Duty and Dignity in Catalysing Financing for Development and Humanitarian Needs

Islamic Finance Principles & Opportunities

21 – 22 August 2017
VE Hotel & Residences
Kuala Lumpur, Malaysia

Joint Report by Co-Organisers
International Centre for Education in Islamic Finance (INCEIF) &
International Federation of Red Cross and Red Crescent Societies (IFRC)
EXECUTIVE SUMMARY

This report aims to encapsulate the presentations, discussions and outcome of a joint two-day workshop on “Catalysing Islamic Social Finance’s Principles and Opportunities” as a means of exploring innovative financing mechanisms to fulfil the financing gaps and demands of humanitarian needs and response. The workshop was co-led by Tan Sri Dr. Jemilah Mahmood, IFRC’s Under-Secretary General for Partnerships, and Mr. Dzalin Ayub, Chief Operations Officer ad-interim (CEO a.i). INCEIF, supported by INCEIF’s senior leadership. The objectives of the workshop include gaining a greater understanding of ISF instruments and identifying actionable models for collaboration and testing on the ground. In attendance and participating at the workshop were INCEIF Islamic Finance experts, IFRC’s Technical Leads, heads of departments and board members of Red Cross and Red Crescent Societies with interests and presence in Asia Pacific, Africa, Europe and MENA as well as directors and high level representatives of the private sector and donor community. Day One primarily focused on presentations for the various types of Islamic Finance principles and the scope of IFRC’s programming; while on Day Two participants were divided into four groups to discuss and deliberate on opportunities to utilize Islamic Finance principles for IFRC’s different programming. The outcomes of the group work were presented towards the end of Day Two, to potentially be taken forward for realization by the relevant selected representatives, and supported by INCEIF Islamic Finance experts.

SUMMARY OF INTRODUCTION AND WELCOMING REMARKS

INCEIF’s CEO a.i Mr. Dzalin Ayub expressed excitement over unprecedented exploration on shared strengths to make the world a better place. INCEIF believes Islamic Finance’s principles could create a difference in preventing and alleviating human suffering. The aim of the workshop is so that experts and technical leads could come up with ideas for an alternative financing framework to support the noble intention of humanitarian response.

Tan Sri Dr. Jemilah Mahmood

Despite international and regional donors’ continued generosity, the needs and demands gap in humanitarian response is widening. The UN has identified that without new partnerships and ways of resourcing, the post-2015 Sustainable Development Goals (SDGs) will never be achieved.

In the High-Level Panel on Humanitarian Financing Report to the UN Secretary-General, three main areas were identified to fulfil the gap: 1) Reducing need and finding political solutions; 2) Diversifying and expanding income base; and among this highlighted the need to explore areas of Islamic Finance. Mandatory alms by Muslims globally is not well recorded, though the conservative estimate is between 2.5 – 3 billion USD per year. 3) The Grand Bargain for Efficiency and Effectiveness. Over the two days of the workshop, for some (participants) it will be “Islamic Finance 101”, but at the same time it is pertinent that the workshop ends with something concrete that we can collectively take forward. Now is the time to act via strengthened collaborations; to build key concepts and models; and establish clear action steps.

DAY 1 – 21 AUGUST 2017

PANEL: DEVELOPMENT FINANCING AND ISLAMIC SOCIAL FINANCE

Aim: Gain an overall understanding of Islamic Social Finance and the potential opportunities and challenges across countries in this financing landscape:

- Decoding Islamic Social Finance – Principles and Opportunities
- Country Analysis: What is the current financing landscape and what gaps could Islamic Social Finance fill

Panellists: Dr. Ziyaad Mahomed, INCEIF; Dr. Mohammed Obaidullah, Islamic Development Bank Group (IDBG); Ms. Sofeena Lalani, British Red Cross

Moderator: Mr. Xavier Castellanos, IFRC

Decoding Islamic Social Finance, by Dr. Ziyaad Mahomed, INCEIF:

The aim of this session and the workshop is to create understanding of Islamic finance. By afternoon, participants should be able to identify the right ideas within the five parameters of: 1) impact at scale; 2) laws and regulation; 3) potential for success; 4) sphere of influence; 5) location that enjoys access.
In understanding potential of Islamic social finance instruments, it is also crucial to know what contrib-utes to successes and failures of Islamic Finance practices, and the instruments that are relevant for humanitarian needs. Two studies have been conducted on the potential of Zakat for lifting the poor out of poverty; and both studies came to conclusion that when the full potential of zakat is realized, it could lift people out of living below the poverty line. The data is scarce for the potential of Waqf for lifting the poor out of poverty, but it is roughly estimated at 60 billion USD in assets according to evaluation in 2013/14. In a 2006 evaluation, it was at 24 billion USD. If these assets were used even at only 10% per annum, then it would have taken care of the poor in a country. The actual size of sector is approximately between 550 – 600 billion USD.

There is a huge gap between the potential and what is realized. Dialogues should be focused on the growth rate, instead of the current size. Indonesia and Malaysia stands out as countries that are very proactive in regulatory changes to fit the Islamic Finance framework into the national financial system. Trends and changes in regulatory frameworks are by different governments’ varying interests and levels of initiatives and management as well as mobilization of resources and laws. Potential issues for humanitarian finance is the distribution of zakat to non-Muslims and inter-country distribution of zakat, which may vary in Islamic jurisprudence opinions from country to country. In the Indian sub-continent, the use of Tamleek removes any conditional interventions of the giving. For inter-country distribution, there is a prioritization that zakat should be distributed locally (in-country), but no complete ban on disbursements of zakat in other countries.

Proportion of zakat can be spent on administration (one eighth), though there is no rigidity. Some countries are more liberal, with up to 20%, such as under the secular laws of charity in Kazakhstan. Some countries reproduce Shariah laws in regulatory frameworks of secular laws with 20% of funds mobilized may be used towards administrative purposes.

In understanding potential of Islamic social finance instruments, it is also crucial to know what contrib-

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Christine Lagarde, Chief of the International Monetary Fund (IMF)

Ethical principles of Islamic finance may bring banks closer to their clients. Islamic finance has, in principle, the potential to promote financial stability because its risk-sharing feature reduces leverage and its financing is asset-backed and thus fully collateralized.

It is systematically important in 14 countries, with more than 15% market share. The hype is not in the size, but in the growth rate of 17% per annum. Islamic finance stands for a universal moral code and supports the real economy – real assets that back financing. It stands for social justice and fairness via socio economic empowerment. For example, the vision statement of Al-Baraka Bank (Pakistan) captures the essence of Islamic Finance - We believe that society needs a fair and equitable financial system which rewards effort and contributes to the development of the community.

Islamic Finance creates an equitable environment where risks are shared by all stakeholders There are Philanthropy principles of Zakat, Waqf, Sadaqah; the Cooperative angle of Kafala, Takaful, Qard; and Microfinance that is either debt based or risk based. There are 6 – 8 essential instruments and scalable to any size. The link to SDGs is that in Islamic law, concept of objective of the law is for the preservation and protection of social harmony. Islamic finance is inherently ethical, to promote sustainable, responsible and impact solutions. In Africa – Islamic Finance is already being practiced through informal structures although formal offerings in most African countries are relatively new. Islamic Finance is also about creating financial inclusion and establishing a level playing field to those that are in need.

Click here to access the presentation

Development Financing and Islamic Social Finance: Lessons from Country Analysis, by Dr. Mohammed Obaidullah, Islamic Development Bank:

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Obaidullah, Islamic Development Bank:

Lessons from Country Analysis, by Dr. Mohammed

Development Financing and Islamic Social Finance: UK Country Analysis, by Ms. Sofeena Lailani, British Red Cross

Presentation focuses on the trends and thinking within the United Kingdom and the British Red Cross. 49% of giving in the UK is faith-based, while 16.3 billion GBP is channelled to faith based organizations. The UK is the first Western country outside the Islamic world to embrace Islamic finance. In 2014, the UK became the first country outside the Muslim world to issue sovereign Sukuk. There are 6 Islamic Banks within Britain and another 20 banks that offer Islamic financial and wealth products and services. The National Zakat Foundation was re-

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cently set up in the UK to directly receive contributions from Muslim communities and individuals.

British Red Cross is in its research phase, working with INCEIF and IFRC, in exploring new ways to fundraise through specifically targeted diaspora; through banks and Corporate Social Responsibilities (CSR) activities. The engagement with Islamic banks within the UK is still unclear and undergoing further discussion.

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Q + A SESSION:

Q: Giving trends vary between generations; for the older generation, the understanding through the Holy Quran is to give directly and within localized community, also due to less regulations and structure; younger generation will calculate the 2.5 percent and payment is made online through institutions. Challenges are different between cities and villages. In villages, the richer people will give directly to Islamic leaders and the funds are not managed properly due to limited knowledge on how to distribute. Education of Islamic leaders is also important. Which is more appropriate? To give within community or to expand the circle to include more? And what about the principles and application of Amanah (trust)?

A: Indonesia sets a good example how State can play a proactive role in mainstreaming of Zakat and Waqf. Central Bank of the country has taken leadership to widen partnerships and initiatives. Together, the various stakeholders set on a course to design universal/global standards. Lots of information being generated for the process, through years that it’s been managed informally. Rumah Zakat initiative is a good example; and, the channelization of CSR funds to Islamic Finance instruments. Crowdfunding – Sadaqah Indonesia – is a Peer-to-Peer (P2P) model of giving, individuals personally decide on where the money goes and how it is being utilized. Now, a lot of the in-country zakat funds are flowing through formal sector, through inclusion in financial sector, and by developing standards.

Q: Request for further explanation of Tamleek

A: Tamleek is a Shariah requirement which ensures that Zakat is paid as an unconditional cash transfer. Through research done, the conclusion is that unconditional cash transfers scores higher than any other benefit to the poor. Traditional scholars advocate for it because Tamleek is aligned to Zakat, to give ownership and sole decision-making power to the recipient of Zakat.

Q: Were there any regulations that discourages zakat to be distributed cross-borders?

A: 1) Fintech can help with providing a solution for cross border giving, for ease of cash transfer and for selected giving. 2) British Red Cross looking at individual giving and Islamic Finance giving through online platform and tech based initiatives.

FISHBOWL: ISLAMIC FINANCING AND THE HUMANITARIAN SYSTEM

Aim: To understand the opportunities and unmet needs within the humanitarian system that warrant the attention of Islamic Social Finance

- Forecast based financing
- One WASH
- Humanitarian context in Palestine
- Enhancing Livelihoods and Food Security in Drought Prone Areas

Panellists: Dr. Pablo Suarez, RCRC Climate Centre; Mr. Robert SM Fraser, IFRC; Dr. Younis Al-Khatib Palestine Red Crescent; Mr. Ahmed Idris, Kenya Red Cross

Moderator: Mr. Shaun Hazeldine, IFRC

One WASH, by Mr. Robert Fraser, IFRC:

Access to Water, Sanitation, and Hygiene (WASH) are crucial to human dignity, vital elements of preventive and public health can contribute significantly to poverty reduction. Access to WASH is a Human Right. One WASH – integrated health and wash programming at IFRC targets the eradication of cholera. Global Water and Sanitation Initiative (GWSI) is present in 80 countries for the period between 2005 – 2025, and has reached 20 million people, with a target to reach 30 million more. IFRC has identified cholera hotspots as the highest risk areas. WASH aligns directly to UN SDG 6, and the primary implementers in-country are the Red Cross Red Crescent (RC/RC) national societies. IFRC contributes to the technical group for Global Task Force for Cholera Control (GTFCC).

Cholera still exists in 2017 as it is a disease of poverty and crises. In developed societies, cholera was eradicated 100 – 150 years ago. It causes 150,000 deaths a year globally but this is not an accurate number, due to underreporting. Various other causes in developing contexts including population growth, unplanned urbanization, climate change impact and others. New tools such as vaccination has worked, but must be combined with WASH.
There is a need for a collective and collaborative approach through partnerships. Strategy to target hotspots with the vision to reduce the spread leading to eventual eradication. Targeted interventions in hotspots are to increase access to WASH, vaccination coverage, build local capacities, apply tailored international standards to local context, amongst others.

The asks: 1) on average 40USD per beneficiary 2) 0.5 – 5 million each hotspot 3) 100m USD over the next 5 years – all linked to GWSI. Partnerships could be looking at sponsorship of specific hotspots with targeted work and ownership of work being done on the hotspot.

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Humanitarian Situation in Palestine, by Dr. Younis Al-Khatib, Palestinian Red Crescent (no PowerPoint presentation):

Palestine has been under occupation since 1948 and the occupation has created many humanitarian situations in the region, beyond the Palestinian borders. Palestine Red Crescent works in all areas in the region; responding in Syria where 600,000 Palestinians are affected by the Syrian crisis; in Palestine where people are living under the Occupation. There are no humanitarian solutions, only political. In medical terms, responding to humanitarian needs treats the symptoms of the disease but not the disease itself.

The situation in Iraq is that after 14 years of conflict, more than 70% of Palestinian population has left. In Syria only one third are still living in designated refugee camps, the rest has left or are displaced within Syria. In most contexts, Palestinians don’t have the right to work. In Gaza, there is zero access to land or any other mode. Intensity of settlement building is divided into 3 areas and the potential development of Palestinian society is blocked.

Energy situation in Gaza – people living in darkness due to lack of electricity sources – only half the demand is met to the needs – between 16-20 hours a day electricity is not available. Hospitals and emergency centres are completely dependent on generators and there is also a loss to livelihoods, impact on drinking water and sanitation services. Main donors are the Islamic Development Bank and the International Committee of the Red Cross (ICRC).

Improving Livelihoods in Arid and Semi-Arid Areas, by Mr. Ahmed Idris, Kenya Red Cross:

Basic argument is one of sustainability - that Zakat should be given so that the beneficiary eventually is able to contribute zakat subsequently. Tools for Islamic philanthropy talks the language of development –building resilience and opportunities and ensuring sustainability. Satellite image comparison of the Dadaab area (Kenya) in 1973 and 2015 shows that natural environment from abundant resources to dwindling, creates a need for livelihood programs. Communities living in these areas are distant from politics and institutions. Therefore, the gaps need to be filled by non-state actors. Subsequent risks and hazards completely erodes coping capacities of communities and accelerating poverty. Today, they are poorer from 10 years before. They are stuck in the vicious cycle of poverty. Irony of development is that if it cannot raise resources to address risks, poverty will live side by side with enrichment. So how do we find a solution to mobilize the necessary resources?

Kenya Red Cross programs include livelihood diversification. Moving communities from sole nomadic to agriculture. Experience so far shows that capital that is being maximized for communities through sharing and risks distribution. Example: Sharing of crops and profits between sets of beneficiaries, organizing themselves into cooperatives – to give within the beneficiaries’ communities. Generally, the communities don’t like being told what is best for them. Important to ask them how they want to use the resources and mobilize it.

Food for thought:

1) Communities bring capital to the table, resources such as land is a good investment, mode of partnership can be established;

2) Regulatory systems to support Islamic finance, most beneficiaries are not credit worthy, how do we support communities that are not perceived to be appealing by mainstream financing mechanisms?

3) Regulatory systems are under severe scrutiny and is becoming increasingly difficult to organize/structure

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Forecast Based Financing for Islamic Financing, by Dr. Pablo Suarez, IFRC Climate Centre:

As a researcher in financing risks – most of the work is to do with warning signs and principles that can help make it happen. Islamic financing can make it happen. How forecast based financing may link to Islamic finance? Disaster Response Emergency Fund (DREF) is a reactive based funding, happening after the floods. Forecast based financ-
ing is funding based on risks and what is expected. Early action is triggered with standard operating procedures so need less money in the long-term. Islamic financing can be aligned with forecast based financing.

Early action can be implemented through awareness – early warning through partnerships (e.g. pre-recorded messages on TV/Radio), water purification kits, preparedness of communities, evacuation plan – all to be done before the overspill/crisis. Forecast based Financing recognizes that there are often forecasts available but no humanitarian organization resourced to act before disaster, especially when there is no certainty and a risk of acting in vain.

Forecast based financing has won the Global Innovation Award at the World Government Summit 2017 and is receiving funds through Hydro Humanitarian Innovations by World Bank's Global Facility for Disaster Reduction and Recovery (GFDRR). If successful, Malaysia will be the first in the world to blend forecast based financing with Islamic financing. The key to bringing Islamic financing into forecast based financing is to amplify the impact and value of the investments. Ideas and the “how” is needed for this to go forward.

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Q&A SESSION:

Q: Does IFRC have forecast based financing on famine and climate change impact? How does IFRC support that forecast?

A: Mandate to understand through climate change impact, for famine, there is also a lot of forecasting, but there is a disconnect between finance and forecasting. Majority of problems that is being faced, investment in development tools/funding isn’t enough or targeted/accessed by humanitarian work/preparedness.

Q: How different is FbF to the African risk capacity and model used?

A: Funding for early action, not early response.

Q: If there are no humanitarian solution, only political; how do humanitarians influence change in Palestine?

A: Humanitarians can’t do a lot to convince political will to achieve peace/security, even within humanitarian missions. What comes first is security of humanitarian actors. That doesn’t mean we don’t have a role as humanitarians. Our role is to and within communities, through partnerships and creation of awareness, understanding, and mutual agreement. Our role can be tangible and rewarding – such as creating leadership through working with Palestinian youth.

DEEP DIVE: ZAKAT AND SADAQAH

Aims: To understand,
• How the instruments work?
• What is the current experience in countries?
• What are the challenges and opportunities?

Speakers: Prof. Datuk Dr. Syed Othman Alhabshi, INCEIF; Mr. Ezamshah Ismail, INCEIF

Prof. Dr. Syed Othman Alhabshi,
Islamic Development Bank:

Zakat is obligatory and Sadaqah is voluntary; two main forms of charity in Islam. Zakat is one of the five pillars of Islam, and is essentially alms giving, considered a flawless system that helps to create a stable and harmonious nation. For taxes, there are different types and laws, but for zakat, is fixed to 5 – 6 types that is comprehensive and inclusive. Two types of zakat; 1) zakat al fitr – zakat for the purification of self, and 2) zakat al maal – zakat on wealth.

Pre-requisites of Zakat on wealth: must have full control of the wealth, wealth must be able to grow, wealth must exceed a certain threshold (nisab). Rate for Zakat on wealth or income is 2.5% per annum, and for agriculture is different, rates vary by costs; for mining is 20%. The cultural standards are usually taken into consideration as an authoritative point (uruf).

8 categories for recipients of Zakat:

1) The Masakeen – the destitute
2) Fuqaraa – the needy or poor
3) Amil’ Zakah – the alms collectors
4) Fi sabi ‘Lillah – in the path of God
5) Gharimun – people burdened with debt’
6) Ibn as’Sabil – the wayfarers and travellers
7) Riqab – people in bondage or slavery (in modern terms: trafficked humans / those trapped in prostitution)
8) Mu’Allaf – those who have inclined towards Islam

Challenges for zakat collection include lack of data, lack of information on proper distribution, information on ensuring zakat recipients to also eventually be zakat contributor (measurement of effective giving). Furthermore, the Amils (zakat collectors) must be properly trained to do their job.

Within Islam, there is a belief that not paying zakat means hoarding what is rightfully others.

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Mr. Ezamshah Ismail, INCEIF:

Success Story #1 – An experience in the Federal
Territories of Malaysia (Pusat Pungutan Zakat):

By formal numbers, only 8% of Muslims are contributing to this central system set up in Malaysia. Online payment made available and tax exempted, payment through counters (modernized, organized, convenient). Certain organizations can be mandated as zakat collectors and distributors in Malaysia, tax authorities also include tax deducitbles for business expenses. Zakat can be paid for years missed and tax deductible for zakat overdues. Tax advantage aims to ease the burden of zakat payer.

Success story #2 – Dompet Dhuafa (the wallet of the poor) Indonesia:

Zakat act established in 1999 and 2001 for mandate and basis for zakat collection system in Indonesia. Later acts are to ensure transparency and accountability, warranting capacity and accountability of zakat collectors and distributors. BAZNAS is the institution for zakat collection and distribution. Zakat collection is the third sector of financing. In 2015, the figure was 269.3 million USD with an annual growth rate for zakat on average at 39.3% since 2002. Dompet Dhuafa also exists in other countries (Hong Kong, Australia, Japan, USA). Payment for Dompet Dhuafa can be done not only online but also via mobile phones (through partnerships with service providers). Payment of takaful (insurance) can follow the example of the largest conventional insurance company in the world based in Norway, where the bulk of transactions are done on mobile phones. Independent zakat collectors can be trained and expansion of zakat collection implemented. Programs under Dompet Dhuafa vary for health, education, social development and economy including Water for Life (WASH).

Additional points: Zakat monies can be utilized for many, it may start local, but the excess can be used abroad. 

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AID:Tech – To Empower Through Transparency, Mr. Niall Dennehy:

How does blockchain relate to Islamic Finance? Blockchain is a technology that allows people who don’t know each other to trust a shared record of events; similar to the concept of hawala – a system or agency for transferring money traditionally used in the Muslim world, whereby the money is paid to an agent who then instructs a remote associate to pay the final recipient.

Finance can be stored in a blockchain; through a shared ledger (distributed ledger technology). Bitcoin is a cryptocurrency based on blockchain. Blockchain is a form of responsible financing – of trust, justice, equality and efficiency. Users can apply blockchain to automatically deduct percentage of wealth each month towards zakat. Blockchain translates resources into a digital asset and will be recorded and traced and stored digitally. It also creates digital identity to receive digital entitlements – enabling individuals to create a credit profile – if they weren’t credit worthy before then they can become credit worthy.

Video screening of pilot project with Irish Red Cross in Lebanon (December 2015) that enables refugees to purchase at selected stores through digital cash vouchers.

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Q+A SESSION:

Q: KitaBisa.com (Indonesia) – consumer protection agency intervened – at the time was not regulated or wasn’t a conducive environment, opens space for lawsuit. Should Indonesian Red Cross create its own crowdfunding platform or partner with existing?

A: There are pros and cons both ways; other institutions have the same question. Outreach towards digital market, facilitation and thereafter, reporting. If they want to then they must allocate budget for all the things needed. It may not make as so much financial sense to set up, than to establish partnerships with existing platforms.

Q: What can we do as humanitarians to accelerate turning the digital assets into tangible ones?

A: This is something we are working on. Haven’t fully figured it out yet, Aid Tech is only three years old. Figuring out who to partner with, that has the reach with the amount of human resources (volunteers) to realize the tangible end.

Q: What is stopping us from going global with blockchain technology?

A: Difficult to get buy-in, and reluctant stakeholders. Prediction is that in the future, over 10% of GDP will be used by blockchain.

DEEP DIVE: SUKUK & WAQF
Aims:
• How do the instruments work?
• What is the current experience in countries?
• What are the challenges and opportunities?

Speakers: Dr. Aishath Muneeza, INCEIF; Dr. Mahadi Ahmad, ISRA

Sukuk and Waqf, by Dr. Aishath Muneeza, INCEIF:

Most typical answer to the question on what is sukuk is that it is an Islamic bond. But why use Islamic bond when normal bonds can be used? The structure differs from normal bonds in that Islamic bonds do not create riba (charge heavy interest rates). Sukuk does provide an investment cert but guided by the underlying Shariah financial structure. It is equitable to the many types of contract. Sukuk certification and usage of Arabic terms is to differentiate the type of Shariah compliant underlying transaction. In the structuring of Sukuk, especially if it involves Waqf, there will be challenges, but it is possible through innovation. Sukuk is pliable to innovation, and can be structured as per the main parameters and challenges can be overcome. Case studies presented from Saudi Arabia, Singapore, New Zealand.

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Waqf for Social Well Being Solution, by Dr. Mahadi Ahmad, INCEIF:

Waqf is defined as “Locking up of the title of one’s owned asset from disposal and allotment of its benefits for social causes approved by the Shariah”. Waqf is an Islamic invention: transference of property title to beneficiaries while only the founder can have authority how well it is being managed. Established first efforts on slavery emancipation, for the poor, for guests, for travellers and for kinsmen. Historically played a key role in the promotion of women’s empowerment, Waqf’s first establishment was promotion of gender equality and have women as managers (a woman was the first manager of Waqf).

Example of Waqf: The contribution of a well which is the only source of portable water in Madinah by the creation of equal rights to the well amongst everyone. Two types of Waqf assets: tangible and intangible – durable and recognized by the customs of the people.

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Aim: Understand variations and operations of models in Islamic Social Finance

• What do current models and approaches look like?
• How will they work?
• Where is the opportunity to engage?

Panellists:
1. Yusuf Fund: Mr. Romil Shamsudin, Rofe Group
2. Applying Sukuk for Education: Mr. Ng Eu Gin, Khazanah Nasional Berhad
3. Creating Humanitarian Sukuk and Market: Dato’ Badlisyah Abdul Ghani, Tabung Haji Malaysia
4. Zinergy Eco Model of Financial Inclusion: Dr. Ziyaad Mahomed, INCEIF

Creating Humanitarian Sukuk and Markets, by Dato’ Badlisyah Abdul Ghani, Tabung Haji Malaysia (no PowerPoint presentation):

Social Impact Financing is new, not many big-ticket deals seen in the market for social impact financing. Investors are still getting used to such instruments. People and investors are used to doing it as charity, but not as a business. Doesn’t mean there isn’t anyone out there who isn’t looking. Humanitarian sukuk is flexible, can be structured in any structure we want. GAVI Sukuk as an example – an organization connected to the World Bank. The current dilemma is how to generate income and pay back the capital of Sukuk?

Applying Sukuk for Education, by Mr. Ng Eu Gin, Khazanah Nasional Berhad:

Khazanah issued a MYR1 billion sukuk investment fund aimed at transforming some schools in Malaysia. Needed MYR5 million over 5 years to truly transform these schools. The initiative took into account the example of impact bond in India (Rajasthan) and the pay-out of the bond based on the schools. Khazanah didn’t go after typical set of investors, created a structure with KPIs with investors willing to forego part of the expected returns if target reached. The second tranche was open to public and raised 100 million MYR.
Yusuf Fund Concept, by Mr. Romil Shamsuddin:
A large and ambitious global fund with the objective of ending famine systematically and sustainably by year 2027. Primary goal is to achieve UN SDG No. 1 and for poverty reduction and zero hunger. Yusuf Fund aims to connect Muslim nations and individuals with resources to ensure that it effectively reaches targeted beneficiaries (irrespective of faith) through enhanced coordination, information and knowledge.

Zinergy Eco Model of Financial Inclusion, by Dr. Ziyaad Mahomed, INCEIF (presentation not available for sharing):
A model creation in Indonesia: A challenging situation for Farmer X who owns 100 cattle which is decreasing by the day, due to theft and other socio-economic drivers. This challenge needed to be solved for the farmer and the community by the creation of an economic ecosystem in the village through a project utilizing the farmer's cattle.

Scenario:
» Farmer X leases out several cattle to different villagers;
» Villagers receiving cattle also receive education on caring for the cattle;
» Profit received from cattle farming channelled towards community development (schools, better infrastructure, etc.);
» Villagers profiting from cattle farming returns the number of cattle received back to Farmer X

Funds from all the profit shared and generated by the community is also used to set-up educational fund for young people from the community for higher learning, ensuring sustained socio-economic development for the community.

END OF DAY 1: WHAT IS ON OFFER & WHAT IS OUR ROLE?

The hands-on group work for Day Two aims to construct and solve financing problems that humanitarian actors might be having. There will be an expert in each group for the application of the financial instrument and viability. Experts will also provide input on the support and networking that is needed for implementation. What participants need to think about when defining that problem:

- Ensure that the idea is scalable with impact going forward and is replicable as fast as possible.
- Explore feasibility of laws and regulations, as the instruments might not be fit for the environment in mind.
- Influence of network for the implementation to be successful
- Location – for fintech to be applicable, must be a place with high ICT capacity and infrastructure, access to technology

Financial model that could be created might not be a specific instrument as a solution, but a hybrid innovation based on the principles of Islamic finance. Group work is an exercise to ensure participants can grasp how to apply Islamic Finance and identify concrete entry points. Based on over 10 suggestions from participants, four models have been selected for potential pilot based on the parameters: drought problem in Kenya, forecast based financing, diaspora in Australia using zakat and fintech, and One WASH. In addition, Social Impact Investment for Palestine is a big passion amongst companies and individuals in Malaysia so a Sukuk for the Gaza electricity crises could be a meaningful entry point. The financial instruments being considered need not be individually applied but can also be a blended model.

In the Muslim world, insurance absorption rate is low – so one option could be to explore how to use zakat and waqf to pay micro insurance premiums. This type of funding can be driven by the community itself, and not the donors’ strategic focus. There are linkages to WASH – mother and child, women’s empowerment, education, health – focuses on overall community development.

Money is not short, but money comes in the form of handouts, instead of an empowering model. Gender linkage must be ensured too in packaging the Islamic finance solutions to donors and other interested parties. Additionally, a question to consider is can IFRC’s national societies be a collector (Amil) or recipient (Asnaf) of zakat?

DAY 2 – 22 AUGUST 2017

RECAP OF DAY 1

Following a recap, participants were given 15 minutes to discuss and reflect on the content from the first day so that organizations might come up with ideas to use Islamic Finance as a basis for applica-
tion to create innovative financing models. The focus for Day Two is about collaborative partnerships and together coming up with sustainable solutions in humanitarian settings, bridging existing funding needs and gaps.

**GROUP WORK – SPLIT INTO FOUR GROUPS BY POTENTIAL PROJECTS:**

1) One WASH  
2) Forecast Based Financing  
3) Food Security in Drought – Kenya  
4) Settlement and Livelihood Options for Asylum Seekers and Returnees – Australia

**Workshop Style Instructions:**

- Internal and external audit of environment: Use SWOT Analysis  
- Convert SWOT into Concept  
- Ensure that Concept includes alignment with five parameters of:  
  - Impact at Scale  
  - Laws and Regulations  
  - Potential for Success  
  - Sphere of Influence  
  - Location that enjoys Access  

- Model selection:  
  - Consider any or all forms of Islamic Finance instruments that may be used in combination or individually  
  - Include the potential use of Zakat, Waqf and Sadaqah  
  - Ensure that the model is scalable, at least within the region/country/area  
  - Ensure compliance with regulation in the area selected

- Final presentation is 20 minutes, with 10 minutes for Q+A

**GROUP WORK OUTCOME**

**GROUP 1: ONE WASH INITIATIVE**

Objective of cholera eradication through child health linkages, aligning/responding to SDG 6 and existing GWSI. Responding to UN SDG 6 through a Sukuk model (similar to GAVI), and possibly targeting the Islamic Development Bank for the implementation of Sukuk; aimed at building complete empowerment model, with a broader sustainable future vision.

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**Comments / Q+A:**

Q: Returns will be reduced upon meeting targets, and will be a game changer for investors, not only for cash based donation, but also in seeing impactful change. Where do you want to begin? Which country are you going to start with?

A: In Oct 2017, WASH will be highlighted in the hotspots, and any country can be selected amongst 13 countries.

**Comment:** There is existing interest from IDB in talks with Gates Foundation in October 2017. If we can get a clear model before October to be presented would be great, and ready to go.

**GROUP 2: ISF PROGRAM FOR MARGINALIZED MUSLIM COMMUNITIES IN KENYA**

**Verbal presentation only, PowerPoint not available**

The focus is on long term and outcome driven investment. Current situation: Muslim communities are marginalized; government policy is not supportive; decentralized systems in place divided in counties; an already successful pilot program in place by Kenya RC that has potential to scale and influence the government. Many communities have not been involved in farming, hence there is a need for mindset shift, a full-fledged program for educating communities on the opportunities and value addition to the solution is required.

Tapping into land assets is realistic; blend of Islamic contract and contribution at different levels and different phases. Applying Cash Waqf, embedded with blockchain technology to assist the government with the issue of tracking funding flow. Also, looking at waqf for infrastructure building too. Mudarabah sukuk to tap into investors and looking at creating cooperative in communities through crowdfunding. Example: building factories and turning tomatoes into tomato paste. Zakat and Sadaqah, local zakat collection with Kenya RC to manage funding and distribution.

Target market: County governments, donor agencies, multilaterals, Partner National Societies (IFRC), Islamic banks, multinationals’ CSR initiatives.

**Comments / Q+A:**

Comment: Essential to draw up an action plan,
strategic roadmap for each of the program and responding instrument. Need to analyse if each instrument is suitable / applicable for the program/problem/solution. Break them up into sections with clear roadmap to be analysed by supporting experts.

Q: Khazanah has a crowdfunding, what are the lessons learned there that can be applied?

A: Equity crowdfunding, and reward crowdfunding – for reward crowdfunding, one of the biggest lessons is marketing and explaining issue to the people. Even if its newspaper/media, it's not as effective as face-to-face – staff explaining to friends and family and why it needs to be supported. Crowdfunding targets tech-savvy people. Online pitch needs to be developed for 2 minutes.

A: Following on that, the linkage of level of adaptation in Kenya is more advanced than Malaysia. Access to stock market to govt is at 30USD (low) – linking the idea with government project on Sukuk basis is possible. The trust element in blockchain can be used effectively. Anecdote: the shoeshine guy outside hotel wanted to be paid via M-PESA, which speaks to the widespread technology penetration levels and use of digital banking mechanisms.

A: Addressing the issue of mobile sports gambling – providing an alternative platform for young people who are involved in that.

GROUP 3: SETTLEMENT FOR REFUGEES AND RETURNEES IN AUSTRALIA

Approximately 20,000 asylum seekers per year coming into Australia. Asylum seekers come in waves, and hard for Australian government to absorb them. As a result, people are left in a limbo as they need funding to live, integrate and seek livelihood opportunities. Key things needed are for employment, education and health. It costs 10,000 USD per year to host per person. 50% of people in Australia are born overseas, like Europe, it is a continent model for mass migration. Sukuk bond might be the best for long term, and zakat application and cash waqf for short term with blockchain for registering digital identities.

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Comments:

Cash Waqf fund: Linked very much to technology with different portfolios for different types of help. Eg donations for orphanage. Could create program marketing to be included for refugees for example, but mechanisms need to be put in place.

Sadaqah: Need to approach people through proper mechanisms/product that could be offered to them. In Muslim countries statistics, would prove that during Eid/Ramadhan/Haj season, people will find avenues to donate. Network can be set up within the organization, this could be a short-term donation model.

Long term/medium term investment project: Nature of sukuk can be different and for different things (housing, food, etc.). What is lacking however is proper governance. Therefore it is important to ensure sustainability of the funds with proper governance. Solution is in the formation of a bank – many things can be done globally but is handicapped because of governance issues which can be solved through the establishment of an international endowment bank.

The group also discussed a similar program to support returnees to Afghanistan. It was however acknowledged that the scope and magnitude of the problem is vastly different but could still consider the same financial applications. More research will be developed here.

GROUP 4: FORECAST BASED FINANCING (FbF) FOR PRE – DISASTER ACTION

Location that enjoys access: e.g. Batang Ai Dam, Sarawak – there will be a flood there at some point.

Impact at scale: Already with World Bank GFDRR
Potential for success: Already award winning

Laws and regulations: World Bank already has 10 safeguard policies

Sphere of influence: Banking on the Red Cross Red Crescent movement dynamics

Where does the money come from? As of now from DFID and GIZ, but funds remain insufficient. More money needed to set up the systems, SOPs, and other mechanisms. Need to determine a different mechanism to ensure the safety of funds. Liquidity of assets is necessary.

FbF Fund to be unleashed upon SOPs set up – Money to go into this fund could come from many instruments – sadaqah, zakat, waqf, sukuk, partners,
profit generating centres. Additionally, crowdfunding for last minute FbF intelligence.

**How to demonstrate impact:** Via a Fintech platform with interactive, engaging mechanisms. Idea will be shared with Hydro Power Sarawak as a starting point for interest in contributing to any of the financial instruments that build up the FbF fund.

**Click here to access group's presentation**

**Comments:**

1) Highlights: importance of fintech aspect so that there is transparency in how resources are applied and in a consistent fashion, second, it changes the dynamics of the Federation in terms of the types of training and skill sets that is needed for change of workforce needed

2) If we really want to look at partnerships especially when it comes to accountability – the risk is that the funding channel doesn’t go through NS/Federation – this could be a pro or a con

3) Localization of monitoring and evaluation, and determining the measuring of the impact is missing currently, direct relationship with finance mechanisms and transfer must be done with national societies

4) Most pilots were implemented via RC Climate Centre and with NSs

5) How to link early warning with early action through Islamic finance mechanisms

6) Takaful companies could look at this favourably as its mitigating risks. Consider takaful funding for this, as it would be more applicable

7) Waqf doesn’t mean it needs to be cash waqf, but could be a piece of land for example. A piece of land given to IFRC to build, raise money through sukuk for profit generating activities. Climate centre (by itself) could be a great investment

The workshop has generated rich discussions but how do we move forward? At IFRC, this dialogue will be under Innovation team (Policy, Strategy and Knowledge Management) as Innovative Financing. IFRC will pull together a working group but working through and led by an innovation lens. The Innovation leads will continue working with all the groups on how to work with each project to put together a concrete model and follow up with INCEIF’s expertise on identifying analyses, other potential partners, to demonstrate proof of concept and leadership in the space. There will also be additional meetings with multilateral partners to discuss the potentials. And there is interest from MENA to host a similar meeting in Kuwait and explore ISF in the context of the Middle East, North Africa and GCC countries.

Real opportunity is with the Global Migration Compact. For instance, the Australian Red Cross can go forward by demonstrating how innovative and responsible financing can be used in response to the issue of Migration/Refugees.

Optimistic for all of all the opportunities that we could land into and move forward with. It is an entirely new concept for the Federation and could be hard to implement but is possible with commitment and cooperation. There is a strong appetite from ICRC and formation for alliance is highly possible. Traditional fundraising is difficult and is shrinking. Other agencies are also doing this now, looking at innovation. Let’s be a leader, not a follower. We can be an example and a model for others to follow.

To the National Societies – let the Federation know how to support you in navigating issues and overcoming barriers, the innovation team will work with you on developing the pilots that can be tested.

We have a realistic timeline between 1 to 2 years to come up with something concrete, start implementing and making this all a reality. In the immediate term the teams will develop the concepts and work with INCEIF to develop the financial model for each before exploring on the ground feasibility and timeline for testing.

We have an incredible opportunity here, let’s together demonstrate how duty and dignity in financing can help meet humanitarian needs and address development challenges. Let’s shift the narrative and demonstrate real impact for the application of Islamic Social Finance.

**WRAP UP & NEXT STEPS**

Tan Sri Dr. Jemilah Mahmood