BI INSTITUTE

PROCEEDING

INTERNATIONAL FLAGSHIP SEMINAR ON ADVANCED ISSUES ON ISLAMIC ECONOMIC AND FINANCE 2022

Thriving Together with Sustainable and Innovative Economic Growth

Surabaya, Indonesia
23th-24th May 2022

BI INSTITUTE

PROCEEDING

INTERNATIONAL FLAGSHIP SEMINAR ON ADVANCED ISSUES ON ISLAMIC ECONOMIC AND FINANCE 2022

Thriving Together with Sustainable and Innovative Economic Growth

Surabaya, Indonesia
23th-24th May 2022

BANK INDONESIA INSTITUTE
2023

International Flagship Seminar on Advanced Issues on Islamic Economic and Finance 2022

THRIVING TOGETHER WITH SUSTAINABLE AND INNOVATIVE ECONOMIC GROWTH

Editor:
- Yoga Affandi

Steering Committee:
- Yoga Affandi
- Arlyana Abubakar
- Dadang Muljawan

Organizing Committee:
- Budi Trisnanto
- Prayudhi Azwar
- Mansor Ibrahim
- Bambang Fajar Hirawan
- Afrina Rachmadina Mahendra

Review Committee:
- Clarita Ligaya Iskandar
- Dadang Muljawan
- Bambang Fajar Hirawan
- Budi Trisnanto
- Huriah
- Prayudhi Azwar
- Zaki Abdullah

Published by:
Bank Indonesia Institute in collaboration with Universitas Islam Internasional Indonesia – December 2023

Jl. MH. Thamrin No. 2, Jakarta, 10350 Indonesia

http:/www.bi.go.id/id/institute/default.aspx

ISBN 978-623-5662-65-7

ISBN 978-623-5662-66-4 (PDF)

FOREWORD

In the midst of unprecedented global challenges, the International Seminar on Advanced Issues in Islamic Economics and Finance emerges as a significant platform for intellectual discourse and collaboration. With the theme of 'Thriving Together with Innovative, Inclusive, and Sustainable Economic Growth,' this seminar seeks to address the profound impact of the COVID-19 pandemic, economic uncertainties, and climate extremes on our world. The imperative to embark on a collective endeavor towards resilient, sustainable, and inclusive economic recovery has never been more pressing.

Our world has been thrust into an era of uncertainty, which requires us to come up with creative and forward-thinking solutions. These solutions should not only address the immediate concerns at hand but also establish a solid foundation for a future that is both prosperous and equitable for everyone. The COVID-19 outbreak has played a significant role in triggering a collective reset and reassessment of our economic systems. As nations tackle the simultaneous challenges of health and economic crises, they are also compelled to confront the escalating impacts of climate change. This complex web of crises has resulted in increased poverty and worsened inequalities worldwide.

Given that the multifaceted predicament at hands demand our attention, the seminar aims to delve into alternative paths that can lead to a more constructive international economic recovery. Islamic economics and finance, renowned for their comprehensive ethical framework, values, and instruments, offer a promising route towards sustainability. In an era of rapid technological advancement, the adaptability of Islamic economics and finance to the digital landscape becomes imperative in order to ensuring effectiveness and efficiency in all sectors. This seminar aims to unite scholars, practitioners, and thought leaders to engage in thoughtful discussions regarding crucial matters at the convergence of digital transformation, inclusive and innovative economic growth, and the evolving paradigm of Sharia Economics and Finance. Throughout the sessions, we will explore in-depth the urgent subjects of sustainable green practices, circular economies, and environmental, social, and governance (ESG) initiatives within the framework of Islamic economics and finance.

In our examination of these themes, it is crucial to not only contemplate the theoretical foundations but also the actual execution of these concepts. The synergy between Islamic economics and finance and global initiatives, particularly in the realms of green finance and ESG, holds utmost significance. The objective of this seminar's proceedings is to offer valuable perspective and actionable strategies that can guide economic policies and collaborations, providing a roadmap for recovery that surpasses the scarring effects of the COVID-19 pandemic.

Through this collaborative endeavor to acquire knowledge and find solutions, our aim is to establish a platform that encourage open dialogue and exchange, surpassing any limitations imposed by geography. Despite the numerous challenges our world is currently confronting, by pooling our insights and embracing innovative thinking, we can forge a path towards thriving together in an economically inclusive, resilient, and sustainable future. We express our deepest gratitude for your active participation in the International Seminar on Advanced Issues in Islamic Economic and Finance. May our combined efforts make a significant contribution to the betterment of our global community.

Jakarta, December 2023

Yoga Affandi

Head of Bank Indonesia Institute

TABLE OF CONTENTS

TABLE OF FIGURES

This page is intentionally left blank

EXECUTIVE SUMMARY

The world is uncertain and unpredictable, especially during the COVID-19 outbreak. Multiple crises happen at the same time. The pandemic has put the world on hold and into reset mode. While the health and economic crisis impacts emerge, many countries also have to endure climate extremes simultaneously. Consequently, higher poverty as well as increasing inequality within and across countries around the world are noticeable. Considering that multiple crises and extremes will be more likely to happen, it is untenable to maintain the status quo. Every country – be it developed or developing countries – needs to be integrated into one concerted effort where the economic recovery is deliberately designed to be inclusive, resilient, sustainable, innovative, and low carbon.

Islamic economics and finance exist as part of other economic system components to provide more alternative solutions for internationally more constructive economic recovery. Islamic economics and finance characterized by richer ethics, values, and instruments may offer sustainable solutions. Along with the current hi-pace of technological development, Islamic economics and finance should also be able to adapt it to all fronts of services to keep up effectiveness and efficiency in its operations. Besides, the development of Islamic economics and finance also needs to be in convergence with other global initiatives, ensuring synergy in implementing the concepts into reality. The issues on green finance and other ESG initiatives are conceptually embedded in the operations.

The overall objective of this proceeding, extracted from AIEES is to provide a platform to discuss the key challenges confronting the thinkers and leaders in managing the global economic recovery and mitigating future risks toward sustainable and innovative economic growth. The event will focus on how COVID-19 has disrupted every aspect of our lives but, at the same time, offered us a unique opportunity and how Islamic economics and finance can show their significant roles in addressing the challenges and bringing credible solutions. It will allow thought-leaders and stakeholders to exchange views on the adversities of COVID-19 and how the Islamic economics and finance could be monumental to thrive together with sustainable and innovative economic growth.

The proceeding consists of four plenary panel discussions on specific topics, (1) Digital transformation, inclusive and innovative economic growth for speedy economic recovery, (2) New Paradigm on Sharia Economics and Finance on the Issue of Sustainable Green, Circular and ESG, (3) Sharia Economics and Financial Policy, Strategy, and Collaboration for Economic Recovery in Alleviating the Scarring Effect of COVID-19 Pandemic. This program is designed for middle-to-senior level officials from central banks and other related institutions with interests in developing Islamic economics and finance.

Session 1 which is about Digital Transformation, Inclusive and Innovative Economic Growth for Speedy Economic Recovery highlight how the COVID-19 pandemic crisis has challenged us to transform the way we live, work, learn, cooperate, and improve the quality of economic growth. However, it is essential to know how to address the remaining challenges in accelerating digital transformation, better approaches to prepare and manage responses for possible future crises and what can be done in creating opportunities and scaling up the existing public-private coalitions to realize innovative economic growth. It is paramount to also discuss what would be the digital ecosystem's future and the transformative economy and how Islamic economics, and finance can address the challenges and serve as one of the solutions. Leading Speaker in this session is Professor Soumitra Dutta from Said Business School, Oxford University with Professor Meryem Duygun from Nottingham University Business School, and Dr. Dadang Muljawan from Indonesian International Islamic University (UIII) as panelists. The moderator is Dr. Prayudhi Azwar from BI Institute, Bank Indonesia.

Session 2 is related to new paradigm on sharia economics and finance on the issue of sustainable green, circular and ESG. COVID-19 has offered us a unique opportunity in sounding a louder alarm that planet earth is sick and other similar crises will soon follow if we do not vigorously act in the most urgent timeline. Climate change impacts are not tomorrow's problem-it is here today. Many countries call for a "green recovery" that ensures an inclusive/sustainable economic development and simultaneously cuts CO2 emissions. This session will detail the global commitments that exist today, especially for important sectors such as infrastructure, transportation, energy, and food. Additionally what initiatives are needed to achieve a safe, healthy, and liveable planet, what are the immediate priorities for scaling up the initiatives across countries and stakeholders (firms, local government, NGOs) and how Islamic economics and finance can address the challenges and serves as one of the solutions are to be elaborated. Leading Speaker in this session is Professor Dato' Mohd Azmi Omar from INCEIF with Dr. Luky Alfirman from Ministry of Finance, Republic of Indonesia, and Mrs. Fatma Eser ÇINAR from UNDP as panelists. The moderator is Dr. Bayu Arie Fianto from Airlangga University.

Session 3 discuss sharia economics and financial policy, strategy, and collaboration for economic recovery in alleviating the scarring effect of COVID-19 pandemic. Considering that multiple crises and extremes will be more likely to happen, it is untenable to maintain the status quo. Instead, every developed or developing country needs to be integrated into one concerted effort where the economic recovery is deliberately designed to be inclusive, resilient, sustainable, and innovative. Leading Speaker in this session is Dr. Zamir Iqbal from Islamic Development Bank (IsDB) with Dr. Rifki Ismal from IFSB, and Prof. Mohamed Eskandar Shah Mohd. Rasid from HBK University-Qatar Foundation as panelists. The moderator is Dr. Ali Sakti from Bank Indonesia.

The editors are grateful to have Zaki Abdullah, Ananda Olga Ulima, Muhammad Ismail Sunni, Fahmi Alamil Huda for the assistance in completion of this proceeding.

This page is intentionally left blank

WELCOMING SPEECH

Prof. Komaruddin Hidayat

Rector of Universitas Islam Internasional Indonesia

Assalamualaikum Warahmatullah Wabarakatuh,

On behalf of the host of G20 Side Events International Seminar Issues in Islamic Economics and Finance, I would like to welcome you all to the central theme of this event: Thriving Together with Innovative, Inclusive, and Sustainable Economic Growth.

We are also very pleased to find that this event provides a platform to discuss the key challenges confronting the thinkers and leaders in managing the global economic recovery and mitigating future risks toward sustainable and innovative economic growth.

I hope that this cooperation would be an excellent opportunity for all participants coming from various institutions, such as Bank Indonesia, Ministry of Finance, INCEIF, UNDP, IsDB, and other institutions of Islamic Social Finance, to enhance their conceptual knowledge and critical thinking on advanced issues in Islamic Social Finance. In addition, we do hope that through high-quality international seminars like this, we could produce more prominent Sharia Economic and Finance Thinkers in society, both globally and nationally.

On this special occasion, allow me to express my heartfelt appreciation to INCEIF, Bank Indonesia, specifically BI Institute, Islamic Economics, and Finance Department (DEKS-BI), that have worked intensively with UIII to bring this program well materialized.

As the Rector of the UIII, I really appreciate and always support any strategic collaboration between UIII, Bank Indonesia and INCEIF. This flagship program should be the first step of many potential capacity development programs that can be conducted between these three esteemed institutions. Furthermore, we expect that UIII and Bank Indonesia could expand cooperation and collaboration to other essential areas contributing to economic recovery acceleration and economic resilience. Once again, allow me to express my gratitude to Mr. Dody Budi Waluyo (Deputy Governor of Bank Indonesia) and Prof Dato' Dr. Azmi Omar (President and CEO of INCEIF), BI Institute and DEKS officials, and the Faculty of Economics and Business UIII faculty members for the enormous contributions to initiating this flagship program. Appreciation is also addressed to prominent trainers for your kind availability to support this program and the participants who have made room in their work schedules and put their effort.

I wish everyone have a fruitful, productive, and constructive discussion during the program.

All the best and stay healthy.

W*assalamualaikum Warahmatullah Wabarakatuh.*

KEYNOTE SPEECH

Dody Budi Waluyo
Deputy Governor of Bank Indonesia

Bank Indonesia is highly committed to continuing the synergies with various parties, especially in the preparation of superior human resources to achieve the vision for Indonesia Maju. The module on economic leadership is currently the focus of the development of the learning syllabus at the Bank Indonesia Institute, with at least 3 training materials have been included in the National Flagship plan in 2021. The first was in February 2021, related to Leadership in Economic Diplomacy to improve Indonesia's existence in international forums and domestic forums followed by the second topic related to Leadership in the World of Islamic Financial Economics. Both topics would be the core focus for the next 5 days with the final topic related to Regional Economic and Financial Leadership would be held later in September.

Bank Indonesia Institute encourage participation from participants from across ministries and institutions with the hope to create future leaders and serves as a forum for exchanging ideas on policy perspectives and then collaboration between the related stakeholders. In the context of accelerating economic development and Islamic economic finance, synergy and collaboration are very relevant. The roadmap for the development of the national Islamic financial economy has been outlined in the 2019-2024 EKSyar Master plan to increase synergy, collaboration, and gather all potentials from all institutions nationally to present superior programs with a broad and sustainable impact.

The dynamics of sharia business growth certainly could not be separated from the developing risks currently occurring related to mobility restrictions along with the increasing spread of the Covid-19 pandemic globally. The OIC (Organization of Islamic Cooperation) in its release at the end of last year stated that the impact of the pandemic has caused considerable pressure on all 57 member countries. There has been a disruption in the supply chain of halal products to the decline in investment reaching a 13% contraction in several strategic sectors which are the main contributors to the growth of the world's sharia business, such as halal food, modest fashion and Muslim-friendly travel. Domestically, a slowdown witness in consumption and other business activities. To compare the Islamic financial economy with the conventional, it is a grateful fact that during 2020, the performance of the Islamic financial economy was relatively good with a lower economic growth contraction compared to the national economy.

The calculation of sharia economic performance is therefore represented by the main sectors such as agriculture, halal food, Muslim fashion, Muslim-friendly tourism wherein last year have aggregated contraction of -1.72%. A relatively better number is reached when compared with Indonesia's economic growth that experienced a contraction of -2.07%. The role of Islamic financial-economic policies to strengthen the recovery momentum continues, including the EKSyar policy as part of the national policy that synergizes initiatives between ministries and institutions for the recovery of potential business sectors. There is also an increase in sharia business empowerment partnerships, including the sustainability of MSMEs sharia and Islamic boarding schools' business units. Optimization of Islamic Social Finance (zakat, infaq, waqf, sadaqah) in accordance with the principle of its implementation continues to become social support for communities affected by the pandemic. A further discussion and exploration of the three policy aspects in the next few days would be done by the facilitators who are prominent speakers in their fields. Topics related to Islamic social finance and its integration with commercial finance need to receive a larger portion of the discussion, considering the increasing strategic potential in supporting economic financing. The principle of property ownership in Islam also applies, which has the principle of encouraging the flow of money to continuously circulate to the productive sector is one of the important steps and discussions important for IHT opportunity, especially in the midst of difficult times like now.

Islamic financial management still bears the risk. All lines of management need to fully understand the concept of social finance, from fiqh to regulatory aspects with a possibility of a direct impact on interactions between users in Islamic finance. An empirical approach has been carefully embedded in the program to improve the competence of leaders, users, regulators in the field of Islamic social finance in producing a more credible management strategy that refers to the best practices.

In every stressful situation there would always be valuable lessons that could be learned. The crisis is passed with valuable lessons to maintain better economic and financial stability in the future. Insya Allah, these obstacles encountered would end soon and Indonesia would recover. In terms of Islamic economy and finance, the importance of accelerating the transformation agenda in the national sharia economic ecosystem becomes a meaningful lesson as well. A more developed and comprehensive ecosystem would create wider opportunities for business users in this sector to grow more potentially, because all the necessary resources, both from the human side, policies, even the promotions, would be developed simultaneously. I hope the discussion would run smoothly, with the guidance of colleagues from the Bank Indonesia institute, to at least answer a number of essential concerns in the EKSyar field at the moment, provide the solution for EKSyar to overcome the current obstacles to economic recovery, ways to increase the contribution of sharia in the global market, and optimizing the use of Islamic social finance assets to be more productive in the future.

Finally, with the blessing of Allah SWT, I officially open the Strategic Capabilities Development for Sharia Economic and Finance Leaders program. Hopefully, this program could run smoothly and be insightful.

This page is intentionally left blank

SESSION 1

Digital Transformation, Inclusive, and Innovative Economic Growth for Speedy Economic Recovery

Speaker 1 Professor Soumitra Dutta
Dean of Said Business School, Oxford University
Digital Transformation

Speaker 2 Professor Meryem Duygun
Banking and finance, Nottingham University Business School
Rebuilding SMEs Resilience after COVID-19

Speaker 3 Dr. Dadang Muljawan
Vice Rector, Universitas Islam Internasional Indonesia
Digitalization and Islamic Economics and Finance

This page is intentionally left blank

DIGITAL TRANSFORMATION

Professor Soumitra Dutta
Dean of Said Business School, Oxford University

Key Points

A successful adoption of digital technology should go through 3 phases: substitution, diffusion, and transformation. In fact, the true digital transformation is yet to come. Pandemic Covid-19 serves as an accelerator for the digital transformation process, and it becomes the real challenge for the organizations. Exponential growth in technology requires exponential mindsets to ensure it operational compatibility. A failure to adapt the technological mindset could be disastrous as the hope to get the benefits from the technological advancement has shifted to the fear of incapability to control the residual risks. A wisdom for a choice of technology becomes very essential. There is a need to develop people-centric technology mindset. The choice we made today would bring serious implication for our future whether technology is set to replace man, or to empower man who can control the technology.

The Challenges

The Covid pandemic has served as a super changer for the entire business model, particularly the digital technology. The global business sectors have closely monitored and adopted the digital technology in an accelerated fashion. In a more general term, the adoption of technology takes place in three phases. The first phase is an immediate replacement of the old technology with the new one. For example, when a scientist invented a car, certain people replaced horse-drawn carriages with cars. The second impact (diffusion) takes place when people consider that the application technology brings more efficiency and practicality. We could see more and more people migrate from the old-fashioned ways of doings to a more technological-contained ones. This what happened when more and more people migrated from using a non-practical horse-drawn carriage to technologically more developed vehicles. The economic and the technical aspects dominates the arguments for the shifting phenomena. After the first and the second phenomena took place, the third phase (the cultural transformation) came. The technical ease to commute by using cars had provided incentive to the people to live in suburban areas which gave substantial economic impact to the regions. The developments of so many supporting infrastructures which required more space and longer distance became possible and relevant.

As mentioned earlier, the Covid-19 pandemic has forced the whole world to fasten the adoption of the phase one and two of technological adoption process. The education sector can be a good example to describe how technology had made a fundamental shift of the business models which had existed for decades. Within just a short period, on-line learning which was not the popular method of education, has become a global phenomenon. The phase one and two of technological adoption by the global community have been accelerated very rapidly. After the rapid adoption of technology, the next phase that need to take place is the complete digital transformation process to ensure that the transformation process would give the optimal benefits to the business activities at the national level.

The digital transformation process in the education sector can be one of the examples. After a period of 'forced' on-line learning method, many universities allocated a lot of efforts to put the off-line method of learning back in place. The main reason to put the off-line back into place is provide the students with the interactive sessions as the best format for developing the knowledge in a scientific society. The universities and the students, in a certain extent, want to retreat to where the life was like before the pandemic happened. Although, digital based education method starts to dominate. Currently, many companies in America and elsewhere are putting a lot of pressure on employees to return to the office and continue working the way it worked before the pandemic. But in reality, people start enjoying flexi-place work method which will shift the office life permanently.

As a matter of fact, no one can predict the final shape resulted from this forced technological adoption process. What is required right now is a courage to experiment a new form of transformation process that will lead to what is expected. The experimentations should take place in many fronts such as education system, financial system, a new working culture, a technique how to manage the expectation of the employees. Sooner or later, all the changes are inevitable. There is a need to balance between the speed of a forced digitalization and the digital transformation process. Besides the opportunities offered in a digital transformation process, the system needs to anticipate the downside risks which requires good leadership of all relevant institutions. With a good leadership, the ecosystem will be capable of not only anticipating the risks involved but also shaping the better future.

The volume of data increases exponentially, and it becomes a challenge in identifying the right signal including weak signals, all noise, and circulating data. The problem is that humans can't do it because the complexity of multi-dimensional data sets is too high and humans don't handle that complexity. The only solution is to apply artificial intelligence technology and techniques to be able to handle this kind of complexity and decipher some of the weaker signals. However, the challenge that occurs is that implementing AI solutions is not easy. AI on one level sounds easy to store, but building large-scale AI systems used for applications requires enormous resources.

Few large organizations can invest in this. Here's an overview of the complexities of the Progressive AI systems that are running today. Less than three and a half years ago, the number of parameters in AI systems such as GPT to DPD was a series systems produced by the Open AI Consortium, such as 1.5 billion parameters. In 18 months, Open AI increased complexity from 1.5 billion to 175 billion. Moreover, a hundredfold increase from what was handled within 18 months. And then another 12 months, GPT 4 was created and has a complexity of almost 1 trillion parameters. This illustrates how in less than three years, the level of complexity increased from 1.5 billion to 1 trillion.

Biologically, the human brain has about a thousand trillion synapses. This is the reason why handling volumes of data costs millions of dollars to build systems that are not easy and very few companies can afford them. Now, these companies will have the technology behind them to gain a competitive advantage. Therefore, problems arise and the policies because the advantages of AI are limited to a small group of companies or countries.

The development of crypto-based digital currencies refers to the basic process of substitution, diffusion, transformation, and challenges to have a full cycle of the transformation process. Digital currencies and cryptocurrencies are currently in their early years. Referring back to internet, technology in the 1990s, there were many concerns about security and problems that existed, but as technology has become better, what is needed today is more regulatory norms that can be accepted and implemented well by the community or a few Central Authority. Now, there will be a lot of resistance to all these Decentralized Finance (DeFi) models and especially to the crypto models of central banks and governments, as it challenges the power of central banks and governments. Such a challenge is something that disrupts the power dynamics in any country. What has happened in recent years is that all cryptocurrencies and decentralized finance have become more mature and a bit more powerful. The Central Bank of China, the US Federal Reserve Bank, and many other authorities are pushing back and trying to maintain adequate control over these new movements. Otherwise, the system will fail to anticipate possible adverse effects. Moreover, it is impossible to reverse the technological developments that have occurred at this time. The effort that must be paid is not about how to kill innovation, but how to use it to create a better vision. It requires courage to experiment in the future. The regulatory framework cannot be set up to alienate this kind of innovation and make it illegal because the innovation will come back in more advanced forms.

Exponential versus Linear Growth

The second aspect which requires sufficient attention is the exponential growth of technological development. This model, which is known as Moore's Law, was introduced by Gordon Moore, a co-founder of Intel in 1965. He stated that the number of electronic transistors in a computer chip development would be doubled in every 18 months. This prediction can be interpreted as a geometrical growth of the computing power which leads to accelerated inventions in many fronts. The growth of computing power which is happening today has broken a pessimistic view on how the limitations in the engineering techniques would cease such development. In fact, new inventions are coming exponentially. The computing power is doubling in less than 18 months now.

The exponential growth in computing power has brought very significant consequences to the human lifestyle. The implication is extraordinary because it means that people live in an exponential world. Numerically, this development might open up a huge gap between sectors experiencing exponential growth and the ones that remain slow in technological adoption. The human has some natural biases like confirmation bias, recency bias, and other types of bias that prevent people from thinking success in exponential terms. The human is very good at imagining and living in a linear work, how organizations are designed and designed for a linear environment. Society is judged to be very good at dealing with incremental change in small steps, but when faced with an environment where things expand exponentially, people are not able to handle it adequately. Considering the previous aspects above, it can be simply seen that the degree of transformation that is likely to occur across sectors will become even more dramatic in the coming years.

The rapid development in the digital computing would eventually bring substantial changes in the society whether it is intentionally or unintentionally. Some of the changes occurred might be represented in the market data and some might not. The capacity to control the convergence is highly depending upon the ability to observe the changes through the ability to process structured and unstructured data. The Society must go through a unique convergence process which consist of three important revolutions: digital revolution, biological revolution, and physical revolution.

The ability to control and to benefit from these three main dimensions could create a tremendous power of change and opportunity for companies to advance much faster. This could be considered as an opportunity and, at the same time, a challenge for the companies and organizations in terms of making adequate use of them.

Hope versus Fear

The third important point is about how the role of technology is perceived in society. At about 25 years ago, people started to see technology when the internet technology was just getting started. The internet is still in its infancy when people were just trying to understand its impact of the internet and the people towards is uniformly positive. A good example is given of a farmer in India who checks commodity prices in Chicago before selling his produce. Another example is Malawian fishermen who coordinate fishing strategies to work on overfishing and being in the surrounding waters. People has never thought that technology could create a free and democratic world. In fact, some countries like Estonia which just became independent from the Soviet Union in 1992 were the first to say that good access to the internet should be a fundamental human right for all Estonians because society believes that if every Estonian has access to information, then the information is free and it will never return to the situation of the Soviet Union. So, there was a lot of hope and excitement that technology did to society in the early 1990s. Today and in the next 30 years, technology has delivered many good things to society. There is no question about creating technology has increased efficiency in organizations as it makes life simpler and easier. People can buy plane tickets and can connect these phones. People can do things a lot easier to play and there's no doubt about that.

But at the same time, technology can also create many challenges and fears among the people. Referring to the Cambridge Analytical Data Scandal, people used

Facebook to manipulate decision-making process in elections, the whole system has fallen into a deep bogus. Can society believe what is read today when people estimate that 40-50 percent of all information on social media channels is false information? What about cyberbullying? What about other types of cybersecurity threats, what is starting to show is that today's technology leads to a situation where there is a potential lack of trust in society so that people can't necessarily trust what governments say, what each other reads and sees. This creates several potential challenges for society.

Current phenomena indicate how the technology pendulum has shifted from what is called hope to the dimensions of today's fear. Today, people fear that the unintended consequence of technology is creating a real-world that is not making life comfortable, creating a world where young people do not feel protected. The pendulum creates a world where there is a high level of addiction to digital technology and so on. In addition, what must be read is to realize that technology is not always positive and this will pose a challenge that every policy around good technology at the national level must be regulated in a balanced manner. The technological pendulum that has shifted from hope to fear must be rebalanced. And this rebalancing is very important because technology does have the ability to magnify, both positive and negative. The negative side is the side that causes a lot of fear and concern among the people. In summary, this is the third point about the pendulum shifting from hope to fear and how to rebalance this whole pendulum story.

People-centric Technology

The fourth point radius around the rebalancing that must occur in the relationship between humans and technology, and this is a very fragile balance. So just always technology has historically automated processes and the result of automation has been a lot of people replacement that has happened historically. Now, today with artificial intelligence, what has happened is that the potential for technology to replace even knowledge workers in various domains has increased dramatically, and this causes a lot of challenges in terms of trying to say, well AI, for example, is erasing jobs and erasing so many jobs. people so as a Society will not be able to handle them and be able to look after them. Take, for example, a self-driving car or a self-driving truck. Currently, in America, approximately 15 to 18 percent of all US men drive something with something delivered. Now, suppose he drives vehicles to become autonomous and society doesn't need so many drivers, so many men, usually men driving vehicles. What is the Government doing with them? What the Government did with a 40-year-old truck driver who turned out to have the potential to lose his job. Yes, a lot of work and data scientists and AI researchers, but can the Government take a 40-year-old truck driver and turn him into a data scientist? That is a very interesting question. A very important question for policymakers to answer. Is that how technology will affect work? How can technology act as a result of the consequences affect human dignity?

Because in reality, a person cannot survive completely, loses his job due to technological advances. If this starts to attack the core of human dignity. Now, job replacement, of course, has an extreme situation, but even another situation where humans continue to work in their environment and then, in the office environment, organizational environment, but technology enters the picture. Today, technology is used to gather a lot of information about human performance, overall. When people use a car like Uber, say, one of these cars, sharing is driving a kind of company like uber. Uber company is monitoring new details about what the driver is doing, monitoring whether the speed the driver is driving or not, monitoring, which locality is driving or the group the person is taking even monitoring is the real driver. For security reasons, putting the phone and the folder in the oil holder like the phone is in the hands of this person. Now all of this is being done with good intentions to improve rider safety, but there’s a lot of human worker monitoring going on in technology. Today, for example with mobile phones, Google monitors every movie shot, every step that is made, even if people are going to be using Google Maps at that moment.

The situation of other knowledge workers such as medical hospitals and doctors in America is even increasing. The number of doctors and the number of patients each doctor sees per hour are being monitored and this kind of control is considered irksome. So, a lot of people are questioning that as a true technology, it is increasingly being used in organizations and how it can reduce the value of workers or empower them. Companies can use technology to empower workers to do better and be more passionate about what they do today. For example, a person goes to a retail store and has a question for a salesperson. If the clerk has good technical support, good AI system and disposal, maybe the salesperson will be able to answer more technical questions and answer truthfully and give better answers and services. Therefore, this is a very important question in terms of technology and people. Will the technology be used to replace humans? will be used to control and monitor humans? or will it be used to empower people? And this is an important choice to make. Choices were made for sightings. Because clearly, these choices will determine how people-centric is the vision of technology in the future. Furthermore, the Government and related policymakers are expected to be able to build technology and digital transformation that enables an extraordinary future and continue to build people-centricity in it.

In summary, four important points can be concluded concerning Digital Transformation. The first point is around the whole idea of transformation, that the real digital transformation is yet to come. The second point is about the world's exponential progress which is accelerating. The challenge is that as a human being living in a linear world and not good at dealing with the exponential world. The third point is the whole idea of how the technological pendulum has shifted from hope to fear. The important challenge is to rebalance the technological pendulum, people can incorporate and benefit from the best technology. The fourth or final point is about how companies can build people-centric by using technology that is more empowering than replacing and controlling one human mold.

REBUILDING SMES RESILIENCE AFTER COVID-19

Professor Meryem Duygun
Banking and Finance, Nottingham University Business School

Key Points

The Islamic digital economic and finance has been showing a potential as an effective vehicle to sustain economic recovery after the Covid-19 Pandemic. The emergence of Islamic Fintech companies has helped the economy with an alternative resource mobilization process which is conducted in a more efficient and effective way.

Introduction

Covid-19 has introduced new forms of economic risk that major economies around the world have not experienced in their history. This includes risks to production, supply chain, and business continuity. Covid-19 continues to pose significant challenges to economic activity and SME recovery due to the ongoing risks associated with future virus variants and the potential for new outbreaks. Recent statistical insights from the Organization for Economic Co-operation and Development (OECD) reveal that some countries, are not well equipped to cope with negative economic impacts, which have placed SMEs at high risk of default and a high probability of default on outstanding loans paid.

Impact of COVID-19 on the SME and Leading Research

There are several important impacts of COVID-19 on SMEs. First, serious and unprecedented threats to SMEs, such as declining income, loan defaults, inability to retain employees, and delaying growth plans. A critical issue that is often underestimated but occurs because of COVID-19 is risk exposure, resilience to lack of funds, and mechanisms that provide timely support in their economic activities – access to finance. There is excellent research conducted by the University of Nottingham on COVID-19 & Financial Inclusion entitled "UK SMEs: Measuring Pandemic Risk and Their Credit Risk Exposure After the COVID-19 Crisis". This study uses Artificial Intelligence (AI) and Big Data techniques to provide decisions based on a comprehensive quantitative analysis of pandemic risk and credit risk exposure at the enterprise level, quantifies the pandemic risk exposure of each SME (PRI) and develops new credit risk assessment algorithms and procedures that accurately measure SME credit risk (AI_CREDIT).

Key Challenges in Indonesia

The main challenge in Indonesia is that because Indonesian SMEs hold the key to growth, the way to increase them is that there are currently more than 62 million SMEs in Indonesia, which is one SME for every five Indonesians. Of these, 98.75% (61.5 million) are micro-enterprises. Developing these small businesses into bigger ones will be an important driver of the country's future development. How do address the issue of upgrading and access to SME financing? Accurately assessing the risks faced by Indonesian SMEs is important. Risk evaluation is very important to build and maintain competitive advantage and allocate internal resources for critical aspects. Understanding the internal and external risk environment for different companies, industries or countries helps SMEs to innovate and internationalize. An accurate assessment of the risk exposure faced by Indonesian SMEs can help policymakers and lenders to make funding decisions based on a comprehensive quantitative analysis of pandemic risk and credit risk exposure at the enterprise level.

Fintech - An Alternative Way of SMES Financing?

In traditional financial settings, financing for SMEs is an expensive procedure due to the small size of the loan coupled with the complex decision-making of whether the applicant is "bad" or "good". SMEs can obtain loans through an uncomplicated process through Fintech companies. A few examples are Innovate Finance, the industry body representing the UK Fintech industry, estimating that alternative lenders including P2P and other Fintech companies led the increase in lending to SMEs from 2014 to 2019, increasing their SME lending market share from 50% to 65%. China is a good example of the suitability of Fintech to provide funds for small companies and underprivileged consumers who would use more expensive and informal private lenders in the absence of FinTech. According to a report from a major Chinese retail platform, more than half have no history of borrowing from a financial institution. Alibaba e-commerce has increased access for companies with low credit scores.

Fintech and Islamic Finance Lowers SMEs' Lending Costs

Some successful examples from Indonesia. There is a growing global Islamic FinTech ecosystem, with a strong focus to date on P2P finance. Based on data from the Dubai Islamic Economic Development Center, the number of Islamic fintech startups in Indonesia reaches 33% of the total in the world. Some examples of well-known P2P Sharia Lending provider brands in Indonesia are Ammana, Alami, and Investree. How can fintech reduce SME borrowing costs? FinTech promises to reduce the cost of credit, especially by lowering operating expenses for lenders. The use of Identification technology (KYC) reduces the risk of selecting 'high risk' clients resulting in lower loan losses. The incorporation of checks and social media identification balances further enhances the benefits of KYC. Alternative credit scoring allows a wider range of sources, such as psychometric, mobile, and social media data to be combined which improves credit score accuracy thereby lowering financial costs. This results in reduced loan losses as the reliability and efficiency of the credit score are greatly improved. Based on the market size of the SEA internet economy in $B, Indonesia's largest ($27B) and fastest growing (49% CAGR), will become a $100B internet economy by 2025. The sectors that play the biggest roles are E-Commerce and Ride-Hailing. This is triggered by intense competition between Indonesian and regional players. All sectors are also benefiting from the increasing adoption of digital payments and investing with greater deals. In this case, Indonesian unicorns such as Bukalapak, Gojek*, Tokopedia* and Traveloka take the lead.

Policy Targets

The expected policy target is that as the largest economy in Southeast Asia, Indonesia's digital economy has tremendous potential. The digital economy is the fastest growing industry in the country. It is projected to reach USD 124 billion by 2025, according to the "eConomy SEA 2020" report by Google, Temasek, and Bain & Company. Access to external finance for business start-up, investment, and growth is an important determinant of inclusive and sustainable growth and contributes to rapid recovery in developing countries. An accurate assessment of the risk exposure faced by Indonesian SMEs can help policymakers and lenders to make funding decisions based on a comprehensive quantitative analysis of pandemic risk and credit risk exposure at the enterprise level. Encouraging fintech to promote financial inclusion by addressing challenges related to reaching, customer information, and commercial viability and developing markets by improving infrastructure and depth. To be sustainable and create real value in the domestic economy, the technology ecosystem needs to actively build local talent.

DIGITALIZATION AND ISLAMIC ECONOMICS AND FINANCE

Dr Dadang Muljawan
Vice Rector, Universitas Islam Internasional Indonesia

Key Points

Digitalization in Islamic economic and finance open up a lot of opportunities if the ecosystem is developed comprehensively. The development should cover the halal value chain in terms of production technology and standards; investor-based fintech and supporting institutions; regulatory framework in banking, CM, insurance, and alternative financing; and human resource development in terms of technical capacity, education and public protection.

Digitalization and the Islamic Economic and Finance

Vertically and horizontally integrated digitalization will create a higher competitive advantage, cost reduction, and innovation. However, digitalization that is supported by key values in Islamic economics and finance, such as equality, tangible benefits, and no harm will have a wider impact, namely job creation, financial efficiency, consumer benefits, and inclusiveness. This opens up opportunities for faster adoption and provides more benefits. In the future, optimization needs to be done through development and mitigation. Successful and impactful economic digitization must involve innovation, Islamic contracts, Islamic content, and macro perspectives.

Some stylish facts about current developments regarding the growth of the internet economy and the impact of COVID on internet use in Southeast Asia, including the total internet users in Southeast Asia from 2019-to 2021 each year increasing by 40 million users, namely in 2019 by 360 million, in 2020 it will be 400 million, and in 2021 it will be 440 million. Gross Merchandise Value of the internet economy in Southeast Asia in $B of online media, online travel, transport, and food, e-commerce in 2021 is 174 billion dollars. CAGR (Compounded annual growth rate) is predicted to increase by 20% in 2025 to 363 billion dollars. The number of internet users in all digital services, from selling clothes to music from before the pandemic and in the new digital consumer era in 2020 and 2021 continues to increase. Based on data from e-Economy SEA 2021, the internet economy by Gross Merchandise Value (GMV) in $B is predicted to increase by 20% in 2025 from 2021. GMV per sector ($B) which is predicted to grow in 2025 includes online travel (30%), online media (26%), transport and food (25%), and e-commerce (18%). This positive growth should facilitate rapid development with prudence demonstrated by a positive licensing process.

The Ecosystem for Progressive Islamic Economics Digitalization

A progressive Islamic economic digitalization ecosystem approach must include 4 things: (1) the halal value chain in terms of production technology and standards; (2) investor-based fintech and supporting institutions; (3) regulatory framework in banking, CM, insurance, and alternative financing; and (4) human resource development in terms of technical capacity, education and public protection. This ecosystem will support activating technology (AI, Blockchain, Security, and Cloud) in 6 economic activities, namely savings and investment, insurance, CM, alternative finance, payment systems, and social finance.

Some examples of corporate brands with key technology products serving along the Indonesian halal value chain and Sharia economic fintech are Alami, LinkAja Syariah, eFishery, and Kitabisa. Natural is P2P Lending, with an average of 15% p.a. profit sharing, providing financing to SMEs throughout Indonesia in various sectors such as agriculture, aquaculture, and telecommunications.

Alami recently launched a Digital Regional Bank (BPRS), namely the Hijrah Bank. Some of the main facts and achievements of this company are total financing of IDR 2.9 Trillion (as of 2022), 0% NPF, finance in around 8,500 projects, 83,000 Natural users, and 370% growth in funders. LinkAja Syariah is an E-wallet company, providing digital payment acceptance for online and offline merchants, with a strong ecosystem in Indonesian State-Owned Enterprises, online and offline merchant payment acceptance, digital bill payments, and digital goods purchases (online transfers), currently only e-wallet with sharia certification from MUI. Some of the main facts and achievements of this company are 300% user transaction growth in 2021 yoy, 1,400% revenue growth in 2021 yoy, and 6.6 million registered users, part of the Government's Pre-Employment initiative distributing Rp900 billion to 400 thousand users.

e-Fishery is an IOT-based aquaculture technology platform for fish cultivators throughout Indonesia, IOT fish farming products, shrimp farm IOT products, fresh aquaculture e-commerce, and an integrated and sustainable ecosystem strong enough to strengthen global food security. Some of the main facts and achievements of the company are > 23,000 farmers, 70,000 digital fish & shrimp ponds, connecting 5,500 farmers to fair financing programs (including through ALAMI as a sharia financing partner), and producing 4,500 tons of fishery products. Kitabisa is the largest crowdfunding and donation technology platform company in Indonesia, providing various types of donations, zakat platforms, and individual crowdfunding to support specific causes. It recently launched a micro-insurance product for low-income communities called Kitabisa Mutual Keep, based on Takaful sharia insurance principles. Some of the main facts and achievements of this company are a total of 6 million donors, 100,000 crowdfunding campaigns, 3,000 social organization partners, 250 corporate CSR programs, and a total donation value of IDR 835 billion distributed in 2020.

Optimizing the Opportunities and Mitigating the Caveats

Optimizing opportunities and reducing warnings in digital transformation can be done by: (1) mitigating risks against possible violations and technological disruptions; (2) digital transformation must be able to touch all groups in all production processes; (3) ensuring all business processes are well managed for organizational transformation; (4) solid coordination among all elements in the ecosystem; (5) customers as the final target of the digitization process must have relevant knowledge sharing; (6) correct cultural perception of the digitization process.

First, risk mitigation can be done with smaller t and innovation. Continuing adoption of relevant technology and business methods such as Internet of Things, Artificial Intelligence, Blockchains, and cloud technology but also preparing for risk mitigation against possible breaches and technology disruptions. Its implementation can not only be done by the players but also the authorities and other supporting institutions.

Second, new skills are needed. Digital transformation must be able to touch all people in all production processes. Digitization tries to make the production process much more efficient which should result in higher competitiveness and business simplicity. Failure to change the person behind the driver’s seat will significantly reduce the purpose of implementing the technology.

Third, readiness is important. Digital transformation also requires organizational transformation to ensure that all business processes and their surroundings are managed properly. Along with the adoption of advanced technology, the discovery cycle including the variance of business activities grows exponentially. Striking a balance between the benefits and the downside risks is enormous.

Fourth, planning flows well. Industry-wide digital transformation requires solid coordination among all elements in the ecosystem. In most cases, development in one aspect must be supported by adequate support from other sectors, otherwise, it can create gaps. For example, Bank Indonesia as the national payment system authority has developed strategic initiatives to make the system safer and more efficient. The efficiency and security gained in the payment system will support efficiency nationally. Fifth, literacy must exceed inclusion.

Customers as the final target of the digitization process must share relevant knowledge, especially the risks inherent in every transaction made. Digitization helps things run more quickly and efficiently, but in some cases, is also less understandable. Information asymmetry between educated and uneducated people needs to be reduced. Sixth, culture plays a very important role in shaping the correct perception of the digitization process. It is important to note that digitization is a very powerful tool that requires progressive adoption of business models and discretion by the public, especially when interpreting downside risks as well as potential benefits.

SESSION 2

New Paradigm on Sharia Economics & Finance on the Issues of Sustainable Green, Circular & ESG

Speaker 1 Dr Qing Xu
United Nation for Development Program
Seize the potential of Islamic finance and make syner gies to achieve the SDGs

Speaker 2 Dr Lucky Alfirman
Director General, Ministry of Finance, Indonesia
Indonesian Experience in Managing ESG Instruments

Speaker 3 Professor Dato Dr Azmi Omar
INCIEF
New Paradigm on Sharia Economics and Finance on the Issues of Sustainable, Green, and ESG

This page is intentionally left blank

SEIZE THE POTENTIAL OF ISLAMIC FINANCE AND MAKE SYNERGIES TO ACHIEVE THE SDGS

Dr Qing Xu
United Nation for Development Program

Key Points

Islamic economics and finance, along with the Sustainable Development Goals (SDGs), share almost the same objectives. They both address global challenges and aspire to foster sustainable and equitable development programs. The United Nations Development Programme (UNDP) is actively engaged in collaborative efforts with key stakeholders in the Islamic economic and finance industry to achieve significant results for the program.

The 21st-century Challenges

The global human population is confronting severe challenges that must be addressed collectively as a community sharing the same beautiful sky. Among various issues, at least three major challenges stand out:

1. Climate change

   The global surface temperature from 2001 to 2020 has, on average, increased by 0.99°C (with a range of 0.84 to 1.10°C). This rise surpasses that of the period between 1850 and 1900. The years 2016 to 2020 have been officially declared as the warmest on record. Despite the Climate COP 26 pledges, even if fully met, it is anticipated that temperatures will still increase by 2.4°C. This rapid escalation is foreseen to result in approximately 50-75 percent of the global population being exposed to life-threatening climatic conditions characterized by extreme heat and humidity by the year 2100.

2. Biodiversity

   The current rate of species extinction is estimated to be between 1,000 and 10,000 times higher than the natural extinction rate. The activities within the agriculture sector alone pose an 86 percent risk of extinction to existing species. On average, species diversity has experienced a decline of 44 percent since 1970.

3. Human development

   Due to COVID-19, approximately 120 million people have been thrust into extreme poverty, adding an extra 426 million individuals living in multidimensional poverty. This situation has created challenges in achieving the efforts put forth for an eight-year poverty reduction plan. Global statistics highlight that the poorest 50 percent of the population controls only 2 percent of global assets, while the richest 10 percent holds 76 percent of global wealth. Failing to address and mitigate climate change may adversely impact global GDP by around 25 percent by 2100. This has the potential to worsen global inequalities and could result in an additional 68 to 135 million people falling into poverty by 2030.

The Issue in Sustainable Financing

Environmental preservation efforts incorporated into sustainable finance have become a crucial issue. Despite gaining increased attention from stakeholders, the challenges we face are intensifying due to current circumstances. Some of these challenges include:

1. Refocusing due to Covid-19 Pandemic

   The Covid-19 pandemic has been depleting significant resources aimed at helping people overcome multidimensional crises, including health, finance, and the economy. Due to the urgency of the situation, many governments may redirect the utilization of other funds towards anticipatory actions to address the impact of Covid-19. In developing countries, the financing gap for Sustainable Development Goals (SDGs) has surged by 70 percent, escalating from USD 2.5 trillion to USD 4.2 trillion.

2. Environmentally hazardous investments

   Despite an intensive program for new and renewable energy, the financial industry and the government have provided substantial support to business activities that are hazardous to the environment. Some reports indicate that the largest global State-Owned Enterprises (SOEs) are responsible for 42 percent of Greenhouse Gas (GHG) emissions. These activities include:

- Subsidizing groups of farmers whose activities have adverse effects on the environment, such as opening up forests for new plantation areas.
- Allocating US$3.8 trillion in banking finance for fossil fuel companies between 2015 and 2020. This amount accounts for 6.8 percent of the global GDP.

The emergence of a new asset class is evident in the form of green bond issuance. New bond issuances focused on environmental considerations have garnered attention, with USD 500 billion in new green bond issuances in 2021. Additionally, there is an annual clean energy investment target of USD 4,000 billion, aiming to achieve zero emissions by 2050. In the broader context, global bond issuance reached USD 9,000 billion in 2021.

Focus on sustainable finance during COP26:

- Financial institutions representing $ 130 trillion in capital have pledged to transform the global economy to net-zero through the Glasgow Financial Alliance for Net Zero, a global alliance of banks, insurance and investors.
- South Africa will receive $ 8.5 billion over the next three to five years to phase out coal through a partnership with the U.K, the U.S. and members of the EU.
- The World Bank's International Finance Corp. and Europe's largest asset manager, Amundi, plan to establish a new $ 2 billion emerging market sustainable bond fund to finance climate-friendly COVID-19 recovery plans.
- More than 100 countries, representing over 85% of the world's forests and backed by $12 billion in public funds and $ 7.2 billion in private investment, committed to reverse deforestation and land degradation by 2030.
- More than 30 financial institutions with over $ 8.7 trillion of assets under management pledged to eliminate investment in activities linked to deforestation.
- Forty-five governments pledged action and $ 4 billion in public sector investment to protect nature and make agriculture more sustainable.
- Forty-six nations, including three of the world's top 10 coal generators, pledged to phase out their coal fleets and stop building or investing in new capacity.

- More than 20 countries and five development banks have committed to end the public financing of overseas fossil fuel projects by the end of 2022.

Sustainable Finance Challenges

Level of challenge, key aspects, and Examples of Current Overarching Efforts

1. Institutional Framework

   Political, economic, and environmental instability; Policy reversals and regulatory uncertainties; Distorting subsidies and feed-in tariffs; Uneven playing field for State-Owned Enterprises (SOEs); Regulatory barriers to entry; Streamlining policy implementation from strategic to regulatory and local levels, including via international fora and mechanisms.

2. Project Financiers

   High project development costs; High transaction costs; Competition for green projects among specialized funds; Overemphasis on short-term returns; Portfolio restrictions; Compensation mechanisms for increased costs of launching sustainable projects; Improving Environmental, Social, and Governance (ESG) awareness of investors; Incorporating green finance requirements; Improving compensation mechanisms, raising investor awareness, and incorporating green finance requirements.

3. Project Owners

   Limited awareness of green finance mechanisms; Inexperience in leveraging non-traditional finance; Limited capacity for structuring projects as green; Lack of publication of transparent and comprehensive project pipelines; Lack of viable funding and business models; Improving guidance and training, developing platforms for knowledge exchange, and enhancing financing mechanisms.

4. Financial Markets

   Lack of green asset classes; Shortage of specialized funds and tools; Mismatch in risk profiles; Nonmonetized positive environmental externalities; Lack of data; Incoherent application of green standards; Low ability to accurately assess green project risks; Improving information availability and quality through platforms, standards, and third-party assessments; Developing innovative financial tools;

Establishing international dialogue on green finance harmonization of processes and standards.

The role of Islamic Finance

Additional financing is required annually to achieve the Sustainable Development Goals (SDGs) by 2030, creating opportunities for more effective philanthropic giving and social finance. There are striking commonalities between the SDGs and Maqasid Sharia. Assets in this domain are expected to exceed $3.5 trillion by 2024, with an annual industry expansion rate of 10-12%. This sector embodies socially responsible and sustainable development. Engaging with religious organizations is crucial for promoting peace, development, and tolerance.

Supporting Covid-19 Response and Recovery:

1. Emergency Support in The Short Term

   Zakat, with its focus on immediate benefit, is well suited for crisis response, providing support to both the poor and the economically insecure. This form of charitable giving often involves cash transfers, which prove particularly vital in emergencies. Individual philanthropy plays a crucial role in supporting immediate needs such as healthcare and food. Meanwhile, corporate philanthropy serves as a channel for businesses to contribute resources, including money, goods, and expertise, towards crisis relief efforts.

2. Internal & External Relations

   SDG-aligned sukuk (bond equivalents) have the potential to serve as a significant source of long-term capital for governments and companies involved in the COVID response and recovery. Additionally, Waqf endowments play a crucial role in contributing to social infrastructure that aligns with the Sustainable Development Goals (SDGs). These endowments involve dedicating financial or non-financial assets, such as land or buildings, permanently to social purposes. This mechanism aids in supporting initiatives that contribute to achieving the broader objectives outlined in the SDGs.

3. In The Response and Recovery IUM Term

   The financing of equipment, vehicles, and other sources of livelihood, as well as trade finance by Islamic banks and financial institutions, presents a critical avenue for economic support. Aligning these financing activities with the Sustainable Development Goals (SDGs) represents a significant opportunity for Islamic banks to contribute to broader societal and environmental objectives. Furthermore, impact investing, characterized by private investments prioritizing businesses with a social impact, can play a central role in the recovery process, fostering economic resilience and positive social outcomes.

4. The way taking forward

   Donating through formal channels provides a structured approach to identifying common areas of interest between Islamic principles and the Sustainable Development Goals (SDGs). Both Islamic thinking and the SDGs share common objectives related to social justice, poverty alleviation, environmental sustainability, and community well-being. By aligning donations with these shared values, there is a potential to address critical vulnerabilities within communities and households. The results of such initiatives may include improved economic conditions, enhanced access to education and healthcare, and overall resilience in the face of challenges, contributing to the broader goals of sustainable development and social equity.

UNDP's Approach in Islamic Finance

There are three approaches taken by UNDP in Islamic finance: (1) Harnessing — UNDP receives grants from Islamic finance stakeholders to implement projects. (2) Catalysing — UNDP helps Islamic finance stakeholders align their activities with the SDGs. (3) Convening — UNDP presents at public or inter-agency events on its engagement with Islamic finance. Additionally, efforts focus on Social Impact Bonds and Sovereign Wealth Funds, building on IFL research conducted between 2016 and 2018. The examples implementation of the three approaches:

i. *Social Impact Bond:* Establishing the first social impact bond partnership — deciding on an issue, defining outcomes and payments, securing an impact funder, identifying a delivery partner, and potentially finding an investor (who may overlap with the impact funder for the pilot).

ii. *Sovereign Wealth Fund:* Drawing insights from the UNDP-Musi Banyuasin Regency experience in exploring a Sovereign Wealth Fund (SWF) will enable the expansion of similar institutions in other resource-rich areas in Indonesia. It can also aid in optimizing current government funds more effectively to help achieve the Sustainable Development Goals (SDGs) using the Islamic finance model.

iii. Centre of Excellence in Islamic Finance for SDGs has specific objectives. Firstly, Project Development Assistance involves translating theories into practices within the broader environment by adopting a portfolio approach to manage various activities around shared priority areas and leveraging comparative advantages in Islamic finance. Secondly, SDG Alignment and Strategic Advice focus on identifying impactful ways to align the organization's sustainability strategies and programs with the SDGs through collaboration and mutual contribution to plans, programs, and the application of social and environmental standards. Thirdly, Knowledge Management aims to promote systematic institutional cooperation and knowledge management as essential components, providing a foundational understanding for innovation and related elements within the ecosystem. This includes expanding channels for information exchange, research, analysis, and collaboration on critical events, as well as joint monitoring and communications to operationalize action plans.

This page is intentionally left blank

INDONESIAN EXPERIENCE IN MANAGING ESG INSTRUMENTS

Dr Lucky Alfirman
Director General, Ministry of Finance, Indonesia

Key Points

The Government of Indonesia is deeply committed to actively contributing to global initiatives on Environmental, Social, and Governance (ESG). Several instruments have been developed to facilitate the implementation of these programs. Education and the establishment of proper incentives are two crucial components ensuring the success of the ESG instruments.

The Commitment to the Global Initiatives

In accordance with the Paris Agreement and the Nationally Determined Contribution (NDC) 2030, Indonesia is obligated to implement Environmental, Social, and Governance (ESG) measures, allocating 29% of its current financial capacity and relying on 41% international support, as outlined in the initial NDC (2016) and updated in the NDC (2021). The mitigation actions for emission reduction targets, measured in million tons of CO2 equivalent (M Ton CO2e), are as follows: 29% reduction for Indonesia overall (from 41%), 497 for forestry (down from 692), 314 for energy and transportation (compared to 446), 11 for waste (versus 40), 9 for agriculture (down from 4), and 3 for Industrial Processes and Product Use (IPPU) (compared to 3.25).

To execute the Paris Agreement, Indonesia employs various carbon pricing strategies. These encompass carbon trading, a carbon tax (with a minimum tariff of Rp 30/kg CO2e), climate change financing, technology development and transfer related to climate change mitigation, and incentives to support capacity building.

Achieving climate resilience is contingent on supporting ecosystems in key areas. Firstly, in terms of Economic Resilience, a robust economic condition allows for greater resource allocation to environmental preservation programs. This involves implementing environmentally sensitive regulations that facilitate appropriate taxation programs and providing incentives for environmental preservation initiatives. Secondly, in the realm of Social and Environmental Resilience, beyond economic considerations, the government plays a crucial role in educating the populace about the significance of preserving the environment. A well-informed population increases the likelihood of a country maintaining the quality of its environment.

Disincentive through Carbon Pricing

In pursuit of climate resilience and a net-zero emission target by 2060 or earlier, Indonesia has implemented several programs, including:

1. Carbon pricing

   The primary objectives of this initiative are to reduce national Greenhouse Gas Emissions. Indonesia has instituted regulations on carbon pricing through both Trading mechanisms (Emission Trading System and Emission Offset) and Non-Trade Instruments (Carbon Tax Result-Based Payment). Additionally, the country has developed the necessary infrastructure for carbon trading.

2. Carbon tax

   As part of broader tax reform, Indonesia has introduced a carbon tax targeting items containing carbon and activities emitting carbon. The tariff for this tax is set at Rp30/kg CO_2e.

3. Energy transition mechanism

   This initiative is designed to boost the utilization of New Renewable Energy (NRE). The target for 2060 is to have 100% NRE domination, particularly in solar power and hydroelectric power plants.

4. Financing support

   The government actively promotes Creative Finance for achieving Net-Zero Emission (NZE) in Infrastructure Development through initiatives such as Public-Private Partnerships, SDG Indonesia One, and Blended Finance. Additionally, financial support is extended through Government Guarantees, the Geothermal Facility, and Subsidiary Loan Agreements.

The Programs

Traditionally, government programs and projects are funded from a single source, namely the government budget, sourced from taxes, loans, or grants. The blended finance scheme is implemented to find an optimal financing arrangement that combines various funding sources in a single project. This includes contributions from the Government Budget (both Central and Local), the Private Sector, Donors (Development Agencies), and Philanthropists. Project and financing structuring play a pivotal role in Blended Finance, which consists of three schemes:

1. Public-private partnership

   This scheme involves a collaboration between public funding and private financing for infrastructure projects.

2. SDG Indonesia One

   SDG Indonesia One is a blended finance platform managed by PT. Sarana Multi Infrastructure (SMI) with the purpose of financing Sustainable Development Goals (SDGs) from diverse sources. These sources include philanthropists, international donors, climate finance institutions, green investors, commercial banks, Multilateral Development Banks (MDBs), and others.

3. Green bonds

   Green Bonds, or Green Sukuk (Bond under Islamic Principles), represent an innovative financing instrument aimed at supporting an expansionary fiscal policy and facilitating green infrastructure development in Indonesia.

The Indonesian Government has made a special arrangement for Green Bond and Sukuk Framework. The instruments can facilitate the financing and refinancing of selected eligible projects. The four pillars are the following:

Pillar I : Use of Proceeds

Pillar II : Project Evaluation and Selection, including a Budget Tagging Mechanism for selecting green projects.

Pillar III : Management of Proceeds, ensuring that 100% of the proceeds from the issuance will be dedicated to financing green projects

Pillar IV : Reporting, involving the measurement of greenhouse gas emission reductions covered in the Green Sukuk report.

Innovative Islamic social finance is an integral part of the Sustainable Development Goals (SDG) program in Indonesia, progressively evolving. With a population of 263 million people, including 87% or 230 million Muslims and a growing middle class of 53 million, Indonesia has substantial potential to further develop the Islamic social finance industry. The country's engagement with religious organizations is crucial for promoting peace, development, and tolerance. Mandatory instruments like Zakat, widely practiced in Indonesia, involve redistributing proceeds to the needy, while Waqf offers a more flexible and voluntary-based form of charity suitable for long-term, income-generating purposes.

Indonesia marked its global presence with the debut of the Global Sovereign Green Sukuk issuance in 2018, making it the first green Sukuk issuing country globally. Subsequent issuances followed consistently each year:

Year	Date	Yield	Tenor	Amount (USD)	Investor Spread
2018	March 1	3.75% p.a	5 years	$1.25 billion	Green 29%, Non-Green 71%
2019	June 20	3.90% p.a	5.5 years	$750 million	Green 29%, Non-Green 71%
2020	June 23	2.30% p.a	5 years	$750 million	Green 34%, Non-Green 66%
2021	June 9	3.55% p.a	30 years	$750 million	Green 57%, Non-Green 43%

Notable points regarding the global Sukuk issuance include the issuance of a 30-year Green Sukuk, the longest tenor globally, with 57% Green Investors (an increase from 34% in 2020 and 29% in 2018 & 2019). The 30-year yield is the lowest ever, spread over U.S. Treasuries, and profit rate. Since its inception in 2018, the issuance of Green Sukuk has received 14 international awards, including: IFR Asia, Islamic Finance News, Finance Asia, Euromoney, The Asset Triple-A, and the Climate Bond Initiative, Cambridge IFA, acknowledging its excellence in various categories.

To develop the domestic market, the government introduced Retail Green Sukuk in 2019 with the issuance of the Savings Sukuk series. These retail green Sukuk issuances are the first of their kind globally. Over the previous three issuances, Millennials had the highest participation rate at 48%, followed by Generation X at 28%, Baby Boomers at 2%, and Generation Z at 1%. The Green Sukuk are sold through an online platform (e-SBN) continuously from 2019 to 2021.

Sukuk Series	Year	Coupon Rate	Term	Total Issued (Rp)	Total Investors	New Investors
ST006	2019	6.75% p.a (floating with floor)	2 years	Rp 1.46 trillion	7,735	2,908
ST007	2020	5.5% p.a (floating with floor)	2 years	Rp 5.42 trillion	16,992	4,276
ST008	2021	4.8% p.a (floating with floor)	2 years	Rp 5 trillion	14,337	2,776

The impact of green Sukuk is subject to annual audits, which provide detailed reports on the measurement of greenhouse gas emission reduction. The inaugural impact report, released in February 2019, underwent scrutiny by KPMG. Subsequently, the second report, disclosed in March 2020, was audited by PWC, while the third report, unveiled in May 2021, underwent examination by EY.

In 2018, the utilization of green projects spanned across five eligible sectors. These sectors comprised 8% for renewable energy, 8% for energy efficiency, 55% for sustainable transport, 7% for waste and water-to-energy management, and 22% for resilience to climate change. The highlight of the impact report for green Sukuk in 2018 includes a total of 23 green projects. Notable achievements encompass a 727 km double-track train in North Jawa, 121 units of solar, mini-hydro, and micro-hydro power plants, 3.4 million families benefiting from the waste treatment system, and a reduction of 5.7 million tons of CO2e.

Additionally, another instrument of Islamic Innovative finance, the Cash Waqf Linked Sukuk (CWLS), plays a crucial role in fostering economic development and achieving social outcomes. This initiative is a result of the collaborative commitment between the Ministry of Finance, Ministry of Religious Affairs, Bank Indonesia, and the Indonesia Waqf Board (BWI). Their joint effort aims to facilitate the collaborative management and further development of cash waqf through Sukuk Negara.

In 2020 and 2021, the government successfully introduced Retail Waqf Sukuk, accessible both online and offline. The coupons, strategically distributed for various social causes, played a pivotal role in supporting communities. The third series of CWLS issuances include:

- CWLS series SW001 Rp 50,85 billion
- CWLS ritel series SWR001 Rp 14,91 billion
- CWLS ritel series SWR002 Rp 24,14 billion

The featured project of CWLS are as follows:

Program Area	Description
Medical Support	Providing medical devices and free health services for the poor, including actions targeting free health services, distribution of hearing aids, procurement of medical devices, and aid for hospital construction.
SME Financial Support	Implementing programs to support Small and Medium Enterprises (SMEs), including training programs and financial aid.
Education Aid	Initiating programs to aid education, such as incentives for Islamic boarding schoolteachers, distribution of scholarships and basic necessities for students, and self-development and leadership coaching.
Agricultural Program Assistance	Implementing assistance programs in agriculture, involving the distribution of captive rice seeds (10 Ha), livestock animal assistance, and distribution of cattle breeders.
Waqf for Salman Rasidi Mosque	Contributing to the support and development of the Salman Rasidi Mosque through the Waqf.

The Republic of Indonesia's commitment to the Sustainable Development Goals (SDGs) is evident in its Government Securities Framework. The framework, crucial for the issuance of green and SDGs securities, was initiated in January 2018 with the publication of a Green Bond and Green Sukuk Framework, receiving a second-party opinion from CICERO.

Between 2018 and 2021, the government successfully issued four Global Green Sukuk and three Domestic Retail Green Sukuk based on the ROI Green Bond and Green Sukuk Framework. In August 2021, the SDGs Framework evolved to include the issuance of Green and Blue Bonds and Sukuk, as well as Social and Sustainability Bonds and Sukuk. The first issuance under this framework occurred in September 2021 with ROI SDG Bonds amounting to €500 million.

The SDGs government securities framework encompasses:

Use of Proceeds	:	Allocated to new or existing eligible SDGs expenditures with a green and/or social focus.
Process for Project Evaluation and Selection	:	Involves a budget tagging process to select eligible SDGs expenditures for Green and SDGs Securities.
Management of Proceeds	:	Managed within the government's general account, with an allocation register established.
Reporting	:	Includes annual allocation reporting and impact reporting.

All Green and SDG Securities issued under the ROI SDGs Government Securities Framework align with international standards and principles, including The Green Bond Principles, The Sustainability Bond Guidelines, The Social Bond Principles, and ACMF.

The debut of ROI's SDG bonds in September 2021, settled with a tranche EUR long 12-year at €500 million, marked a significant milestone. The funds raised are invested in projects qualifying as Eligible SDGs Expenditures, listed on the Singapore and Frankfurt Stock Exchanges. Verified globally by CICERO and IISD, ROI's first SDG Bond Framework achieved zero new issue concessions and the tightest-ever spread for a EUR 12/long-12 Year issuance. Recognized for its excellence, the issuance received awards such as Best Bond - Sustainable Finance from the Asset Triple a Country Awards 2021 and Best Bond and Best SSA Bond from Global Capital Asia.

Challenges and Lesson Learnt

Having such as a comprehensive program relating to the environmental preservation, there are challenges and lessons to be learned:

i. There is a need to educate strategic partners in developing thematic bonds/ sukuk and preparing their frameworks. These include preparatory frameworks, frameworks for second-party opinion reviews, impact reports, and report assurances (audits) from external auditors.

ii. Having the right, knowledgeable, and reputable partners is crucial to support framework development, issuances, including investor meetings, and impact reporting.

iii. Strong commitment and coordination are needed from all stakeholders, especially line ministries.

iv. To encourage more parties to issue green/SDG instruments, incentives, particularly pricing benefits (greenium), are required.

v. There is still much work to be done to combine Islamic finance and social finance for the efficiency and convenience of transactions, including providing incentives to encourage involvement.

This page is intentionally left blank

NEW PARADIGM ON SHARIA ECONOMICS & FINANCE ON THE ISSUES OF SUSTAINABLE, GREEN, & ESG

Professor Dato Dr Azmi Omar
INCIEF

Key Points

Islamic Economics and Finance must transition from merely providing alternative Shariah-compliant financial solutions to financial solutions based on fulfilling the objectives of Shariah. The Objectives of Shariah serve as the new paradigm of IEF, incorporating five components: preservation of religion, preservation of intellect, preservation of property/wealth, preservation of life, and preservation of progeny/lineage. Five principles form the basis of sustainability in Islam: (1) moderation, (2) balance, (3) trustees and vicegerents, (4) building the earth or building a human civilization on earth, (5) and avoidance of extravagant and wasteful spending. Islamic commercial and social finance have the potential to fill some of the funding/investment gaps for sustainability programs.

The Urgency of the Environmentally Sensitive Program

Over the past decade, the Earth and everything in it have been in a state of emergency, facing damage that threatens the balance of nature and global ecosystems. The global human population is confronted with very serious challenges that must be addressed together as a community living under the same beautiful sky. According to the Globescan-Sustainability Leaders Survey 2021, climate change has emerged as the foremost challenge, ranking first in sustainable development challenges, with approximately 93% of people stating that it is very urgent. Following closely is biodiversity loss, with 90% of people in agreement. In the third rank, water scarcity has become an urgent problem for sustainable development. Additionally, poverty, at 84%, water pollution at 81%, and access to medicines/healthcare at 81%, have all been recognized as pressing issues. Moreover, the Earth's temperature has been rising over the years, influenced by economic activities (**see Appendix 2.3.1**).

Since 1990, global greenhouse gas emissions have been in the range of 35-37 GtCO2e/year (**see Appendix 2.3.2**). However, over the next decade, by the year 2000, this number increased to 40 GtCO2e/year. The situation worsened in 2010 when emissions reached 48-49 GtCO2e/year. In the most recent data from 2020, global greenhouse gas emissions have once again increased, reaching 52-55 GtCO2e/year.

Furthermore, achieving the targets set for 2030 to decrease global greenhouse gas emissions has proven challenging. There exists an ambition gap between the optimistic scenario and the pledges, amounting to around 19-23 GtCO2e. Consequently, a new scheme to reduce global greenhouse gas emissions is necessary to effectively address climate change.

From 2007 to 2018, the annual spending on climate finance was US$579 billion which consist of government spending US$37 billion, development finance institutions US$216 billion, commercial financial institutions US$88 billion, corporate actions US$183 billion, and household US$65 billion. But the funding for green investment needs US$122 trillion consisting of US$94 trillion in electrification and renewables, US$ 12.1 trillion in efficiency and circularity, and USS$15 trillion in alternative technologies (see **Appendix 2.3.3**).

The imperative of sustainability has risen to prominence as humanity copes with the ongoing environmental degradation, a consequence of our actions, and considering that Earth is the only habitat available to us. Unfortunately, the common business focus often concentrates on short-term gains and profit maximization for shareholders, neglecting the potential harm inflicted on our planet.

Within the framework of a circular economy, the principles of refuse, reform, reduce, reuse, and recycle form the pillars of responsible resource management. First, “refuse” requires a conscious decision to refrain from extracting raw materials for exploitative purposes, recognizing the potential for resource scarcity. Second, “reform” advocates for the design of new renewable systems, fostering sustainability and resiliency in development. Third, the principle of “reduce” calls for minimizing unnecessary production and transforming processes to enhance functionality.

Fourthly, “reuse” encourages the lengthening of the lifespan of transportation and distribution tools, encouraging a shift towards repairing consumption patterns. Finally, “recycle” emphasizes the systematic collection and end-of-life treatment of materials, aiming to minimize waste at every stage of the circular economy, from production and consumption to distribution. This holistic approach strives for a destination where waste is minimized across the entire lifecycle, aligning with the overarching goal of preserving the Earth's ecosystem.

There are three pillars of sustainable finance as follow:

- **Economic prosperity,** beyond profit and returns to all stakeholders.
- **People stewardship**, social variables dealing with community, education, equity, social resources, health, well-being, and quality of life.
- **Environmental stewardship,** environmental variables relating to natural resources, water, sanitation, and air quality, energy conservation, and land use.

Certainly! Here is the corrected version:

Furthermore, the pillar of Environmental, Social, and Governance (ESG) criteria consists of three key elements. First, Environmental, Social, and Governance (ESG) criteria are a set of standards for a company's operations that socially conscious investors use to screen potential investments. Second, Environmental criteria consider how the company performs as a steward of nature. Third, Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates. Fourth, Governance deals with a company's leadership, executive pay, bribery and corruption, audits, internal controls, and shareholder rights. The spectrum ranges from environmental, social, and governance (ESG) investment to philanthropy:

- General investments: conventional equity and bond instruments
- Responsible /sustainable investing: portfolio screening, listed ESG equity and debt funds, sustainable thematic funds
- Impact investing "return first": thematic impact funds and notes, green bonds, and loans
- Impact investing "impact first": social impact bonds and outcomes-driven loans
- Venture philanthropy: seed capital donations
- Philanthropic donations: charitable donations

2. The Islamic Principles Supporting the Sustainability

Islam places a high concern on sustainability issues. Destructive behavior is strictly prohibited by the religion, and humans are consistently urged to support the preservation of our nature and maintain harmony on Earth. There are five pillars in Islam that are relevant to the sustainability issue, which include the following:

1. Wasatiyyah (moderation)

   Muslim community as the community of the middle path (*ummatan wasatan*) - to apply moderation, as a guide and conduct of earthy life as mentioned in al Qur'an, *"We have made you [believers] into a just (median) community, so that you may bear witness [to the truth] before others and so that the Messenger may bear witness [to it] before you" (al-Baqarah, 2:143).*

2. Al-Mizan (balance)

   Creation of this earth and the terrestrial universe, all of which have been created in a state of grand natural equilibrium. As mentioned in the Qur'an, *"As for the earth, We have spread it out, set firm mountains on it, and made everything grow there in due balance". (al-Hijr, 15:19).* And *He has raised up the sky. He has set the balance so that you may not exceed in the balance (al-Rahman, 55:7-8).*

3. Khalifah (trustees and vicegerents)

   To act as bearers of a mission and responsibility to establish a just socio-economic order on earth as mentioned in al Qur'an *"When your Lord told the angels, 'I am putting a successor on earth…….' (al-Baqarah, 2:30)*

4. I'mar al-Ard (buiding the earth) or Umran (building a humance civilisation on earth)

   Justice and being good to others (*al-'adl wa'l- ihsan*), which are essential to a humane civilisation, envisage not only the general wellbeing of the present but also of the future generation.

5. Avoidance of Israf (extravagance spending) and Al-Tabdzir (wasteful spending)

   Israf - extravagance spending of what is otherwise permissible as mentioned in the Qur'an *"Children of Adam, dress well whenever you are at worship, and eat and drink [as We have permitted] but do not be extravagant: God does not like extravagant people" (al-A'raf, 7:31)*. Tabzir – spending which is unlawful in the first place as mentioned in al Qur'an *"Those who squander are the brothers of Satan, and Satan is most ungrateful to his Lord (al-Isra', 17-27).*

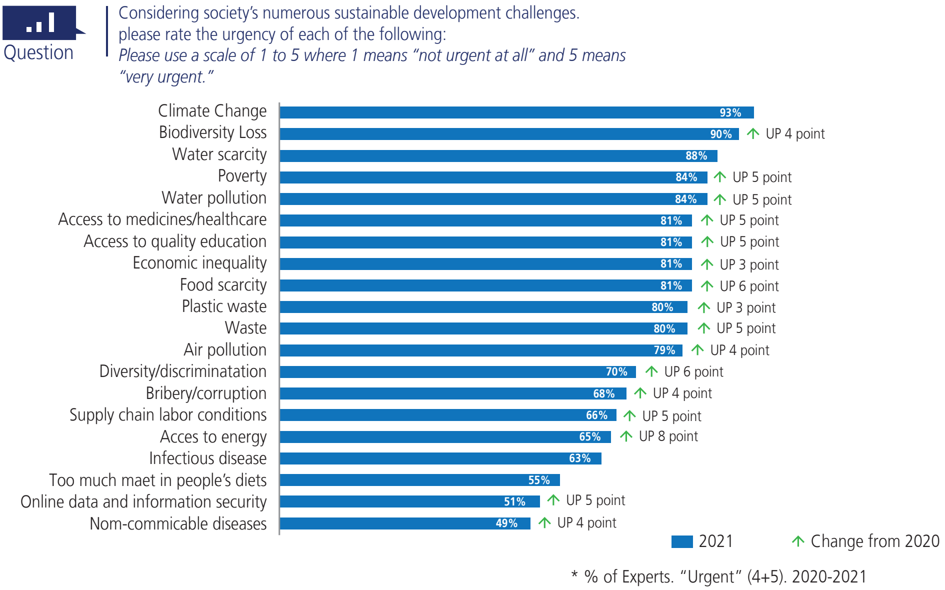
At the heart of the sustainable development challenges lies a significant focus for Islamic economics and finance: the restoration of a moral purpose to these realms. The primary objective of Islamic economics is clear – to promote socio-economic well-being. In essence, the core question that arises is: how can we best enhance the well-being of both humans and the natural world? This question can be reframed to delve deeper into how Shariah principles prioritize scarce economic resources in the pursuit of socio-economic well-being for both humanity and the environment.

A critical question follows: Can Islamic economics and finance effectively address the challenges posed by sustainable development? The answer lies in the inherent integration of Islamic ethical principles into the DNA of Islamic Economics and Finance. This financial system is intricately connected to the real economy, and its essence lies in fulfilling the objectives of Shariah, known as Maqasid Shariah. It calls for a shift beyond mere Shariah compliance to actively fulfilling these objectives. Furthermore, there is a call to combine a focus on Halalan and Toyyiban, emphasizing not only compliance but also the pursuit of what is good, pure, and wholesome. In doing so, Islamic economics and finance can play a crucial role in addressing the multifaceted challenges of sustainable development.

Maqasid Al Shariah means the aims and objectives of Shariah. Maqasid Al Shari'ah comprises those benefits/welfare/advantages for which Allah has revealed in His Shari'ah. Maqasid al Shari'ah aims at the attainment of good, welfare, advantage, benefits, etc., and warding off or prohibition of evil, injury, loss, etc., for the creatures. The five components of Maqasid Al Shariah

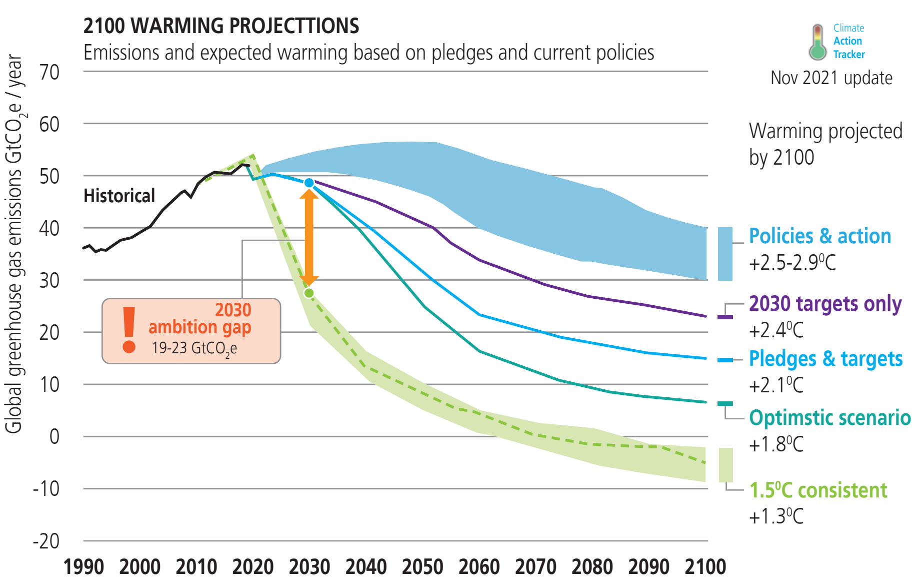
- *Hifdh al-din* (Preservation of religion)
- *Hifdh al-nafs* (Preservation of life)
- *Hifdh al-'aql* (Preservation of intellect)
- *Hifdh al-nasl* (Preservation of progeny/lineage)
- *Hifdh al-mal* (Preservation of property/wealth

APPENDIX 2.3



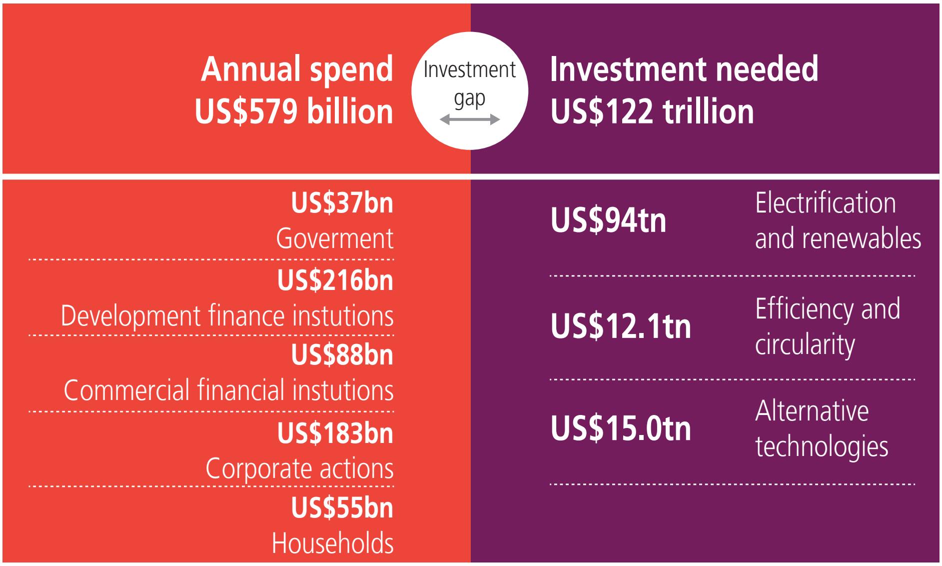
Source: Globescan- Sustainability Leaders Survey 2021

Appendix 2.3.1 Growing Urgency of Sustainable Development Challenges



Appendix 2.3.2 2100 Warming Projections

Annual climate finance spend (2007-18) vs. Green investment needed to meet climate goals



Source: Citi GPS, https://www.citivelocity,com/citigps/financing-a-greener-planet

Appendix 2.3.3 Annual Climate Finance Spend Vs Green Investment Neede

This page is intentionally left blank

SESSION 3

Sharia Economics & Financial Policy, Strategy, & Collaboration for Economic Recovery in Alleviating the Scarring Effect of Covid-19 Pandemic

Speaker 1 Dr Zamir Iqbal
Vice President in Finance, Islamic Development Bank
Accelerating Economic Recovery with Green Resilient Sustained Infrastructure Projects

Speaker 2 Dr Rifki Ismal
Assistant Secretary General - Islamic Financial Services Board (IFSB)
COVID-19 and Economic Recovery: Impact, Strategies and Global Outlook of IFSI

Speaker 3 Assoc. Prof. Mohamed Eskandar Shah Mohd. Rasid
Hammad bin Khalifah University (Qatar Foundation)
Strategy and Collaboration for Economic Recovery

This page is intentionally left blank

ACCELERATING ECONOMIC RECOVERY WITH GREEN RESILIENT SUSTAINED INFRASTRUCTURE PROJECTS

Dr Zamir Iqbal
Vice President in Finance, Islamic Development Bank

Key Points

Economic sustainability has been the key issue in the recovery program in the midst of Covid pandemic. The government is left with no option but to revive fundamental economic pillars such as agriculture and the health industry. This requires sufficient investment activities which has multidimensional targets. Islamic finance, combined with technology may become one of formidable vehicles for faster recovery.

Introduction

Looking at the current situation, the COVID-19 pandemic, its aftermath, and the jeopardized geoparticles situation have significantly impacted all sectors of the economy, including the financial sector. The ongoing pandemic recovery has created an atmosphere of extreme volatility, leading to sustainable growth but also causing an increase in inflation, death rates, and income inequality. Geoparticles issues, such as energy prices and supply disruptions, have deeply affected commerce performance and the prospects of emerging markets and developing economies. The global GDP is predicted to slow sharply from 5.5% in 2021 to 4.1% in 2022 and 3.2% in 2023. The rapidly emerging geoparticles development poses challenges beyond the global economic outlook, with supply disruptions, inflation, high death levels, and persistent uncertainty.

This condition is likely to continue and generate a balance of human crises, threatening macroeconomic stability in many emerging markets and developing economies. Moreover, faster-than-expected monetary tightening to control inflation, combined with a financial backdrop of high risk and uncertainty, will compound the issue of sustainable development financing. The death toll in developing countries has continued to worsen, with governments in 38 out of 70 low-income countries already in death distress or at high risk, as of January 2022. Only 7 low-income countries are classified by the IMF as having low risk and death distress.

IDB's member countries have also been severely exposed to the pandemic, with over 55 million people in these countries facing extreme poverty. About three-quarters of ISDB member countries depend on commodity exports, and more than one-third are in fragile and conflict-affected situations. To tackle these challenges and others, it is imperative to look beyond the mid-recovery phase and ensure that resilience is built for long-term sustainable growth in IDB's member countries. Policymakers have identified three main challenges: death sustainability, the increase in poverty levels, and IDB's role in achieving sustainable development goals.

In the context of death sustainability or global debt, the Institute of International Finance and the IMF suggest that, as of 2019, global debt has accumulated to 200 trillion, three times the global GDP. COVID-19 has amplified this number by 3.5 times in 2021. Many causes of debt are related to combating the effects of COVID-19 while stimulating economic recovery. Any solution to combat the crisis should be devised to not worsen the burden of debt on individuals, businesses, societies, communities, and countries. The fiscal space for most development in countries has already shrunk, with no capacity for further serious threats to debt sustainability.

Addressing the second challenge, which is the increase in poverty, is crucial. More than 250 million people have fallen into extreme poverty since COVID-19, eroding the progress made toward the Millennium Development Goals. The third challenge concerns how to get back on the track to the recovery path, sustainable development, and achieving SDGs after the setback of COVID-19. COVID poses threats and opportunities, particularly for industries like Islamic finance, despite challenges like sustainability and poverty alleviation. Islamic finance, which highlights the prohibition of risk transfer, the creation of debt, and leverage, can create much more value than its valuation.

Questions arise about why progress from the Millennium Development Goals is being eroded due to COVID-19 and how Muslim countries, despite having adequate wealth, can address poverty. The last challenge involves returning to the track of the recovery path, achieving sustainable development, and fulfilling the Sustainable Development Goals (SDGs) after the setback caused by COVID-19. Despite challenges like sustainability and poverty alleviation, COVID presents both threats and opportunities, particularly for industries like Islamic finance.

Islamic finance, which emphasizes the prohibition of risk transfer, the creation of debt and leverage, and rules governing the regrowth of finance, is interpreted from economic to specific financial activities. This interpretation creates much more value than its valuation. Another issue with Islamic finance is the provision of safety nets in Islamic social finance, involving the collocation of risk-sharing at the societal level, providing support during economic downturns.

From this perspective, in terms of supporting Islamic health and education initiatives, Islamic economics and finance play a critical role, being more timely than before. They provide an alternative to debt financing, meaning that when a country lacks the capacity to borrow or undertake a development project, Islamic finance can bring forth infrastructure projects under the risk-sharing principle. This allows the government and private sectors to further their developmental roles instead of assuming that the public sector alone will take care of development. The private and philanthropic sectors also play their roles in adhering to Islamic finance principles, which can be potent in practice.

The Challenges

Here is the revised text with corrected grammar and improved coherence:

Critical challenges facing Islamic countries include the difficulty of achieving a resilient, sustainable, and green recovery. In this context, ensuring the success of infrastructure projects is crucial, especially in sectors highly vulnerable during the COVID-19 pandemic, such as health and education. Additionally, attention must be given to gender-based sectors, particularly females and youth, who have been most affected. It is essential to build resilience in these segments of society to withstand future shocks.

Looking towards the long term, initiating public infrastructure projects for the government based on the risk-sharing principle is vital. These projects should not only be resilient but also environmentally friendly to address climate challenges. Constructing new hospitals, schools, and other necessary infrastructure creates jobs and stimulates the economy. Mobilizing funds through sukuk, with intermediaries monitoring the progress of these long-term investments, can positively contribute to economic development. Social sukuk and wakaf (endowment) serve as potential instruments to combat the economic consequences of COVID-19, providing opportunities to invest in economic development.

Another potential sector for investment is agriculture. Families in need, eligible for such projects, can engage with local governments to utilize government land, small-scale farms, or unused land in towns or villages. Participants can secure funding from Islamic financial institutions or zakat authorities, providing cash for those affected by COVID-19. The Islamic Development Bank (IDB) is strategically focusing on boosting economic recovery from losses inflicted by COVID-19 while laying the foundation to tackle poverty and build greater and more sustained prosperity, including economic growth.

To achieve this strategy, IDB will finance development projects of member countries in two strategic pillars. The first countermeasure emphasizes projects that develop green, resilient, and sustainable infrastructure, including clean and renewable energy, agriculture and rural development, and social infrastructure. Additionally, supporting inclusive human development, such as resilient and high-quality health and education, food security, disaster management, and community development for job creation, is considered vital. IDB will measure cross-cutting priorities, namely Islamic financial ecosystem development, climate change mitigation and adaptation, and empowerment of women and youth.

According to one study, the global economy needs to invest around 90 trillion in infrastructure for the next fifteen years, corresponding to yearly investments of 5-6 trillion on cities, transportation networks, energy systems, water sanitation, and telecommunication.

Innovative Programs in Islamic Economic and Finance

This level necessitates more than doubling current infrastructure spending, which is 2 to 3 billion per year. Utilizing Islamic finance to fund infrastructure projects is portrayed as the core of the Islamic finance structure, which is an asset-backed nature along with the degree of risk-sharing toward the same objective of asset-backed redistribution. Public-private partnerships are excellent investments for Islamic financing due to their asset links, focusing on the characteristics of such financing that have significant liquidity and growth potential. This makes for good peer-to-peer financing that can afford long-term development with positive social economic outcomes.

In 2019, IDB witnessed the establishment of a sustainable finance framework aligned with the issuance of green and sustainable sukuk in the capital market, financing eligible projects in member countries. Under this framework, IDB issued green and sustainable sukuk to mobilize more than 5 billion US dollars for climate change and social development projects, especially in the health sector. This reflects a deep commitment to implementing the 2022 agenda of sustainable development and nurturing stronger partnerships to achieve this goal. IDB is committed to using social financing to reduce pandemic consequences and overcome financial constraints, funding gaps, and financing inequalities, believing that Islamic social financing can stimulate economic equity, promote social welfare, financial inclusion, and shared prosperity by utilizing traditional instruments such as zakat, sukuk, wakaf, and microfinance instruments.

Talking about technology, especially fintech, there are both opportunities and challenges. In terms of opportunities, new technologies such as blockchain, smart contracts, artificial intelligences and other tools are to be considered valuable for Islamic finance by looking at the courses of Islamic finance which concerns on discouraging and eliminating debt or addressing transfer and replacing with some risk sharing or asset-based financing. One of the key reasons why investors prefer debt over risk transfer or risk sharing because information is metric which exist in risk sharing or any contracts. Once technology such as blockchain and smart contract are owned, these will eliminate information metrics and push the contract to be more optimal from the economic point of view means that reducing information metric in Islamic financial products should be preferred by western. These fintech have potential of providing and encouraging development of new risk sharing product or new Islamic finance product which can be used to mobilize more financing toward critical projects.

During the 2008 financial crisis, there was talk about risk-sharing finance, Islamic finance, and its prominence on a global level, yet it was not able to provide a coordinated risk-sharing product, missing an opportunity. In the fintech area, particularly decentralized finance, democratized finance, new products, new textual insurances, new textual assets, and infrastructure services for agriculture trade provide opportunities that should not be missed. The potential threats are robots and automation, which could impact employment, especially labor-intensive jobs in developing countries. Ensuring that the negative sides of technology are considered is crucial, along with recognizing that not everyone has the scale and capability to access fintech services. It's essential to use these technologies in member countries to decrease financial exclusion, promote Islamic inclusion, and foster economic development. Not only technology but also accessibility is important.

Social finance instruments undeniably play a significant role in building the economy. However, it's crucial to consider the entire supply chain and focus on the potential of social finance. Despite notable development, there is still a gap in IDB's member countries, making it imperative to actively work on social finance. It's not just an option; it's a necessity. Setting higher expectations for its effectiveness in solving problems is essential.

Islamic social finance is one tool among many that should be strengthened to bridge the fund gap, especially in areas experiencing extreme poverty or increasing levels of poverty every day. Exploring alternative finance instruments and involving the private sector as part of social responsibility goals is important. Academics need to conduct a reality check to understand the potential gap when social finance plays its roles. Governments should implement policies to maximize significant financial components like wakaf and zakat, particularly as the latter mostly operates in the informal sector. Therefore, it's unrealistic to expect a zakat pocket as an additional development fund. Analyzing the capabilities of social finance and its limitations in addressing remaining gaps is crucial. This involves providing safety nets for the poor, saving them from extreme poverty, and continuing forms of equitable income redistribution.

COVID-19 AND ECONOMIC RECOVERY: IMPACT, STRATEGIES AND GLOBAL OUTLOOK OF IFSI

Dr Rifki Ismal
Assistant Secretary General - Islamic Financial Services Board (IFSB)

Key Points

The Islamic financial industry has faced significant pressure due to the Covid pandemic. The pandemic has taught how to transform Islamic finance. Moving the industry forward with the lessons learned from the pandemic, Islamic finance needs to transform itself into a more adaptive, responsive, and even progressive sector.

Introduction

COVID-19 pandemic, as depicted in figure 1, has contributed number of economic impacts related to various fields, while highlighting the significant emergence of digitalization for economy (see **Exhibit 3.2.1 – 3.2.3**). The COVID-19 pandemic has caused a global recession with adverse impact on unemployment and poverty. The financial sector plays a critical role in mitigating this macroeconomic shock. Countermeasure are designed and implemented, starting from health and social economics area with engaging initiatives, for instance health emergency, curative socio-economic programs and Islamic social funds, to make sure nation survivability toward health and humanity crisis in which strict health protocols is applied globally and nationally as it is fully realized that COVID-19 contributes to the dropping volume of world trade and GDP and lowering the price of commodity.

IFSB conducted a survey on the effectiveness of Post Pandemic Policy measures to its RSAs members representing more than 20 countries in Asia, Africa and Middle east regions having Islamic finance industry. Although the COVID-19 pandemic has had an adverse effect on the global economy and the financial sector, IFSB survey results show that the situation has been under control with the decreasing cases and obligatory/ voluntary vaccination to all people as stated by 82% of the respondents. Only a minority of 8% of the respondents declared that the cases are managed but still very high. Main results of the survey are Islamic finance sectors (banking, capital market and takaful) remain resilient and demonstrated positive growth in majority of jurisdictions as stated by respondents, despite of uneven pace of growth rate across countries. Furthermore, mainly due to different level of market development, infrastructure and policy measures are taken by respective RSAs.

Islamic banking sector grew positively and progressively in the post pandemic even compared with the prior year as stated by 39.13% of the RSAs in the sample (i.e Sudan, Nigeria, Pakistan, Saudi Arabia, Malaysia, Jordan, Bahrain Morocco and Kuwait), whereas it grew a bit slower some jurisdictions i.e Turkey, Palestine, Indonesia and Kazakhstan. The ICM and the Takaful sectors also grew positively and progressively than last year as expressed by 21.74% (i.e Turkey, Pakistan, Bahrain and Indonesia) and 17.39% (i.e Turkey, Malaysia and Bahrain) of the respondents, respectively. Moreover, 8.70% of the respondents indicated that the Takaful sector grew slowly than last year (i.e Pakistan and Indonesia), whereas it is still in decreasing trend with a positive forward looking as expressed by the remaining 8.70% of the respondents (i.e Jordan and Kazakhstan)

The survey with regard to resilience of Islamic finance during the pandemic identifies some essential findings. The Islamic finance sector performance prior and during the pandemic is relatively manageable and under control, despite the lower economic performance, domestic demand and supply and less active investment activities. The applied policy measures have so far proven to be adequate to combat the negative effects of the COVID-19 pandemic on the economy and the financial sector, including Islamic finance. The majority of RSAs are quite confident that towards the end of the pandemic, Islamic finance will rebound and regain its growth momentum with more resilient, agile and adaptive Islamic banking, Islamic capital market and takaful sectors. RSAs indicated that despite the impact of the pandemic on the insurance and takaful sector, business operations have remained conducive for both takaful and *retakaful*. In general, the RSAs being surveyed also claim that the general impacts of the pandemic on the takaful sector is relatively manageable and less significant due to its small share in the insurance sector as a whole and building up strong capital buffers over the years.

The series issues emerged due to covid-19 are Islamic finance assets are still concentrated in the GCC region (48.9%), Middle East and South Asia region (24.9%), ‘South-East Asia region (20.3%), Africa region (1.7%), and “Others” (4.3%). Islamic banking is considered as systemically important in 15 IFSB jurisdictions. 92.4% of

Islamic banking assets are concentrated in jurisdictions where Islamic banking is of systemic importance. 82.7% of sukuk outstanding in 2020 banking is of systemic importance.

In the light of policy responses by RSAs across jurisdictions, plenty of RSAs, for example Nigeria, Qatar, Bahrain, Bangladesh, including Indonesia and many, employ policy measures as lowering CB rate (monetary ease policy) to provide liquidity to banks in the case of lack of liquidity in banks, reducing rate of reserve requirements & CB rate to ease banks' liquidity, postponement of loan repayment (including adjustment loan to value ratio) and moratorium to debtors for certain months. Three policy measures taken by Iraq and small number of RSAs are deferment of CB loan payment to reduce the banks' loan burden, rediscount the state securities to provide liquidity for budget deficit and relaxing & adjustment of macroprudential indicators (NSFR, CCB, etc), and enhancement of electronic payment system (digital transactions). Of all RSAs, Malaysia, separately, has more alternative measure to be applied, like relief measures for insurance policy holders, suspending short selling and limiting some transactions, and waiving annual license fee for listed companies.

The challenges occur in investors side amidst the pandemic are lack of awareness, lack of ability to invest in the moving controlled conditions and some investors still intend to invest in stock rather than OTC (for Sukuk). In general, the investors are keen to invest in lower risk investments (a safe haven) during times of markets instability. From the perspective of company, pandemic decrease company performance information due to the extension of company disclosures. Companies tending to increase its leverage levels leads to an increase in the funds' costs and decrease the profits as well as dividends paid to the unitholders. Valuation of companies and their underlying products have tended to deteriorate, thereby weakening overall market sentiments. Other obstacles are on how Covid-19 impact the economic and financial activities, change the cost structure of the ICM products and investment fund's underlying asset.

Specific exit policy measures which are applicable post pandemics are the adoption of pension funds, wages subsidises and utilisation of digital finance. The first measure has 43.48% of the respondents used pension funds (i.e Bangladesh, Turkey, Pakistan, Saudi Arabia, Bahrain, Kuwait, Indonesia and Malaysia), while 17.39% of them revealed that the pension fund policy measure is not applicable (i.e Korea, Sudan, Morocco and Mauritius). Some jurisdictions also incorporate Islamic social finance (zakat and waqf) as a response to reduce the adverse impact of pandemic (i.e. Saudi Arabia, Indonesia through CWLS, Malaysia). In the view of the second measure, it can be done by doubling the government's support for the salaries of private sector (i.e Kuwait), whilst institutions were supported by Government subsidies by way of payment of three-month salary of Bahraini employees from unemployment fund. Additionally, a waiver of electricity and water bills was also granted to corporates and individuals (both Bahrainis and expats) and Malaysia, on the other hand implemented a Wage Subsidy Programme.

The IFSB Initiatives

To support RSAs policies during the pandemic, IFSB initiates a research study to assess the stability of the Islamic banking industry and digital transformation amid the COVID-19 pandemic. This includes special boxes to further assess the impacts of the pandemic in some IF leading jurisdictions. Additionally, executive programs, forums, and seminars have been conducted, such as the compendium of financial sector regulatory responses to COVID-19 and the online executive program on COVID-19 and its implications on institutions offering Islamic financial services in May and July 2020, respectively. Public statements, compendiums of policy, as well as discussion notes have been considerably made since June to December 2020 to discuss the stability of the Islamic financial industry and the financial system in general.

The pandemic taught how to transform Islamic finance. Moving the industry forward with the lessons learned from the pandemic, Islamic finance needs to transform itself into a more adaptive, responsive, and even progressive sector. This imperative transformation spans three key dimensions. Firstly, in terms of **Business Transformation**, there is a need for changes in the business model, operations, technical mechanisms, supervision, and monitoring, including a broader and more comprehensive approach to risk assessment and mitigation. Secondly, **Human Resource Transformation** is crucial, involving all levels of staff, management, and even Shari'ah scholars and supervisors. Lastly, **Technology Transformation**, necessitating the shift from existing non-digital and manual systems to digital solutions, encompassing new IT support systems, cross-border digital payment systems, digital financial market infrastructures (clearance, fund transfers, settlement, custodian, etc.), and embracing financial technology innovations. This holistic approach to transformation is paramount for Islamic finance to thrive in a rapidly evolving economic landscape.

When it comes to global IFSI recovery, generally, improvements in financial soundness and resilience are likely in the Islamic finance industry in many jurisdictions but required gradual recovery to their pre-pandemic levels. The key of economic recovery depends on how well the jurisdiction manage the healthcare crisis as the source of disruption and maintain a low level of cases during recovery period. Digital transformation process is ongoing and will continue to play a pivotal role in determining the effectiveness, efficiency & stability of the IFSI.

IFSI overall transformation in other aspects such as business transformation and human resource transformation are suggested to maintain the resilience & stability of the industry. Determining factors to evaluate during the recovery are recovery in health care crisis and successfulness in containing the transmission of the COVID-19, including access to vaccines. The second is fiscal and monetary policy spaces and capacity to recover from recession; capital inflows in respective jurisdictions, followed by digital transformation process in the IBs industry and ecosystem as whole, and the extent of contact-intensiveness of key economic sectors.

Most IBs (77%) cutting across all jurisdictions indicate that their digital transformation process is in progress. Only 3% are planning to commence related digital transformation activities, while another 4% have no related plan at the moment. Responses to the question on the various technological advances being adopted by the IBs indicate that related digital banking activities are already taking place in the Islamic banking industry. The three most adopted technologies are mobile and digital wallets (93%), application programming interfaces (91%) and biometric authentication (87%) (see **Exhibit 3.2.5**).

Cyber-security risk seems to be the main prudential risk facing the IBs in their digital operation; this may not necessarily be an issue peculiar to IBs, as conventional banks are also faced with the issue of cyber security. In terms of data security risk, there could be issues arising from dependency on, for instance, mobile device manufacturers or third-party wallets. In terms of the financial stability implications of digitalization, 78% of the responding IBs indicated that positive competition would be heightened due to the entrants of disruptors. 65% per cent of the respondents view that the regulatory challenge in balancing the objectives of facilitating innovation while ensuring financial stability inhibits the provision of a clear policy guideline. Furthermore, discussions around central banks creating their own digital currency are gaining traction, especially due to the outbreak of COVID-19 which has further amplified the need for contactless payments. RSAs need to be cognizant of the potential new risks that digital Islamic banking poses as they coordinate prudential regulation and competition policy. As new risks are introduced, safeguarding data privacy, cyber security, consumer protection, consumer financial health, compliance with AML/CFT regulations, and so on, would require that those regulations are up to speed.

Based on the responses obtained, 74% of the IBs indicated that legacy infrastructure and technologies impede their response to changing market dynamics and competition driven by technology. 57% of the IBs strongly agree that lack of the requisite human capital needed for digitalized banking such as data analysts may be an impediment (see **Exhibit 3.2.7**). RSAs are adopting different regulatory approaches towards digitalization of banking operations. Some are adopting a bespoke digital banking license which places restrictions on banks' physical presence. Majority of the IBs also responded that there are no specific digital banking regulations for IBs separate from those for the conventional banks.

Three things worth addressing; first based on the assessment and investigation, including the mentoring on the stability of Islamic finance which is found to be balancing the economic growth and the development of both conventional and Islamic finance. Despite the tremendous impact of the micro global financial crisis before Islamic finance still continue to grow instead, meaning that the performance of Islamic finance is still resilient while lowering the income inequality. It is found that that not only commercial but social finance gain their momentum now which then pandemic has been mitigated and solved by some Islamic jurisprudence by accelerating the roles of social finance. It has taken crucial roles and steps in taking up the needy from the lower impact of business losses. Thirdly, from the policy perspective, some of the jurisdictions have included the social finance policy to get commercial based policy. Indonesia, Malaysia and some of middle-east countries like Oman, Saudi and some others prove that social finance amidst and post pandemic will be the crucial policy together with the commercial one.

STRATEGY AND COLLABORATION FOR ECONOMIC RECOVERY

Assoc. Prof. Mohamed Eskandar Shah Mohd. Rasid
Hamad bin Khalifa University (Qatar Foundation)

Key Points

The Covid pandemic has taught how society needs to be better prepared for the next possible crisis. There is a need for fixing the fundamentals, such as social mobility, access to quality education, food security, and supply chain management. These should be prioritized while deleveraging at all financial levels and promoting hybrid and equity-based instruments. A breakthrough mechanism to incentivize is to undergo decentralization within a centralized system, meaning the empowerment of the community in a locally based economy must be immensely considered. The sharing economy, as the tokenization of community-based assets, has to be supported to flourish with a more balanced market shaping, articulating proportional strategies to tap and rectify market failures.

The transition from a financial crisis to an economic crisis is underway. In Asia, a crisis is unfolding as the balance of payments becomes a crucial consideration in the financial landscape. Managing asset bubbles emerges as a significant financial challenge observed on a global scale. Various initiatives have been implemented to reform financial strategies, such as developing the capital market, inducing financial innovation to enhance the effectiveness of risk management tools, establishing financial arrangements at the regional level, and implementing well-structured banks' balance sheet management to ensure capital adequacy. All of these efforts are expected to result in years of growth characterized by a low-interest rate.

Paradoxically, despite the rejuvenation of economic growth, a low-interest rate does not come without flaws. Conspicuous consumption, over-leveraging, and excessive speculation appear to be initial consequences that could intensify, leading to unexpected butterfly effects on economic growth. The Covid-19 pandemic, akin to previous crises, impacts global citizens similarly by causing shocks in the supply side and labor, disruptions in the supply chain, and prolonged, protracted lockdowns.

Specifically, spending was reduced, the demand side faced shocks, and there was an increasing proportion of underemployment and unemployment.

Considering the influential measures taken by policymakers, careful consideration should be given to increasing liquidity through monetary and fiscal policy. Moreover, government expenditure, particularly in healthcare and wage subsidies, should be increased with a rise in the transfer of fiscal policy funds. In terms of monetary policy, low-interest rates, Statutory Reserve Ratios (SRR), and loan moratoriums need thorough analysis and development. Inadequate public spending on healthcare is a certain weakness that the government should address, being cautious about the vulnerability of those with lower incomes and the resilience of MSMEs in their operations during a pandemic.

To prepare for the next crisis, whether it is of the same magnitude, less severe, or worse, a reform agenda is essential, focusing on enhancing the well-being of MSMEs and lower-income individuals. Prioritizing fundamental fixes, such as addressing social mobility, improving access to quality education, ensuring food security, and optimizing supply chain management, is crucial. Simultaneously, deleveraging across all financial levels and promoting hybrid and equity-based instruments should be pursued. A more robust and coordinated approach in the regional spectrum is necessary to ensure a reliable flow of the supply chain and enhance food security.

Mentioned earlier, a breakthrough mechanism to incentivize change involves decentralization within a centralized system, emphasizing the empowerment of communities in a local-based economy. Supporting the sharing economy, particularly the tokenization of community-based assets, is vital for flourishing with a more balanced market structure. Implementing proportional strategies is crucial to tap into and rectify market failures. Recognizing human capital as a potential key to economic development, efforts should be directed towards extracting greater value from the latest generation of a nation. Sharing is not limited to business profitability but extends to providing economic opportunities to others and involving a broader population in productive economic activities.

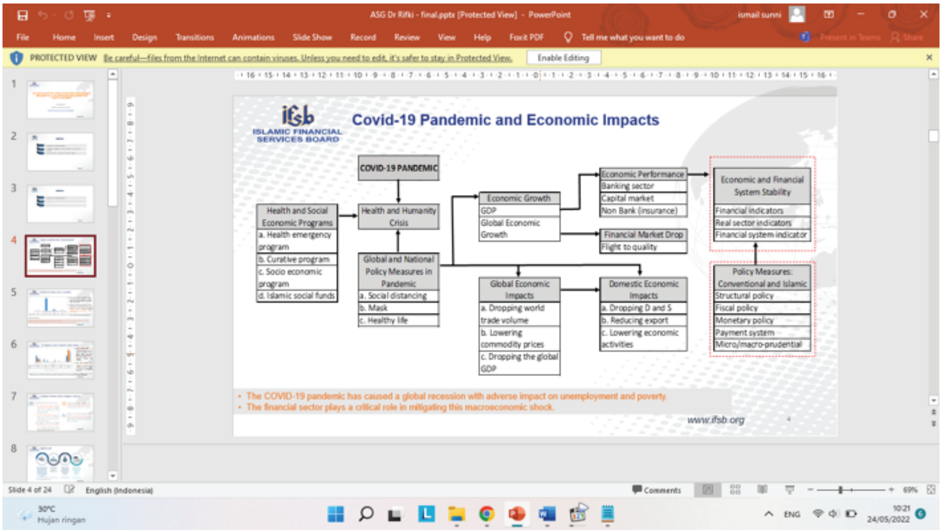
Persisting with the same playbook will impose more fiscal and monetary constraints. Monetarily, running out of tools becomes inevitable, as finding inflation and maintaining a low-interest rate are vital. Governments must increase spending to provide facilities, recognizing the limited space for further borrowing. For instance, in Malaysia, households have reached 90%, and the government has 65%. While they may have significant cash and high leverage, replicating the same approach is unlikely to adequately prepare for the next crisis. When discussing the 2008 financial crisis, many assume that Islamic finance missed the opportunity to advocate for more risk-sharing products.

Having another opportunity requieres a clear proposition. Over the years, Islamic finance has developed workable models such as wakaf, social finance, and hybrid risk-sharing instruments. Despite their potential, these models have faced criticism. There is a need to capitalize on them and formulate proper narratives, primarily at the national level. Countries like Indonesia and Malaysia are open to diverse ideas, fostering critical solutions during crises. Between 1998 and 2008, Indonesia successfully reduced debts, while Malaysia accumulated more. Since 2008, continuous debt accumulation remains a possibility. Leveraging is less likely if income does not increase, and a mechanism to reduce living costs is through a community-based sharing economy. This creates an income sphere, reducing leverage while maximizing additional advantages.

Two factors contributing to the emergence of inequality are the monetary system, which promotes inequality in wealth transformation by favoring the transfer of wealth to capital, and the creation of capital by individuals with intelligence and technological expertise. Even with a highly educated population, there is a need to strike a balance between the advantages and disadvantages of the system to benefit those without access to capital, providing them opportunities for business start-ups. In essence, there is insufficient checking and balancing in rectifying the system, allowing it to persist without equipping it with the necessary tools for capital creation, including social capital.

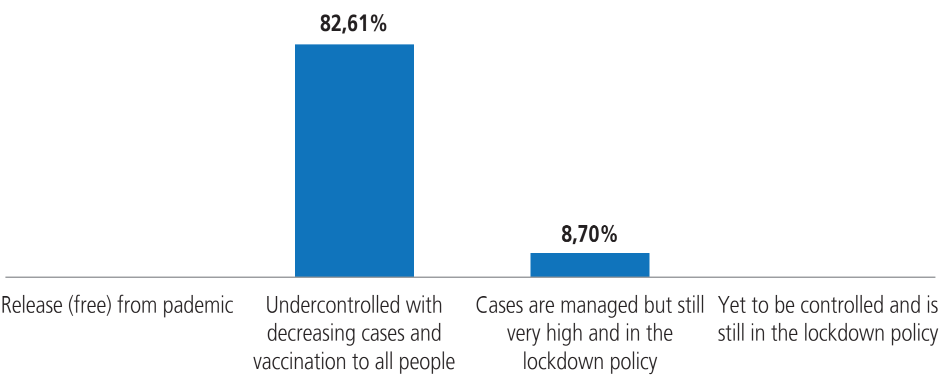
What makes inequality getting worse is owing to technology advancements which is represented by the emerging phrase that “less is more”. Less people creating website but having wide values in reputable business like in Amazon or Facebook. It is not necessary to have more people in creating values. The values seem to be centralized to only those who are talented and are able to create much more production as compared to the masses. It is no longer about population 1.5 billion but more about how the capital quality one must have. The states mandatorily find a balance between them, the market and the community. The latter is the most essential pillar since certain people are not able to embrace the market, missing the support from the states. Balancing is by inviting the community, which connect the alignment of the keys in the creation of capital accumulation either through skills, knowledge, financial capital or other forms of capital like land or other assets to make it actually happen. Changing the system is less feasible since it is a playbook having hundreds of years return. Islamic finance provides hope, particularly Islamic social finance as not the end but the beginning while embracing other pivotal tools. It is imperative to also see the alignment happening between the imbalance of capital with the balance of state, market and community.

APPENDIX 3.2



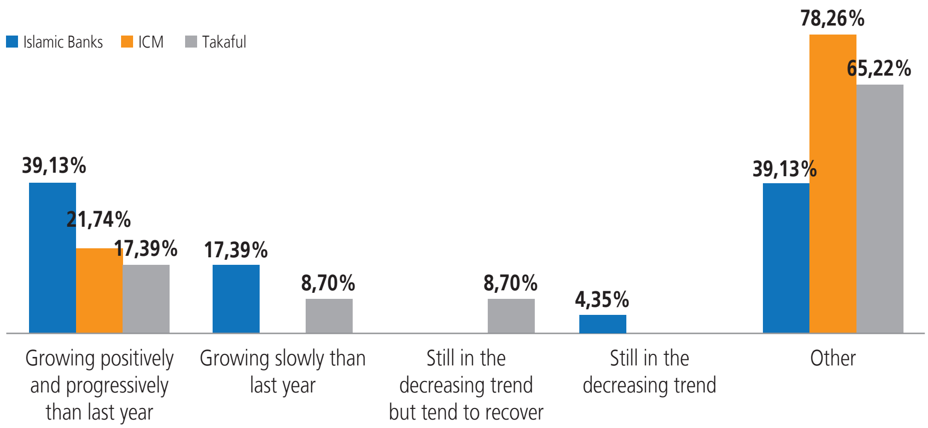
Source: www.ifsb.org

Exhibit 3.2.1 COVID-19 Pandemic and Economy Crisis



Source: www.ifsb.org

Exhibit 3.2.2 Overview of Global COVID-19 Condition



Source: www.ifsb.org

Exhibit 3.2.3 The Impact of COVID-19 towards Islamic Finance

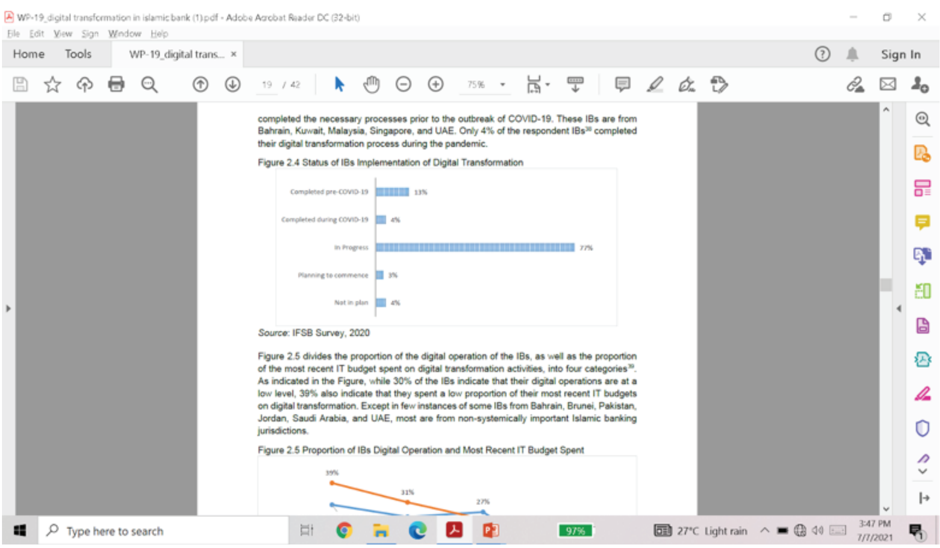

completed the necessary processes prior to the outbreak of COVID-19. These IBs are from Bahrain, Kuwait, Malaysia, Singapore, and UAE. Only 4% of the respondent IBs completed their digital transformation process during the pandemic.

Figure 2.4 Status of IBs Implementation of Digital Transformation

Completed pre-COVID-19	13%
Completed during COVID-19	4%
In Progress	77%
Planning to commence	3%
Not in plan	4%

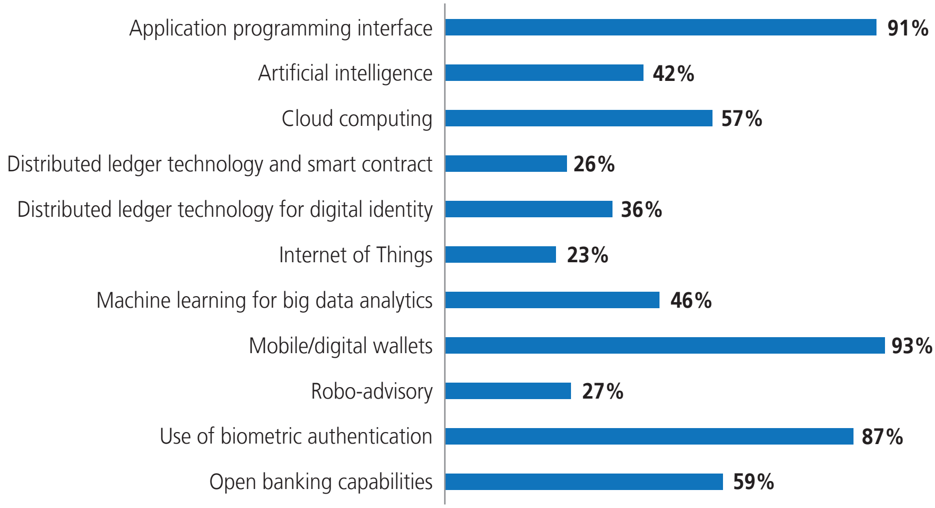
Source: IFSB Survey, 2020

Figure 2.5 divides the proportion of the digital operation of the IBs, as well as the proportion of the most recent IT budget spent on digital transformation activities, into four categories. As indicated in the Figure, while 30% of the IBs indicate that their digital operations are at a low level, 39% also indicate that they spent a low proportion of their most recent IT budgets on digital transformation. Except in few instances of some IBs from Bahrain, Brunei, Pakistan, Jordan, Saudi Arabia, and UAE, most are from non-systemically important Islamic banking jurisdictions.

Figure 2.5 Proportion of IBs Digital Operation and Most Recent IT Budget Spent

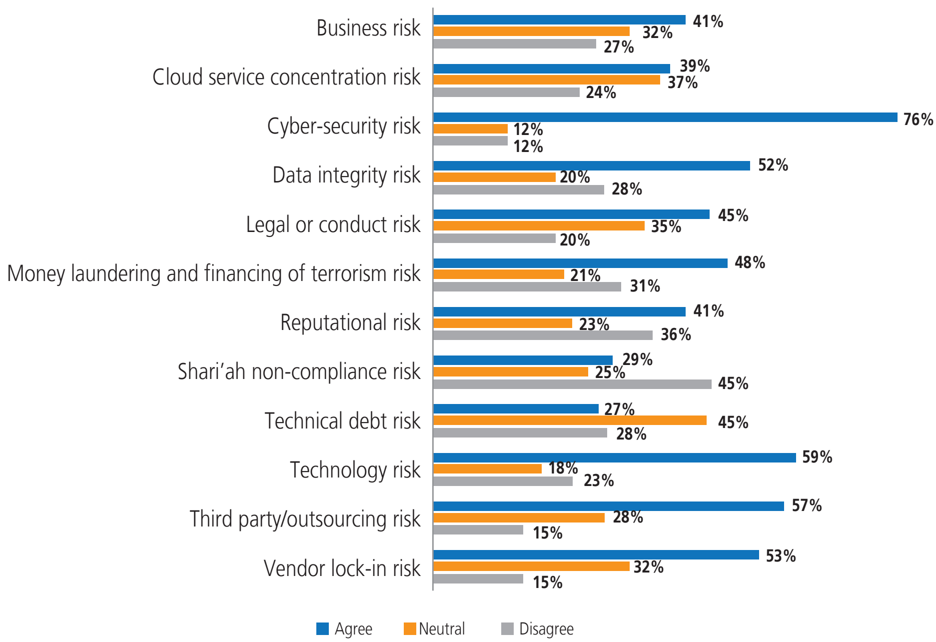
Source: www.ifsb.org

Exhibit 3.2.4 Status of Islamic Banking Implementation of Digital Transformation



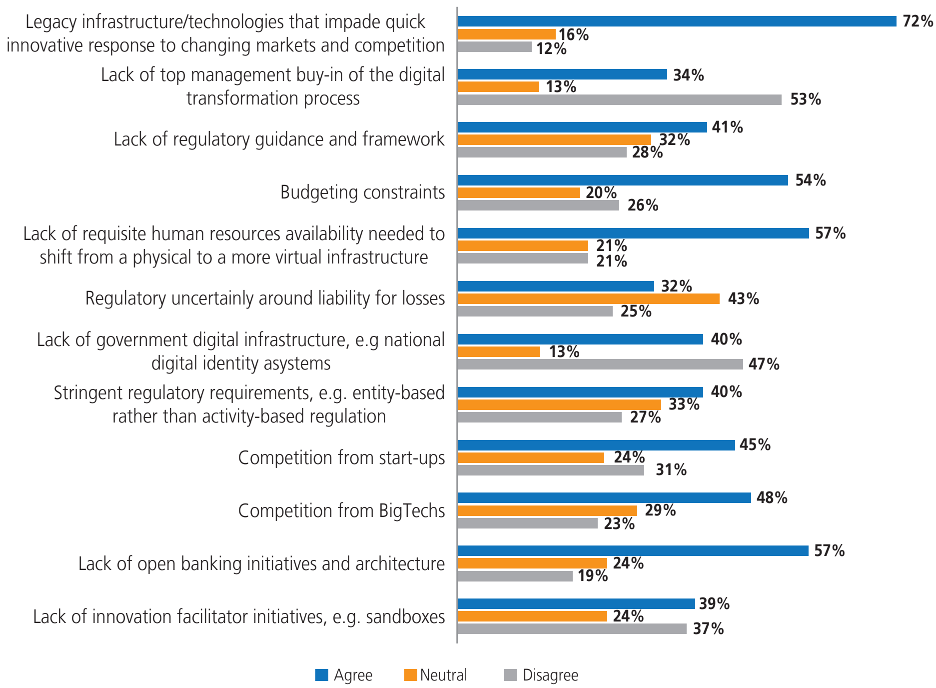
Source: www.ifsb.org

Exhibit 3.2.5 Technology Advances Adopted in Digital Transformation of IBs



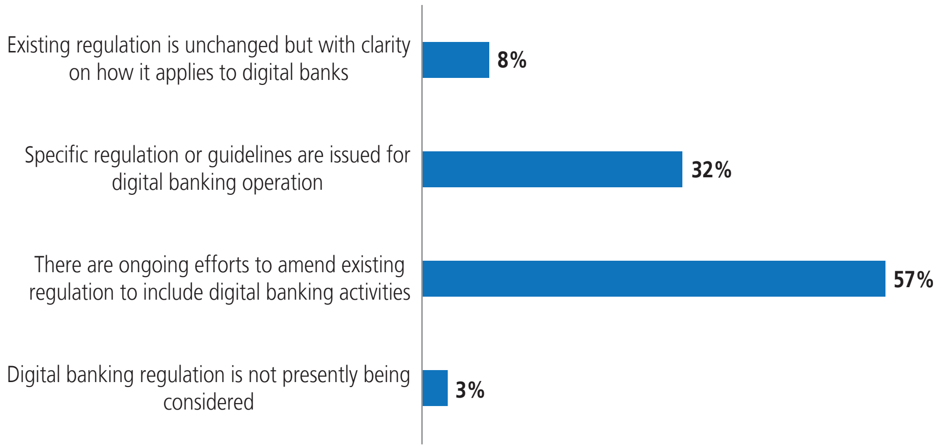
Source: www.ifsb.org

Exhibit 3.2.6 Prudential Risks Faced by IBs in their Digitalization Process



Source: www.ifsb.org

Exhibit 3.2.7 Challenges to Digital Transformation in IBs



Source: www.ifsb.org

Exhibit 3.2.8 Regulatory Approaches to Digital Transformation

CLOSING REMARKS

Budi Trisnanto
Deputy Director of Bank Indonesia Institute

Assalamualaikum Warahmatullah Wabarakatuh,

It is my honor this afternoon to make a few remarks as we are now at the end of the G20 Side Events: International Seminar on Advanced Issues in Islamic Economic and Finance 2022.

First of all, let me use this opportunity to call upon all of us to thank God Al-mighty that makes this event run smoothly. In this regard, I also would like to express my sincere gratitude to all speakers for the deep provoking thought as well as participants, who were actively involved in each topic discussed. The discussion was also warm and lively. On that note, it was a great pleasure for the Committee, consist of Bank Indonesia Institute, UIII and INCEIF to hold the first ever International Seminar on Advanced Issues in Islamic Economic and Finance.

It is equally special as this event also become the first *hybrid* Flagship event that BI Institute conducted after a while. Thanks to technological advancement, this one-day Seminar was successfully conducted in a hybrid arrangement where some of the speakers and participants are joining here in Surabaya physically. At the same time, others participated online via Zoom from across the world. This event also symbolizes how the world has changed and might be shaping up the future of learning or way of conducting events.

Today we have learned so many fresh and insightful thoughts from all the prominent speakers and participants resulting from dynamic discussion. All this new view that emerges from each session support the idea of Islamic economics and finance should be the ultimate solution for sustainable and inclusive economic growth.

Allow me to highlight some of main ideas from today's remarkable event among others. First, exponential growth in digital transformation needs exponential mindset. It is the real challenge of any organization, which tends to transform linearly. By adapting to the speed of technological progress, will boost inclusivity and support sustainable growth. Digitalization would support the key values of Islamic economics and finance in which assets must always be in circulation to make the economy growing in a better quality of equality, tangible benefits, and no harm, which will have a wider impact such as job creation, financial efficiency, consumer benefits, and inclusiveness. Second the global COVID pandemic, military conflicts, disturbance of supply chain are erasing the progress of the SDGs and enlarging financing gap. Meanwhile, to achieve the NDC commitment as well as energy transition, climate change adaptation and mitigation efforts need large funding.

In this context, the implementation of Islamic finance through its several instruments bridges the achievement of inclusive economic opportunities and social welfare. Third, the pandemic has created a scary effect that may not have been taken into account. Unlike the 1998 Asian financial crisis, the gaps are more on the real side than on the financial. There is a need to build resilience by tapping into micro solutions, creating a locally based economy and empowering society to make sensible economic decisions. Decentralization within a centralized system should be a new thinking.

Once again, on behalf of the Committee, I would like to thank all distinguished speakers. Their presence has been invaluable and, without any doubt, has helped make this Seminar a great success. I would like to close my remarks and officially announce the end of the International Seminar on Advanced Issues in Islamic Economic and Finance 2022 which also a part of G20 Side Events. Wishing the future prosperity for all of us and of course the recovery of the global economy aligned with today's theme "Thriving Together with Innovative, Inclusive, and Sustainable Economic Growth" and also this year G20 Indonesia Presidency theme "Recover together recover stronger".

May Allah SWT bless every step we have taken as part of our efforts to make a better world ahead.

Thank you very much.

Wabillahi taufiq wal hidayah. Wassalamualaikum Warahmatullah Wabarakatuh.

BI INSTITUTE
Kampus Utama, Gedung D
Jl. M.H. Thamrin No.2, Jakarta 10350. Indonesia
http://www.bi.go.id/id/institute

ISBN 978-623-5662-66-4 (PDF)