International Federation of Accountants

WORLD BANK GROUP
Inclusive Growth & Sustainable Finance Hub in Malaysia

MALAYSIAN INSTITUTE OF ACCOUNTANTS

UNLEASHING THE POTENTIAL OF ISLAMIC FINANCE

Global Perspectives on Achieving the SDGs with Islamic Finance Tools & Concepts

ABOUT THE ORGANIZERS

International Federation of Accountants

About the International Federation of Accountants (IFAC)

The International Federation of Accountants (IFAC) is the global organization for the accountancy profession that serves the public interest by contributing to strong and sustainable financial markets, growing economies, and effective and efficient private and public sectors. IFAC's membership shows a global accountancy profession comprising more than 180 professional accountancy organizations in over 135 jurisdictions, representing millions of accountants in public practice, business, public sector, and academia.

WORLD BANK GROUP Inclusive Growth & Sustainable Finance Hub in Malaysia

About the World Bank Group Inclusive Growth and Sustainable Finance Hub in Malaysia (World Bank)

The World Bank has a long-standing relationship in Malaysia since its independence. Our partnership has evolved from development financing from the 1950s to the 1990s to leveraging the Bank's knowledge and research in its current form of collaboration. In 2015, the Government invited the World Bank to open an office in Kuala Lumpur with a 5-year partnership under the Office Support Agreement (OSA) focused on disseminating Malaysia's development experiences and policy innovations for the benefit of other countries; conducting original economic research; and sharing global experience and expertise in support of Malaysia's development priorities. Today, the World Bank brands itself as an Inclusive Growth and Sustainable Finance Hub - reflecting the development ambitions of Malaysia to achieve inclusive growth, greater shared prosperity and developed nation status; and to retain its global leadership role in the area of sustainable finance.

MALAYSIAN INSTITUTE OF ACCOUNTANTS

About the Malaysian Institute of Accountants (MIA)

Established under the Accountants Act 1967, MIA is the national accountancy body that regulates, develops, supports, and enhances the integrity, status, and interests of the profession in Malaysia. MIA accords the Chartered Accountant Malaysia or C.A. (M) designation to a professional in accountancy, business and finance with a recognized qualification and relevant work experience.

Working closely alongside businesses, MIA connects its membership to an unmatched range of information resources, events, professional development, and networking opportunities. Presently, there are more than 36,000 members making their strides in businesses across all industries in Malaysia and around the world.

MIA's international outlook and connections are reflected in its membership of regional and international professional organizations such as the ASEAN Federation of Accountants (AFA), and the International Federation of Accountants (IFAC).

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With the deadline for the 2030 Sustainable Development Goals (SDGs) looming, the world is under increased pressure to accelerate efforts and deploy innovative solutions to meet the SDGs.

Islamic finance is one of the critical solutions to mobilize funding towards achieving the SDGs. Rooted in principles of ethical and socially responsible conduct, Islamic finance's emphasis on risk-sharing and avoidance of exploitative practices, among others, aligns closely with the core values underpinning sustainable development. Some regulators are taking the initiative to facilitate the growth of Islamic finance in various jurisdictions, including Malaysia—a leader in Islamic finance thought leadership committed to convening platforms and advancing policy discourse among Islamic finance jurisdictions. The private and philanthropic sectors have likewise started deploying innovative solutions and Islamic finance products to deliver sustainable development. Results are encouraging, showing the potential and value of Islamic finance in assisting countries to attract investments and in offering alternative forms of finance to protect people, the planet, and prosperity.

The availability of credible and comprehensive data is an important enabler of access to finance, including Shariah-compliant finance. Currently, there remain significant gaps in the data ecosystem. Hence, standards, reporting, and disclosures provide critical data to facilitate the mobilization of finance for the SDGs and mitigate greenwashing.

In recent years, our organizations have supported the mobilization of Islamic finance for the SDGs. IFAC's global Islamic Finance Thought Leadership program seeks to analyze trends affecting Shariah-compliant audit, accounting and finance and to respond to those trends to ensure that accountancy remains at the heart of good business practice and sustainable economic development. This is in addition to IFAC's focus on encouraging and influencing a global approach to sustainability reporting standards and accompanying assurance services to meet investors' and others' needs for

consistent, comparable, and assurable sustainable information. The World Bank is actively involved in developing sustainable finance markets in many Islamic finance jurisdictions. In Malaysia, the World Bank collaborates with government and financial regulators to promote knowledge and application of Islamic finance for awareness-raising, consensus-building, and greater use of Shariah-compliant financing instruments, given their potential in reducing poverty, expanding access to finance, developing the financial sector and building financial sector stability and resilience.

Sustainable development, however, calls for collective action. This collaboration between IFAC and the World Bank, along with IFAC's valued member, MIA, is a joint effort to advance thought leadership in Islamic finance and its intersections with sustainable development. It also underscores the role of professional accountancy organizations (PAOs) and their members in seizing opportunities for growth and value creation through sustainable and Islamic finance. As with MIA, PAOs can promote Islamic finance through engagement and collaborations with relevant stakeholders and regional accountancy bodies to promote the adoption of global standards. They can also support governments' commitments to promote Islamic finance, alongside providing technical expertise to support the entities that endeavor to provide assurance on the credibility of reported and published data. The accountancy profession is key in promoting confidence in Islamic finance thus, enabling greater scale and cross-border financing.

We welcome closer cooperation to further leverage Islamic finance as a catalyst for positive change, building upon the knowledge and experience resulting from this Roundtable. The collaboration between IFAC, the World Bank and MIA will continue to explore new Islamic finance and SDG-related financial instruments, as well as spotlight key trends and developments in access to Islamic finance, its regulation and its governance going forward.

It is imperative that we harness all available tools and resources at our disposal to bring about systemic transformation. We hope that the Roundtable and this report on its proceedings, which includes insights and recommendations from a diverse group of international experts and stakeholders in various Islamic finance expertise, serve as an impetus for fresh thinking, consensus building, and impactful results in advancing Islamic finance contribution towards the achievement of the SDGs.

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ABOUT THIS REPORT

This joint report by IFAC, the World Bank and MIA is the outcome of the hybrid *Roundtable on Unleashing the Potential of Islamic Finance—Global Perspectives on Achieving the SDGs with Islamic Finance Tools and Concepts* held on 1 November, 2023 in Sasana Kijang, Kuala Lumpur, Malaysia.

Where relevant, the report also incorporates select findings from a separate series of focus group discussions held by IFAC and MIA with Islamic Financial Institutions (IFIs) and financial technology (fintech) entities, in line with IFAC's August 2022 call to action on identifying how Islamic finance instruments can advance the SDGs.

The views expressed in this publication are those of the authors and do not necessarily reflect the views of IFAC, the World Bank and MIA. While reasonable efforts have been made to ensure that the contents of this publication are factually correct and properly referenced, IFAC, the World Bank and MIA do not accept responsibility for the accuracy or completeness of the contents and shall not be liable for any loss or damage that may be occasioned directly or indirectly through the use of, or reliance on, the contents of this publication, including its translation into languages other than English.

EXECUTIVE SUMMARY

The roundtable participants agreed that there is a natural alignment between Islamic finance and the UN Sustainable Development Goals (SDGs). As they stand, however, the maturity and sophistication of the Islamic finance ecosystem vary from jurisdiction to jurisdiction, with some being nascent while others are more developed. Unleashing the full potential of Islamic finance for the SDGs depends on how jurisdictions foster enabling environments for Islamic finance, integrate the sustainability thinking and goals found in both the SDGs and Islamic finance into their financial services industry and national development plans, and link concrete SDG targets to Islamic finance solutions.

Fostering enabling environments for Islamic finance

In less developed Islamic finance markets, the unavailability and insufficiency of certain Islamic finance products hinder greater uptake and use of Islamic finance for the SDGs.

- Jurisdictions can encourage growth of diverse Islamic financial instruments, from sukuk to microinsurance (takaful) and Islamic fintech, via regulations and incentives.
- As the SDGs require global collaboration, it is important to move towards a common set of Islamic finance standards or more interoperable principle-based frameworks for global adoption to facilitate cross-border flow of capital and business operations.

Harnessing the Islamic finance and SDG nexus

Investors in countries without or with a nascent Islamic finance market lack awareness of Islamic finance, and its complementarities and synergies with the SDGs. Conversely, Islamic financial institutions (IFIs) may lack awareness of the SDGs and rarely tie Islamic finance products to SDGs.

- More can be done to simplify and clarify the linkages between Islamic finance and the SDGs and educate stakeholders on the Islamic finance-SDG nexus. Exploration into diverse areas of the SDGs, such as food security and refugee management, is critical to expanding Islamic finance innovation beyond green sukuk.
- Consumers require assurance that funds channeled into Islamic finance products for SDGs lead to meaningful outcomes. Any trust deficit can become a significant challenge to mobilize private capital, underscoring the pressing need for standards, disclosures, and capacity building.
- Innovative Islamic finance solutions, including blended finance, Islamic fintech, and Islamic social finance, have shown potential to facilitate SDG funding. Still, more efforts are needed to replicate and scale up good Islamic finance solutions across jurisdictions through global collaboration.

Monitoring impact of Islamic finance contribution to SDGs

Current financial and integrated reporting frameworks have limited scope in presenting impacts of financial activities. As such, preparers of financial reports do not collect necessary data to monitor and evaluate impacts. Therefore, developing an ecosystem to facilitate better data availability and collection are essential to enabling evidence-based monitoring and evaluation of Islamic finance solutions.

In addition, more guidance and standardized impact measurement frameworks and approaches are needed for financial services providers, including IFIs, to accelerate capacity building. More robust impact monitoring and evaluation can facilitate IFIs' assessment of their impact on achieving SDGs in practice and informed decisions regarding the allocation of financial resources.

Role of Professional Accountancy Organizations (PAOs)

Unleashing the full potential of Islamic finance for the SDGs is a multi-stakeholder effort. PAOs, in particular, can contribute through the following:

- Promoting the adoption of International Financial Reporting Standards (IFRS) and IFRS Sustainability Disclosure Standards and convening global best practices in Islamic finance.
- Promoting awareness and providing capacity building on financial reporting standards for Islamic financial instruments.
- Upskilling human capital and ensuring a pipeline of Islamic finance talent, who are competent in both conventional (e.g. digital skills) and Shariah-related expertise (e.g. Shariah audit).
- Working with education providers and regulators to advocate for and create a skills framework that guides education and training in the Islamic finance sector.

INTRODUCTION

The 2030 Agenda milestones for advancing the United Nations (UN) Sustainable Development Goals is fast approaching. Yet achieving the 2030 Agenda requires substantial financial and technical resources. The gap in financing for the UN SDGs is estimated at US$ 2.5 trillion to USD$4 trillion annually (United Nations Inter-Agency Task Force on Financing for Development, 2024), which is beyond the scope of individual governments. Filling that gap requires a broader alliance of partners, including the private sector, to jointly support development efforts.

The challenge, however, does not stop there. Progress across the SDGs is uneven, and many countries have even experienced setbacks due to the COVID-19 pandemic. Given economic and social barriers such as the SDG funding gap and religious considerations, some countries and communities remain at risk of being excluded from sustainable development.

Islamic finance for the SDGs directly addresses those barriers. It mobilizes alternative, Shariah-compliant funding to deliver the SDGs to financially underserved Muslim communities and beyond. As one of the fastest growing sectors in the global financial industry, Islamic finance presents a unique opportunity for deploying innovative solutions.

Islamic finance concepts are intrinsically linked to value creation and sustainability. The maqasid al-Shariah (objectives of the Shariah) that underpins Islamic finance, emphasizes the protection of people, the planet, and prosperity. Finding synergies between the SDGs and Islamic finance's underlying principles can contribute to fresh thinking on sustainable development paradigms, interpretations, and approaches.

To that end, IFAC, the World Bank and MIA, convened a Roundtable on the opportunities, challenges, practical examples, and future pathways to unlocking the potential of Islamic finance for the SDGs. The Roundtable held on 1 November 2023, brought together experts from the government, the private sector, and academia from different regions to offer geographically varied and nuanced perspectives. Discussions occurred under the Chatham House rules to enable free sharing of viewpoints.

Multi-stakeholder debate and the sharing of best practices, including from Malaysia's pioneering role in Islamic finance regulation and industry, inspire holistic solutions in conceptually blending the SDGs and Islamic finance. Such solutions also harness innovative tools and partnerships to provide much-needed reinforcements to finance and implement the 2030 Agenda. The organizers would like to thank all participants and the chairs for moving the needle in that direction and for their active and thoughtful contributions.

SUSTAINABLE DEVELOPMENT GOALS

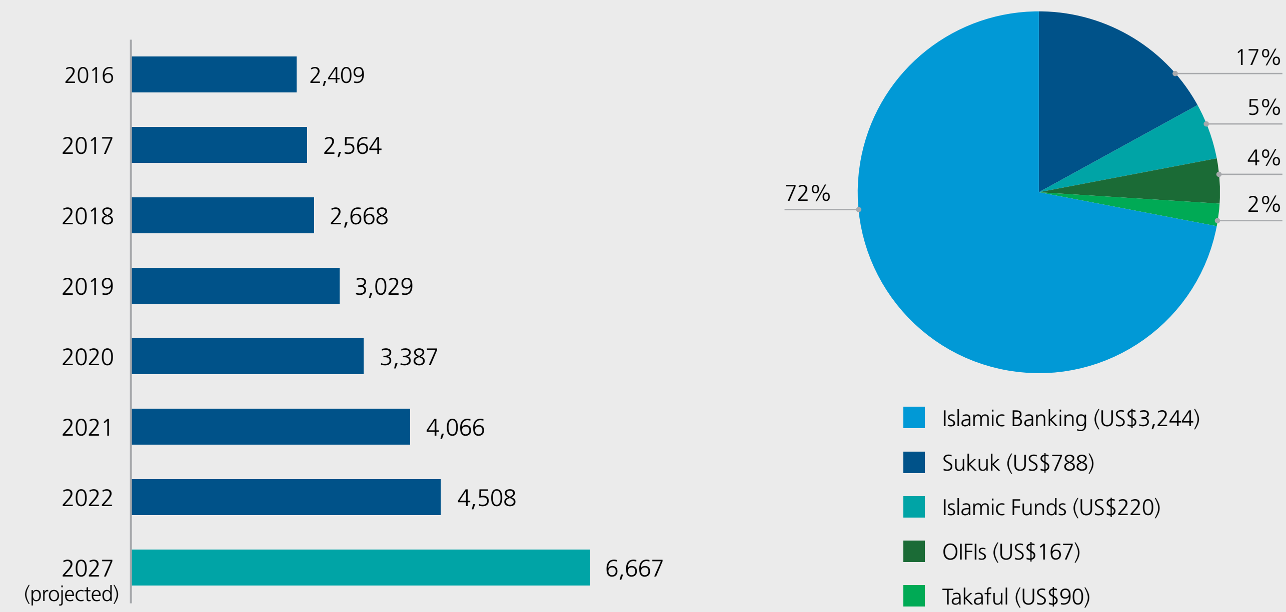
PART ONE: HARNESSING ISLAMIC FINANCE FOR SDGs

Islamic finance provides an alternative source of funding for achieving SDGs. At the same time, its underlying principles are by design, aligned with the spirit of the SDGs. The maqasid al-Shariah underscores the need for socially responsible economic growth that bolsters the real economy, proposes alternative modes of doing business such as profit-sharing models, promotes environmentally conscious development that equally prioritizes people and the planet alongside profit, and supports social solidarity and wealth redistribution via Islamic social finance or voluntary charity.

Figure 1: Islamic Finance at a Glance

Islamic Finance Assets Growth (2016-2022)
(US$ Billion)

Islamic Finance Assets, 2022
(US$ Billion)



Total Value of ESG Sukuk Outstanding (2022): US$24,409 Million

Total Value of ESG Islamic Funds Outstanding (2022): US$6,668 Million

Source: ICD-LSEG Islamic Finance Development Report 2023

Whilst the global Islamic finance market has grown significantly through the years (Figure 1), the market development of respective Islamic finance jurisdictions varies greatly. Regulatory clarity, technical capacity building and appropriate incentives are necessary to strengthen and deepen market development in any jurisdiction.

At the global level, the Islamic Financial Services Board (IFSB) has published standards and guidance on the development of various Islamic finance markets, such as banking, capital markets, takaful, which encompass both prudential and non-prudential aspects of regulation.

Yet regulatory lag persists in emerging areas such as digital finance and decentralized finance and their interface with the SDGs. Standardized regulations to ensure consistent, interoperable, and compatible international rules and metrics are likewise crucial, because achieving the SDGs requires, amongst others, cross-border collaboration. In Malaysia, for example, this issue could be addressed through greater adoption of the Value-Based Intermediation (VBI) framework or Sustainable and Responsible Investment (SRI) Framework pioneered by Bank Negara Malaysia and Securities Commission Malaysia (SC).

The takaful market is a critical development area that warrants a more urgent response. Takaful is an important de-risking tool to facilitate the mobilization of private capital towards SDGs, and as such, should be developed alongside Islamic banking and Islamic capital markets.

In addition, Islamic social finance instruments such as waqf (endowment) and zakat (alms) offer redistributive mechanisms that can channel private capital to the underserved communities. The potential of Islamic social finance solutions is significant and many jurisdictions such as Malaysia, have acknowledged the importance of integrating Islamic social finance into the mainstream financial system to optimize its impact.

A key component to Islamic finance market development is the information environment. Credible data is important to facilitate informed decision making and access to finance. Preparers of financial reports and disclosures will likely see an expanded role. There is a need to promote a more robust reporting framework that integrates traditional financial information and impact-based information to better articulate and demonstrate the impacts of Islamic finance to achieving SDGs.

PART TWO: VALUE OF ISLAMIC FINANCE IN DRIVING SDGs

Two overarching themes arose in this session: (1) Harnessing the linkages between Islamic finance and SDGs and (2) Scaling-up Islamic finance solutions.

1. HARNESSING THE ISLAMIC FINANCE AND SDG NEXUS

Illustrating the linkages between Maqasid al-Shariah and SDGs

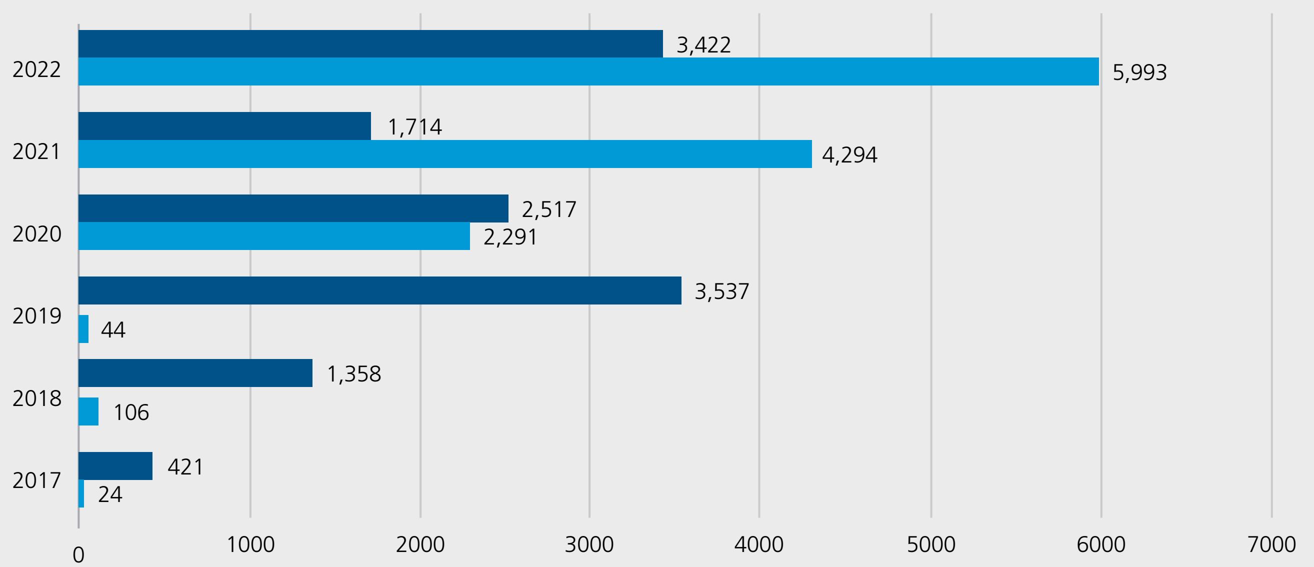
In terms of overarching objectives and goals, a broad consensus exists that maqasid al-Shariah and SDGs are aligned. The challenge remains to clarify *how* they are aligned, particularly where objectives and goals may encounter differing interpretations from a Shariah perspective, and how to deepen collaborations. The links between Islamic finance and the SDGs are inherent but not necessarily explicit. Frameworks from regulatory bodies, such as the Securities Commission Malaysia's maqasid guidance for Islamic capital markets, can help to address the knowledge gap relating to the Islamic finance-SDG nexus and, importantly, highlight practical ways for industry players and practitioners to use Islamic finance as an instrument to finance SDGs.

The policy discourse surrounding the SDGs has also inspired the Islamic finance community to re-examine its fundamental frameworks and assess the state of the current Islamic finance system against the maqasid al-Shariah. The development of Islamic finance systems was initially motivated by the demand for Shariah-compliant solutions. However, as the industry matures, there is a call for Islamic finance to go beyond a box-ticking approach to Shariah compliance and also to consider higher objectives of Shariah that not only enjoins in the halal (permissible) but also in the tayyib (good). Partnerships between scholars, practitioners, regulators, and market players are necessary to facilitate the understanding and practical applications of an enhanced scope of Shariah compliance.

Monitoring and evaluating impact of Islamic finance

While the lack of a single globally accepted standard that governs Islamic finance instruments may cause some challenges for new entrants to the Islamic finance markets, significant progress has been made by Islamic finance regulators and practitioners to harmonize and mutually recognize Shariah rulings across different jurisdictions. This effort is critical to facilitate ease of cross-border investment and growth of the global Islamic finance industry. Similarly, addressing the information gap related to the use of funds and outcomes of sustainable finance is paramount to building investor confidence and mitigating greenwashing. There is a need for further guidance and standardization of impact monitoring and evaluation frameworks and approaches, which should be developed in line with efforts to improve relevant data collection and availability. This would enable the assessment of Islamic finance contributions towards achieving the SDGs in practice and facilitate informed decision-making. Currently, most Islamic finance instruments are being mobilized for green and climate-related projects (Figure 2), but less so has trickled into other areas of SDGs, such as food security and refugee management, which have important implications for the global Muslim population. Further discussions and collaborations amongst key stakeholders would be necessary to develop consistent and simplified impact dimensions and indicators that represent a balanced perspective of outcomes from economic and social viewpoints.

Figure 2: Green & Sustainability-related Sukuk Issuances (2017-2022, USD million)



Source: ICD-LSEG Islamic Finance Development Report 2023

Addressing gaps in Islamic finance awareness and innovation

A limited understanding of both Islamic finance and the SDGs poses a real challenge to increasing take-up and mobilization of Islamic finance. Investors in non-Muslim countries and conventional financial markets often lack exposure to and knowledge of Islamic finance and its linkages with ethical or green finance. IFIs are often pinpointed as a challenge to attracting funding, particularly among ethical investors in non-Muslim countries (see Box 1). More efforts are required to simplify Islamic finance concepts and mainstream the maqasid al-Shariah narrative, to make Islamic finance more accessible to communities outside of the Muslim world. For example, the emphasis on fortifying the real economy which is derived from the maqasid al-Shariah related to preserving wealth, is universally understood and has a global appeal.

Box 1: Challenges to Strengthening SDG Outcomes Among IFIs

- **Talent:** Owing to an acute talent crunch, IFIs and fintech operators often lack staff with the prerequisite knowledge in Shariah compliance. This constrains their operations, and limits their product and service offerings.
- **Organizational Support:** Board members and senior management are not always in sync. Staff may not receive the necessary support and resources to align organization outcomes with the SDGs.
- **Low Awareness and Misconceptions:** Low awareness and false impressions about Islamic finance similarly deter investment in IFIs. Common misconceptions are that Islamic finance serves Muslims only, and its returns are not comparable to conventional finance—despite evidence that low-risk investments outperform highly leveraged, conventional investments during times of high economic volatility.
- **Economies of Scale:** Profitability concerns stop IFIs from pushing Islamic finance for the SDGs with full commitment. This applies even to Islamic social finance-(ISF) since tools such as zakat, waqf, and sadaqah must be commercially viable— not for profit's sake but to be self-sustaining, essentially creating a virtuous cycle wherein returns can be consistently brought back into future SDG endeavors. Presently, several ISF programs by IFIs have limited impact because they only reach, for instance, around 100 participants.
- **Standardization and Data Gaps:** Limited disclosure of sustainability impacts and integrated reporting by companies, on top of a deficiency of ESG data, decreases the pool of possible Shariah-compliant assets and ethical investments for IFIs involved in asset management. The lack of standardized frameworks and comparable metrics for impact assessment likewise complicates greater portfolio alignment with the SDGs.

Source: IFAC-MIA Islamic Finance Institution Focus Group Discussion (2022)

On the other hand, awareness of SDGs in Muslim countries is also seen to be lacking. There is limited disclosure to show the connection between Islamic finance instruments and funding for specific SDGs. Even in more developed Islamic finance markets, IFIs may not fully align their organizational outcomes with the SDGs due to nascent adoption. Similarly, innovation of Islamic finance solutions for SDGs is also at a nascent stage. While the utilization of sustainable and green sukuks is growing yearly, expanding the diversity of Islamic finance instruments is necessary to cater to different funding needs and risk appetite of funding providers, including retail investors. Adapting conventional solutions, such as blended finance and fintech, to become Shariah compliant can help broaden the options of Islamic finance instruments (see Box 2).

Box 2: Blended Finance and the Role of Fintech in Delivering the SDGs

Islamic financial instruments offer advantages and disadvantages depending on the local economy and intended outcomes. Conventional borrowing may not be the best financial solution for the underserved, for example, because certain economic sectors have revenue cycles that "do not necessarily match the typical structure of financial instruments or loans."

Experimenting with different traditional and new instruments, such as fintech, can deliver greater financial inclusion and sustainable development impact. Leveraging automation and other technology enables faster processing of credit assessments; more secure asset management as in the case of blockchain for waqf; behavioral analysis to understand the profile of the underserved and impact assessment of financial aid effectiveness using data analytics, artificial intelligence, and machine learning; and alternative models of credit scoring and financial services such as peer-to-peer lending or microfinance. Digital assets— such as tokenization— remain an untapped market for Islamic finance in general and in relation to sustainable development. Despite the opportunities, however, the Islamic fintech scene is still relatively nascent owing to certain challenges:

- **Lack of harmonization:** Fintech operators wading into Shariah-compliant screening and ethical investing are grappling with the boom in ESG and impact investment frameworks and standards. Fintechs are confused as to which regulations to follow since different jurisdictions may have different requirements. This hinders cross-border operations.
- **Underserved Areas:** The SDG goals and targets for fintechs vary depending on levels of socioeconomic development in their countries of operation. Fintechs in Europe tend to focus more on renewable energy and the circular economy, whereas those in Southeast Asia concentrate on social welfare. Some SDG areas may be neglected.
- **Social Norms:** A key piece of the financial inclusion puzzle is socialization. Some fintechs find providing accessible financing alone insufficient. There may be reservations or social norms among the underserved— such as societal pressure to spend the funding on the community rather than reinvesting it into a business, or feelings among women that they need "permission to be rich, to have a little bit more money"— that prevent them from escaping cycles of poverty.
- **Low Awareness:** As with IFIs, Islamic fintechs can find it challenging to secure funding owing to low awareness of Shariah among investors.
- **Silos:** Powering achievement of the SDGs with Islamic fintech would benefit from more whole-of-ecosystem partnerships. Participants called for more collaboration with government and corporate entities, including IFIs, since every organization has its own strengths and weaknesses.
- **Talent Pool:** Islamic fintechs and platforms lack staff who are well versed in Shariah compliance. Regarding IT specialists, there is talent skilled in artificial intelligence in countries like Malaysia. Nonetheless, these specialists often lack a deep enough understanding of financial products to build commercial models. There is a communication gap between IFIs and Islamic finance practitioners who want to deploy technology for sustainable development and Shariah-compliant services and the specialists capable of leveraging that technology. Exposure to financial products among computer scientists, data scientists, and statisticians early in their careers may mitigate this issue.

Source: IFAC-MIA Islamic Finance Institution Focus Group Discussion (2022); IFAC-MIA Financial Technology Focus Group Discussion (2023) (see also "Facilitating SDGs with Islamic Finance: Mobilizing Islamic Fintech in Malaysia")

2. SCALING-UP ISLAMIC FINANCE SOLUTIONS

Developing Islamic finance market in various jurisdictions

The maturity of Islamic finance systems and, hence, the capacity for Islamic finance-driven solutions for funding SDGs inevitably varies from country to country. Sharing lessons learned from various Islamic finance jurisdictions can help inform Islamic finance development strategies. A primary enabler of an effective Islamic finance ecosystem is the availability of consistent and transparent Shariah rulings or pronouncements. Many jurisdictions, such as Indonesia, Malaysia, and Morocco, have established a central Shariah advisory committee to regulate Shariah rulings and oversee the approval of Islamic finance instruments. In addition, Islamic finance market development requires policy coordination with stakeholders beyond the financial sector, such as raising financial literacy and awareness of Islamic finance and better integrating Islamic finance into financial services industry and national development plans.

Diverse Islamic finance instruments, such as profit-sharing contracts and takaful, are still largely underdeveloped but have the potential to provide solutions, such as social protection for socioeconomically vulnerable communities. Appropriate incentives, such as tax allowances, can spur the development of these underutilized Islamic finance instruments.

Mobilizing Islamic social finance

Islamic social finance has much potential in addressing the SDG funding gap, essentially mobilizing "private-public partnerships *and* philanthropy" (PPPPs). Islamic social finance instruments such as waqf and zakat play an essential role as a wealth redistribution mechanism in Muslim communities and are a sizeable funding source. Modernizing Islamic social finance instruments by integrating their utilization with mainstream Islamic finance solutions can elevate its reach and impact beyond the traditional usage of providing direct fund transfers to the poor or reserving land for religious buildings. For example, Malaysia has integrated the element of waqf in its Sustainable and Responsible Investment (SRI) Sukuk framework to encourage retail investors to participate in waqf investment. In Malaysia, introducing corporate waqf shares enabled dividends to be donated to fund social impact programs. In Indonesia, waqf sukuk was issued to fund a hospital in West Java. Successful Islamic social finance models could be replicated and scaled up, but regulatory challenges governing Islamic social finance funds must be addressed urgently (see Box 3).

Box 3: Islamic Social Finance— Challenges Going Forward

Islamic social finance has significant potential to advance the SDGs if mobilized and leveraged effectively. Waqf assets alone, for instance, had an estimated value of between USD700 billion to USD trillion in 2019 (World Bank, International Centre for Education in Islamic Finance & International Shari'ah Research Academy for Islamic Finance, 2019). Yet, according to IFIs in the Islamic social finance space, several challenges stand in the way of unlocking this potential:

- **Limited Understanding:** Regarding waqf, most projects still tend to be religious, such as with the construction of mosques and cemeteries. The alignment of waqf and the SDGs is still at an early stage, particularly among religious authorities. Likewise, religious authorities have traditional views of zakat implementation, which may hinder Islamic social finance's contributions to sustainable development. For instance, the use of zakat for microfinance is still debated. Hence, participants encourage IFIs and waqf organizations to highlight those linkages and change traditional conceptualizations of Islamic social finance among relevant authorities.
- **Regulatory Fragmentation:** Different zakat, sadaqah, and waqf authorities have different rules— including for developing land-based waqf endowments. Jurisdictions may vary even within the same country, such as in the case of Malaysia, where State Religious Islamic Councils govern Islamic social finance. IFIs must seek approval from every authority to establish waqf-based services and sustainable development projects in different states. For example, greater legal harmonization— for waqf land development— between states and national land codes would facilitate Islamic social finance growth.

- **Bureaucracy:** There is also the question of dispute settlement with Islamic social finance regulators and religious authorities, which may be slow and bureaucratic. IFIs, or even individuals in need of financial aid, may be deterred from providing and taking up Islamic social finance instruments respectively because of onerous red tape.
- **Human Capital:** Islamic social finance needs multidisciplinary talents to realize its full potential. For waqf management, IFIs need engineers, investment managers, and property developers with technical competencies and Shariah knowledge.

Source: IFAC-MIA Islamic Finance Institution Focus Group Discussion (2022) (see also, "Facilitating SDGs with Islamic Finance: Harnessing Islamic Social Finance for the Greater Good")

PART THREE: ROLE OF PROFESSIONAL ACCOUNTANCY ORGANIZATIONS

The accountancy profession is key in promoting confidence in Islamic finance through credible reporting and disclosures, thus enabling greater scale and cross-border financing. Professional Accountancy Organizations (PAOs) promote Islamic finance through various initiatives such as collaborations with relevant stakeholders and regional accountancy bodies in promoting the adoption of International Financial Reporting Standards (IFRS) and IFRS Sustainability Disclosure Standards and convening global best practices in Islamic finance. PAOs can promote awareness and provide capacity building on the application of financial reporting standards on Islamic financial instruments for its members' professional development. They also support their respective governments' commitment to the promotion of Islamic finance as a competitive advantage. An example of a PAO undertaking such efforts is MIA through their establishment of an Islamic Finance Committee in 2009.

Over the last few years, with the advancement of new technologies and increased attention on sustainability, the demand for multi-disciplinary talents has increased and there is an urgent need to address the skills gap amongst accountancy practitioners. For the Islamic finance industry, not only are talents required in these emerging areas, but also talents who have Shariah expertise. To prepare the workforce of the future, upskilling the human capital is key, which PAOs can provide. For a more holistic workforce, professional education that emphasizes continuous professional development with contemporary skills while at the same time promoting professional and ethical Islamic finance must be encouraged.

Since there is a lack of a global framework in the Islamic finance sector that guides education and training, PAOs will need to work with relevant Islamic finance education providers and regulators to create a skills framework for the industry that will provide key information on the career pathway, and the existing and emerging skills required for the industry.

PART FOUR: CONCLUSIONS

Across the world, Islamic finance and the SDGs are spurring innovation in the financial sector. Further unleashing the potential of Islamic finance for the SDGs offers a vehicle for enriching sustainability thinking and widening sustainable finance markets.

The roundtable emphasized several ways to build upon this momentum by sharing a wealth of national best practices and regional experiences. Among the key reflections were:

- There is a need for regulators and policymakers to incentivize the development of Islamic finance markets and to further harness the linkages between Islamic finance and the SDGs. Islamic finance models and innovative solutions that have proven to derive impact can be replicated and scaled up through global collaboration.

- At the same time, the roundtable identified areas that require greater attention to better harness Islamic finance for the SDGs. Education and good governance to overcome the awareness gap and trust deficit are essential for making progress, attracting investment into Islamic finance, and tying Islamic finance products to concrete SDG targets. A key challenge to channeling financial flows towards SDGs is the pressing need to have available data to track the progress and impact of Islamic finance solutions. Therefore, developing an ecosystem that facilitates better data availability and collection is essential to enabling evidence-based governance and evaluating Islamic finance solutions.

IFAC, the World Bank and MIA recognize that mobilizing Islamic finance is critical to addressing the existing SDG funding gap. The Roundtable provided an opportunity to convene and foster policy discourse amongst Islamic finance stakeholders. We look forward to continuing and expanding upon this vital dialogue on advancing Islamic finance's contribution to the SDGs and further collaboration on advocacy and capacity building.

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CONFERENCE PROGRAMME

IFAC-MIA-WORLD BANK GLOBAL ROUNDTABLE

Unleashing the Potential of Islamic Finance –
Global Perspectives on Achieving the SDGs with Islamic Finance Tools & Concepts

1 November 2023, Wednesday | 2.30 – 6.00 P.m. (Gmt+8) | Sasana Kijang | Hybrid

TIME	PROGRAMME
2:30PM–2:35PM	Welcome Address
2:35PM–2:40PM	Keynote Address
2:40PM–3:10PM	Session One: Presentation on Harnessing Islamic Finance for SDGs
3:10PM–3:15PM	Break
3:15PM–5:30PM	Session Two: Value of Islamic Finance in Driving SDGs
5:30PM–6:00PM	Closing Remarks— What Next? Future Opportunities

LIST OF PARTICIPANTS

IFAC-MIA-WORLD BANK GLOBAL ROUNDTABLE

Participants (On Site)

No.	Name	Designation	Organisation	Country
1	Dato' Mohd Muazzam Mohamed (Co-Chair)	Group Chief Executive Officer /Chairman of MIA Islamic Finance Committee	Bank Islam Malaysia Berhad	Malaysia
2	Ms Cecile Thioro Niang (Co-Chair)	Practice Manger, Finance, Competitiveness and Innovation, East Asia & Pacific Region	World Bank	Thailand
3	Pn Sharifatul Hanizah Said Ali	Executive Director	Securities Commission Malaysia (SC)	Malaysia
4	Dato' Mohammad Faiz Azmi	Retiree / Member MLC	MIFC Leadership Council / Islamic Finance Consultative Group	Malaysia
5	En Mohd Radzuan Mohamed	Chief Executive Officer	Malaysian Takaful Association (MTA)	Malaysia
6	Datuk Ts Fadzli Abdul Wahit	Head/Senior VP Digital Industry Development	Malaysia Digital Economy Corporation (MDEC)	Malaysia
7	Dr Bello Lawal Danbatta	Secretary-General	Islamic Financial Services Board (IFSB)	Malaysia
8	Datuk Prof. Dr Mohamad Akram Laldin	Chief Executive Officer	ISRA Consulting Sdn. Bhd.	Malaysia
9	Hidayatul Ihsan	IAI Sharia Accountant Compartment	Institute of Indonesia Chartered Accountants (IAI)	Indonesia
10	Assoc Prof Dr Ziyaad Mahomed	Lead Researcher (Shariah) for the COE in Social Finance, and Head of Online Programs	INCEIF University, Malaysia	Malaysia
11	Mohamed Rozani Osman	Senior Consultant	World Bank	Malaysia
12	En Azizan Abd Aziz	Group Chief Financial Officer	Bank Islam Malaysia Berhad	Malaysia
13	Dr Mohamed Eskandar Shah	Associate Dean Academic	Qatar Foundation	Qatar
14	Ayşe Arıak-Tunaboylu (Co-Chair)	Board Member, Executive Director	IFAC, E-Lux Mobile	Turkey
15	Mr Abderrafi El Maataoui	Expert Comptable DPLE	OEC Morocco	Morocco
16	Dr Nana Riana	Deputy Director Regulation and Legal Analysis of Islamic Finance	Kementerian Keuangan Republik Indonesia	Indonesia
17	Rita Rizk	Senior Manager	BDO	Lebanon
18	Dr Areef Suleman	Director, Economic Research & Statistics	Islamic Development Bank (IsDB)	Saudi Arabia
19	Basheer Ahmed	Head of Islamic Finance	Dubai Financial Services Authority (DFSA)	Dubai

UNLEASHING THE POTENTIAL OF ISLAMIC FINANCE