geopolitical conflicts. According to the United Nations' Global Humanitarian Overview for 2018, US\$24.4 billion is required to provide aid to 93.6 million people, out of the 128.8 million who are estimated to be in need of humanitarian assistance.

7. Concern about the future impact of these alarming changes, as well as the need to address current issues, prompted the United Nations in 2015 to introduce the Sustainable Development Goals. These aim to “end poverty, protect the planet and ensure prosperity for all”, with targets set for the year

¹Report launched at the UNFCCC COP 12 in Nairobi, June 2017

²<https://www.theguardian.com/environment/2017/jun/19/a-third-of-the-world-now-faces-deadly-heatwaves-as-result-of-climate-change>



2030. I will not go through the 17 SDGs individually today, but I do want to refer back to a speech that I delivered in December last year, when I spoke about the congruence of each of these 17 goals with Islamic principles.³ This almost complete alignment, as I contended in that speech, presents a significant opportunity for Islamic finance to play an important role in addressing the comprehensive social and environmental agenda of the SDGs.

8. In this regard, a joint report published last year by the Islamic Development Bank Group and the United Nations Development Program highlighted the potential, and provided recommendations, as to how Islamic finance and impact investing can be jointly harnessed as enablers to achieve the SDGs. It is believed that this combination can be mobilised to contribute significantly towards the USD 5 to 7 trillion annual funding that is estimated to be required over the 15-year period to 2030.

9. Furthermore, the 2016 report by the UN's High-Level Panel on Humanitarian Financing, which I co-chaired, also highlighted the potentially important role that Islamic social finance can play in providing solutions to meet humanitarian needs. This is especially the case given that a significant proportion of affected populations are currently located in Muslim-majority countries.

³HRH Sultan Nazrin Shah, "Realizing the Sustainable Development Goals Through Islamic Finance" The Dinner to Celebrate The 20th Anniversary of Bank Negara Malaysia's Shariah Advisory Council, 12 December 2017.



10. Apart from the initiatives of the multilateral organisations, there are other opportunities for Islamic finance in general, and the Islamic capital market in particular, to participate more actively and constructively in supporting and achieving positive social and environmental outcomes.

11. Recent growth in sustainable and responsible investment (or SRI), has been strong. According to the 2016 Global Sustainable Investment Review, SRI assets under management rose 25% between 2014 and 2016, to USD 22.9 trillion, with Europe and the US accounting for 91% of this total. Although Asia excluding Japan has remained a relatively small market, with assets of USD 52 billion, Malaysia is the largest SRI market in the region, with a 30% share. This is due primarily to its pool of Islamic funds. The recognition of Islamic funds as part of the SRI universe is highly significant, as it reflects the tremendous potential for the Islamic capital market to serve the global SRI segment. At USD 22.9 trillion as mentioned, this is about 10 times the size of the entire Islamic financial services industry.

12. Indeed, SRI is already well-established among some of the large global investors. Norges Bank Investment Management, for example, manager of the Norwegian Government Pension Fund Global, with an asset size of about USD 1.1 trillion, states that responsible investment is an important and integral part of its mandate, and that environmental, social and governance (ESG) issues are taken into consideration in its investment decisions.



13. For Japan's Government Pension Investment Fund, fulfilling its stewardship responsibilities, which include the consideration of ESG factors, is also part of its stated Investment Principles. This fund has a portfolio value of about USD 1.4 trillion.

14. In harnessing the role of SRI, including social and impact investing, to enhance the development and value of the Islamic capital market, the importance of millennials as a key stakeholder group cannot be ignored. The millennials as a group are relatively more sustainability-conscious than others, and actively want to contribute to making the world a better place. According to a Global Investor Study undertaken by UK-based fund management firm Schrodgers, in 2017, 52% of Millennials often or always invest in sustainable investment funds, compared to 40% of Generation X and 31% of Baby Boomers. Engagement with millennials on SRI, and by extension Islamic investing, offers a potentially highly effective and productive means of gaining further traction within this market segment.

15. As part of efforts to address climate change, there is strong potential for 'green finance' to thrive, and capital market instruments such as green bonds are already making good progress. The total amount of green bonds and green sukuk issued globally increased by 78% in 2017, to USD 155.5 billion.⁴

⁴Source: Climate Bonds Initiative



16. Malaysia is leading the drive in innovating green sukuk. The Securities Commission here has underpinned this pioneering work in developing the green sukuk market, with its Sustainable and Responsible Investment (SRI) Sukuk Framework. Launched in 2014, the Framework seeks to address the funding gap in Shariah-compliant green financing, among other issues. Having been developed through active engagement with industry, the world's first green sukuk was issued in July 2017 in Malaysia, to finance the construction of solar photo-voltaic power plants. Since then three other green sukuk have been issued in Malaysia,⁵ and I am pleased to note that several more issuances are potentially in the pipeline.

17. Indonesia also recently issued the first sovereign green sukuk, with an issuance size of USD1.25 billion (on a 5-year tenure), to finance projects in renewable energy, sustainable transport, waste management and green buildings.

18. Prior to the issuance of the green sukuk, the inaugural SRI sukuk under the Security Commission's Framework was issued in 2015 by Khazanah, to fund the development of trust schools. As a social impact sukuk, Khazanah's sukuk Ihsan was itself preceded by the immunisation sukuk, issued by the World Bank Group in 2014. Both the Khazanah and World Bank sukuk have had their second tranches and issuance, in 2017 and 2015 respectively.

⁵Tadau Energy Sdn Bhd.: RM250 million; Quantum Solar Park Malaysia Sdn. Bhd.: RM1 billion; PNB Merdeka Ventures Sdn. Bhd: RM690 million (Programme size: 2 billion) and SinarKamiri Sdn. Bhd.: RM245 million.



ISTANA ISKANDARIAH
KUALA KANGSAR

This is highly encouraging, as it reflects favourable market acceptance and therefore real prospects for further social impact sukuk issuances.

19. Another area of opportunity for combining Islamic finance with social and environmental objectives is philanthropy, which includes the institutions of sadaqah and waqf. Recent initiatives in this area augur well for the prospects of Islamic social finance. The launch of Sadaqa House by Bank Islam Malaysia early this year, to facilitate social finance initiatives, represents a significant development in the utilisation of Islamic finance to create positive social impact.

20. Furthermore, the public offering in 2017 of waqf shares in the re-development of Larkin Sentral, has further broadened the Islamic social finance space, and enhanced the value proposition of the Islamic capital market. I believe we will be hearing more on this particular initiative during tomorrow morning's session.

21. An important point to highlight in relation to both of these initiatives, is the fact that they have in place the necessary governance features to gain the public's trust and confidence. This is crucial for attracting broad stakeholder participation, and for ensuring the sustainability of the initiatives. Given the extent of waqf assets available in different parts of the world, and especially of course in Muslim-majority countries, there is significant potential for waqf in



particular to support or even drive the development of Islamic social finance, not just in Malaysia but also globally.

22. An extension of the philanthropy segment is venture philanthropy, which facilitates the development of start-up or early-stage social enterprises. Based on a venture capital model, the venture philanthropy structure is inherently Shariah-compliant. It can therefore enable Shariah-compliant social enterprises to raise funding from venture philanthropy investors who are willing to provide risk capital.

23. The adverse social and environmental developments that we are experiencing today call for much more concerted efforts on the part of both governments and the private sector, to address the issues at hand. This requires the incorporation of the sustainable development agenda into all levels of decision-making and operations. A combination of the expertise and resources of the private sector, with the policy framework and political will of the government, is what is necessary to achieve the desired impact and positive outcomes.

24. At the same time, capitalism, it seems, is being 'reinvented', so that its sole objective and purpose will no longer be the pursuit of profit, but will expand to include greater attention to sustainability considerations and long-term social impact. In this way, a more responsible private sector, that lives up to civic-



mindful ideals, can evolve.⁶ Given its own ideals and social objectives, it is only appropriate that Islamic finance should contribute significantly towards this reinvention.

25. The *Maqasid al Shariah*, which is often viewed as being the foundation of Islamic finance, should be a key point of reference in these endeavours, and should form the basis for structuring a strategic roadmap for the long-term development of the Islamic finance industry. This is a roadmap that enables the incorporation of sustainable development issues into capital markets, taking into consideration the challenges of the present, but without compromising the ability of future generations to meet their own needs.

26. Islamic finance must remain relevant by being involved more proactively in this global agenda that aims both to alleviate poverty and inequality, and to maintain and improve global prosperity and stability.

CONCLUSION

27. As William Clay Ford, Jr., of the Ford Motor Company, put it, “Creating a strong business and building a better world are not conflicting goals – they are both essential ingredients for long-term success.”

⁶Michael Porter. <http://blogs.worldbank.org/psd/creating-shared-value-delivering-on-social-values>



ISTANA ISKANDARIAH
KUALA KANGSAR

28. The substantial similarities between the underlying principles of Islamic finance, and those of social and impact investment, provide tremendous opportunity for the Islamic capital market in particular to capitalise on the strong growth of the broader sustainable finance and investment segment across the globe.

29. It is my hope that this weekend's deliberations on this very important topic will lead to some practical recommendations and actionable solutions, that can be implemented and operationalized in the near future, for the benefit of industry and of society.