

INNOVATIONS IN ISLAMIC FINANCE

Case Studies from
Malaysia & Indonesia

Highlights

IsDB 
البنك الإسلامي للتنمية
Islamic Development Bank





The Case Study Approach

The case studies document the story how five innovative Islamic Finance and Islamic Social Finance solutions were developed. The cases are among the many that deserve to be showcased and shared with the public. For UNDP and IsDB, the findings can help formulate strategic plans to support Member Countries to enhance their Islamic Finance ecosystem and stakeholder readiness.

As countries learn from each other, knowledge exchange is a critical component of international development cooperation for the successful implementation of UN’s 2030 Agenda for Social Development Goals (SDGs).

Case Study I SUKUK PRIHATIN



Institutional Enablers



Ministry of Finance (MoF) as the representative of the government led the issuance process and acted as the obligor of the Sukuk.



Bursa Suq al-Sila' is a platform where the commodity trading is transacted. The platform is organized by Bursa Malaysia.

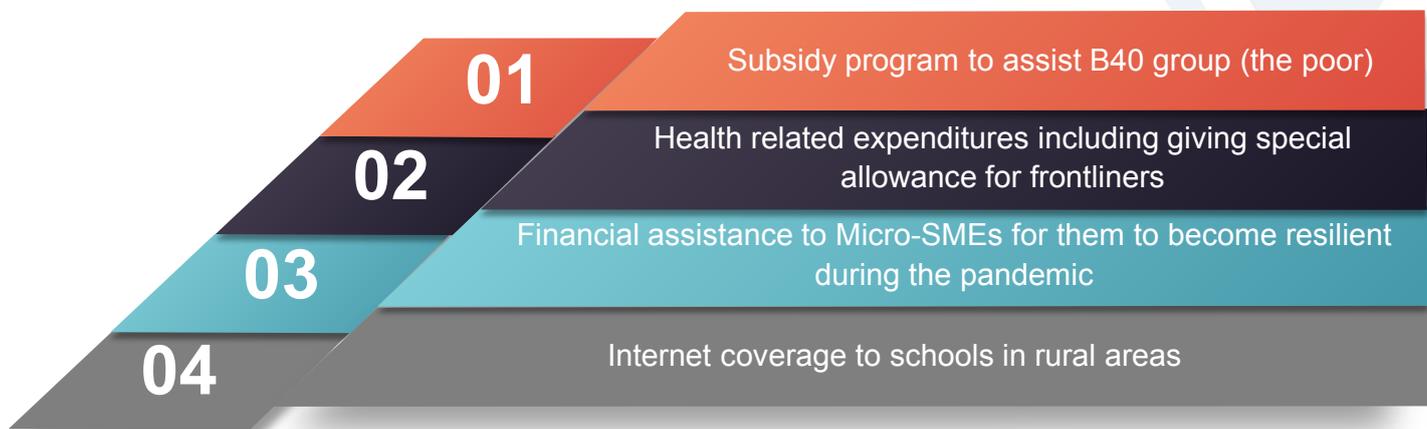


Bank Negara Malaysia (BNM) acted as an agent on behalf of sukukholders and MoF undertook commodity murabahah transactions in Bursa Suq



27 distribution banks created their own websites to promote and facilitate Sukuk Prihatin subscriptions from retail investors.

Beneficiaries



Success Drivers

Government Back-Up - confidence and trust for investors to subscribe the sukuk

Digital Acceptance – due to COVID-19 movement restriction indirectly accelerated the use of FinTech among retail investors to subscribe Digital Sukuk.

Charity Element – many high-net-worth individuals also bought Sukuk Prihatin

Challenges

**COMPETING
INVESTMENT
PRODUCTS IN THE
MARKET**

**LIMITED
PARTICIPATION
AMONG RURAL
POPULATION OR
SENIOR CITIZENS DUE
TO DIGITAL BARRIERS**

Case Study II

VALUE-BASED INTERMEDIATION



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA



Value-Based Intermediation (VBI) is a unique regulator-industry initiative by Bank Negara Malaysia (BNM) and Association of Islamic Banks in Malaysia (AIBIM) that addresses Malaysian Islamic banks role towards climate change, environmental as well as common sustainable development issues and challenges.

The aim of VBI is to meet societal needs for financial intermediation and also to meet the aims of SDGs and ESG practices not only by Malaysian Islamic banks but also conventional banks.

VBI is defined as an intermediation function that aims to deliver the intended outcomes of Shariah through practices, conduct and offerings that generate positive and sustainable impact to the economy, community and environment, consistent with the shareholders' sustainable returns and long-term interests (BNM 2018).

VBI Underpinning Thrusts and Institutional Enablers

UNDERPINNING THRUSTS

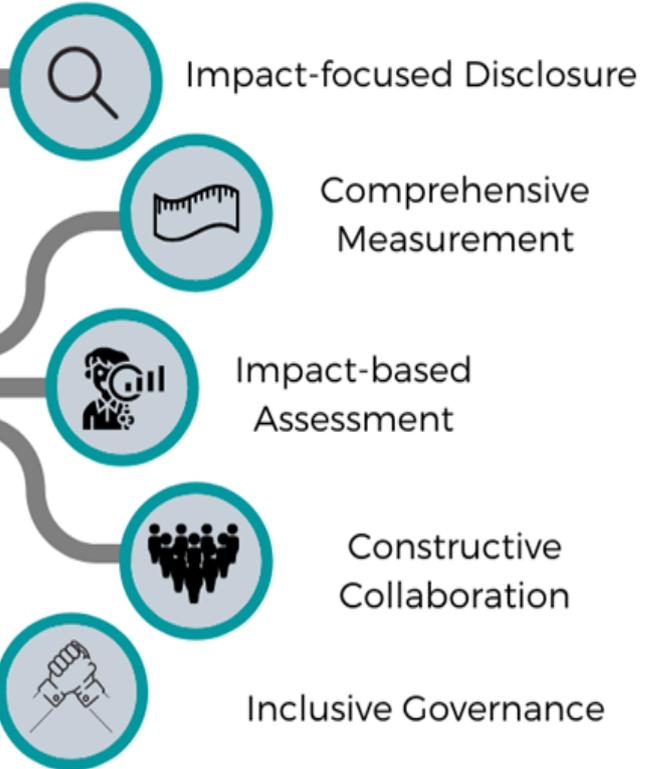
Entrepreneurial Mindset

Self Governance

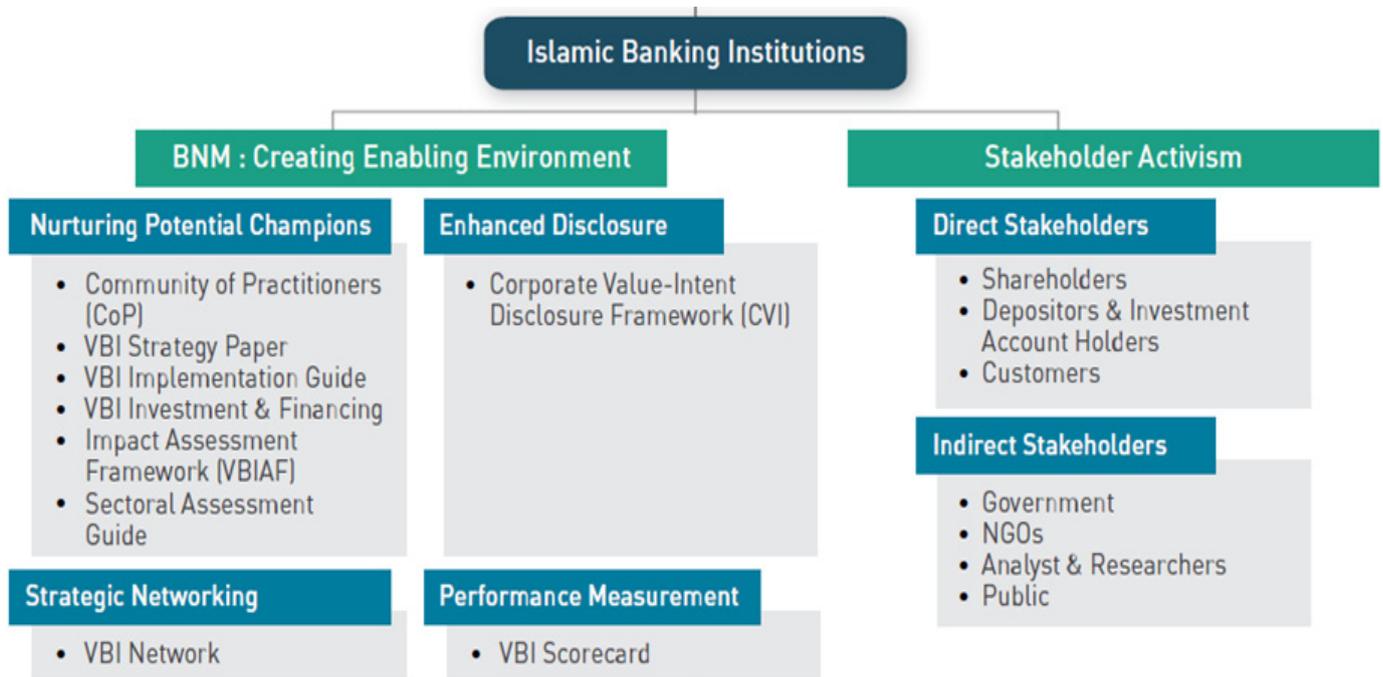
Community Empowerment

Best Conduct

IMPROVED BANKING PRACTICES & OFFERINGS



VBI Underpinning Thrusts and Institutional Enablers (cont'd)



OUTCOME: ENVISIONED FINANCIAL LANDSCAPE



Impact from the VBI



1 out of every 3 IBIs' deposits and investment accounts are VBI-aligned worth RM36.8 billion



1 out of every 10 financings approved by IBIs are VBI-aligned worth over RM94.2 billion



Nearly 35,000 deserving families now own affordable homes in over 190 projects, through almost RM20 billion more financing



Over 1000 public infrastructure accounts supported for better living standards, through RM24.1 billion additional financing



100,000+ SMEs & micro-SMEs supported with over RM40 billion financing provided



4500+ more renewable energy & green projects to conserve our environment via more than RM8.8 billion financing



Nearly ½ (by value) and 2/3 (by portfolio) of our members' investment portfolio are in SRI, SDG, ESG, green, renewable and similar VBI-aligned initiatives³ worth approximately RM24.6 billion



1800+ accounts in 450+ zakat, waqf, charities and sadaqah initiatives professionally managed worth RM190 million

Issues & Challenges

Internal and operational

Structural issues

IBs face challenges in adopting VBI initiatives partly due to group policies that are not in-line with VBI.

VBI Scorecard

Performance indicators pose issues to IBs. The scorecard measures financial and non-financial performance.

Profit maximization

In order to fulfil VBI objectives, profit maximization for shareholders may not be the focus of IBs.

External and Market

High Risk Segments

Financing renewable energy companies carries high-costs leading to higher pricing may not be favourable to IBs.

Market Competitiveness

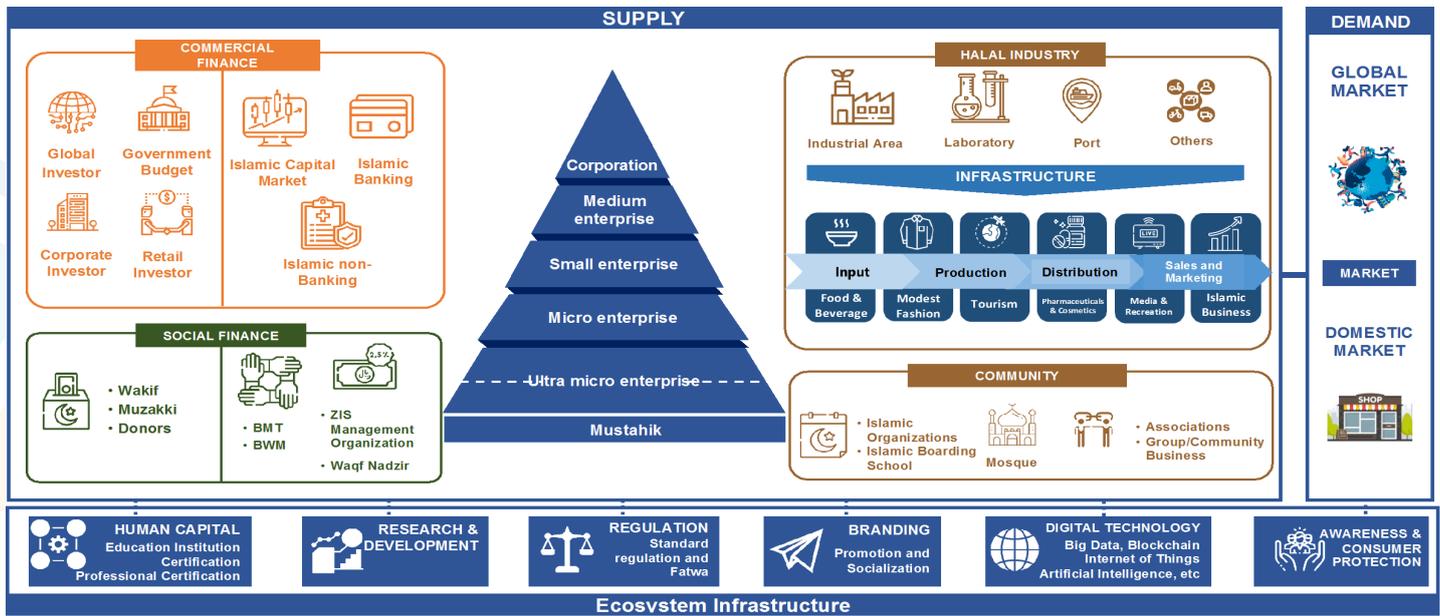
IBs may lose to conventional banks if they take longer time to process applications from customers who are less concerned about VBI principles.

Customers Preference

Not all customers and investors prefer VBI aligned products. High costs may deter them to buy IBs products and may switch to conventional banks.

Case Study III

Fintech & Islamic Social Finance



Impact of Fintech Adoption

- Improving Transaction Processes
- Reducing Cost & Errors
- Monitoring the Flow of Zakat & Waqf Funds
- Investment Risk Management
- Better Performance Evaluation
- More Transparency & Integrity

Prospects of Widening Fintech Adoption

E-Voucher

“We can use the concept of e-vouchers for asnaf who shop at selected stores as part of the distribution mechanism”

Transparency & Involvement

“When Zakat payers and Waqf donors are able to monitor the flow of zakat and Waqf funds by using real-time data, it definitely will give more information to them on how Zakat and Waqf institutions are managing these funds”

Apps & Other Fintech Tools

“The use of apps in foodbank projects will be able to find out the number of items available in foodbank stores. So, we can easily monitor from everywhere and make decisions when to refill these items in real-time”

“For Waqf, the Fintech platform can be used to manage the process of investment, expansion and maintenance of funds and Waqf assets. This includes maintaining mosques by using Waqf funds”

“We can explore especially the development of Waqf by using Fintech tools such as bitcoin or sukuk”

Selected Fintech Adoption by Zakat & Waqf Authorities in Malaysia



“The use of Fintech in PPZ MAIWP has been well received by staff and Zakat payers. The online system has been used extensively by Zakat payers. In addition, PPZ also use internet banking. The Zakat managers and staff also support the implementation of Fintech.”



“The use of cashless technology is part of Zakat policy in Pahang. Fintech is growing more popular with digital receipts replacing cash payments, and the elderly increasingly adopting, mastering, and using the technology to pay Zakat online.”



“The Lembaga Zakat Kedah (LZNK) began its digital makeover in 2017. The implementation had changed our working procedures, working culture, customer experience, reducing errors, reducing unnecessary costs, paperless as well as accurate and timely decision-making.”



“The potential of the Zakat distribution efficiency, measured by the level of implementation of Fintech in collecting, administering, and distribution by Pulau Pinang Waqaf is not more than 50 percent at the moment.” But there is a lot of potential in Fintech.

Selected Fintech Adoption by Zakat & Waqf Institutions in Indonesia



“In ZISWAF Fintech helps data integration and payment method. Payment codes used in a v system can direct all players in the sharia digital financial service ecosystem to bridge from one point to another.”



“Relatively large Fintech are also closing in to complement their systems with Gojek’s ziswaf, and the go-gift feature. Commercial P2P Fintech trusts are also developing Waqf features”



“Many Fintech companies such as Tokopedia Syariah, Shopee Syariah, Bukalapak Syariah, and e-wallet such as OVO, Dana, etc. have been integrated with Islamic institutions to facilitate payments”



“BWI doesn’t have a model for productive Waqf yet, but it is possible for all stakeholders and existing Fintech players to develop an efficient collection and distribution Waqf system.”

Case Study IV

Baitul Mal wat Tamwil (BMT)

Micro-finance Institutions such as BMT have grown since 1990s and flourished continuously throughout the years.

It is estimated that more than 7000 BMTs exist, including registered and unregistered ones.

In terms of the business form, BMT takes the form of a cooperative or corporation.

Most of the BMTs are in the form of cooperatives (also known as Islamic Savings and Financing Cooperatives (Koperasi Simpan Pinjam dan Pembiayaan Syariah / KSPPS)).

Institutional Enablers



The Ministry of Cooperatives and SME can be said as the main key players in the development of BMTs in Indonesia. This is because most BMTs choose cooperative form, hence they should seek license from the Ministry of Cooperatives and SME.



The Ministry of Home Affairs work together with the Financial Service Authority and the Ministry of Cooperatives in educating, regulating and supervising microfinance institutions.



According to Law Number 1 of 2013 concerning Microfinance Institutions, all microfinance institutions, including BMTs, should obtain a business licence from the Financial Service Authority (OJK).



Given the social intermediary function of BMTs that enable them to collect Zakat, Infak, Sadaqah, BMT can act as the Zakat Collection Unit (UPZ) of the National Amil Zakat Agency (BAZNAS).

01

Law no 25/ 1992

Cooperatives

02

Ministry of Cooperative and MSME regulation No. 11 / 2017

The implementation of Islamic Savings and Financing Cooperatives (KSPPS) by Cooperatives

03

Law No.21/2011

The Financial Services Authority (Otoritas Jasa Keuangan/OJK)

04

Law No. 23 / 2011

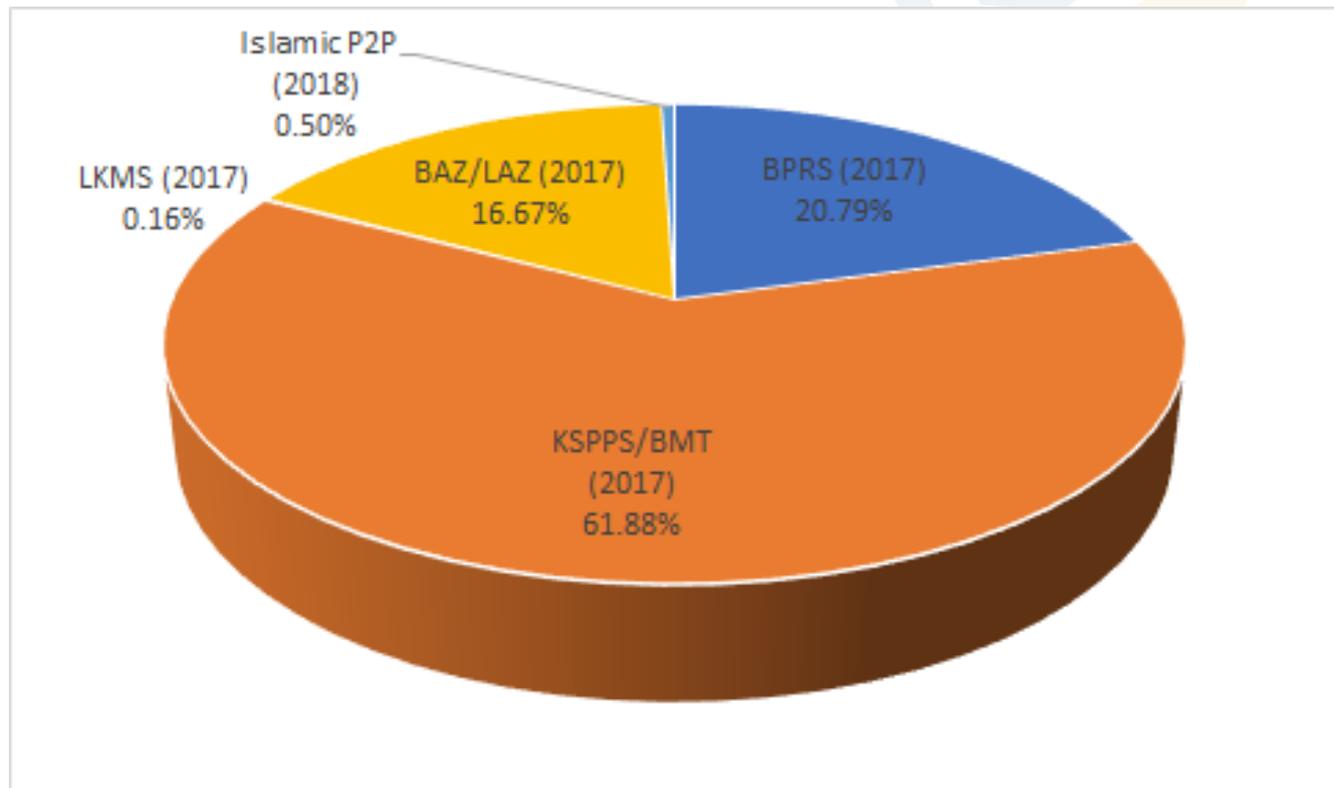
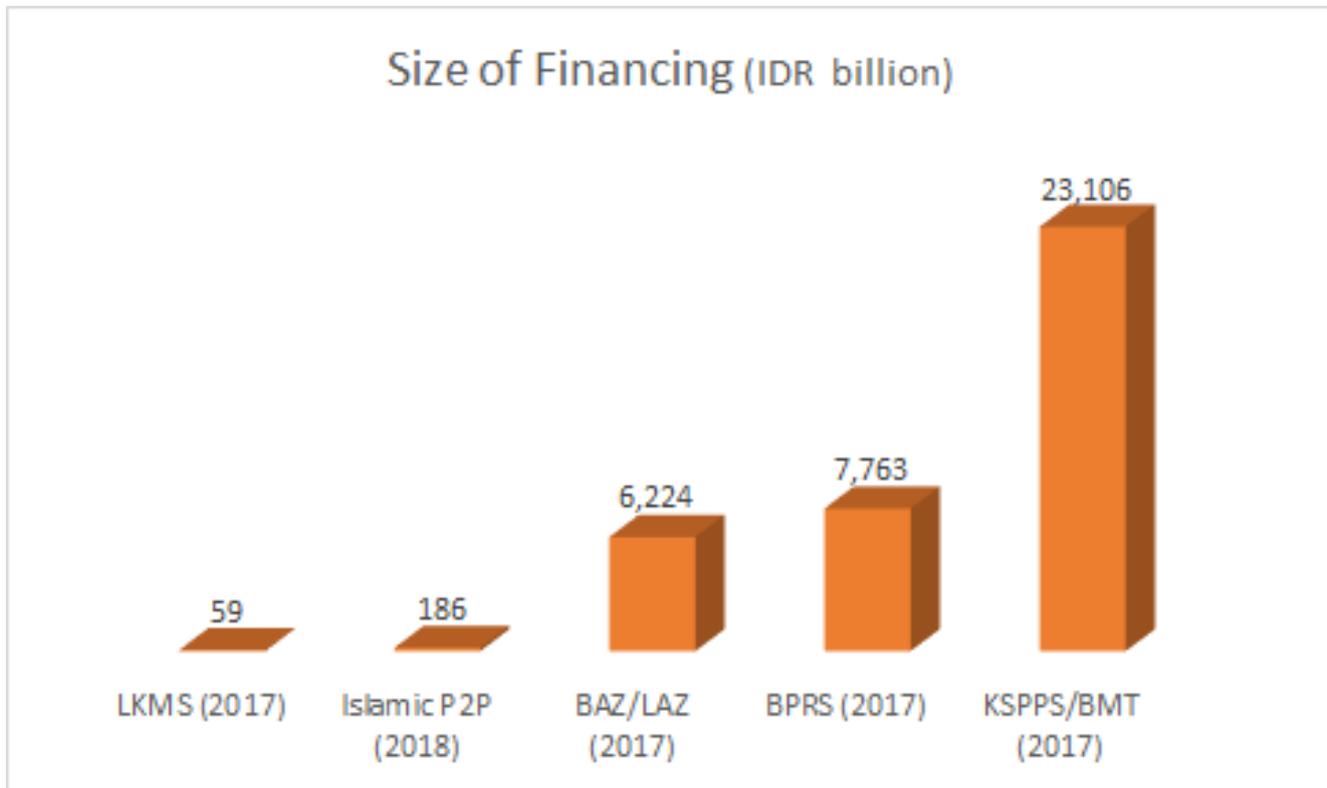
Zakat Management

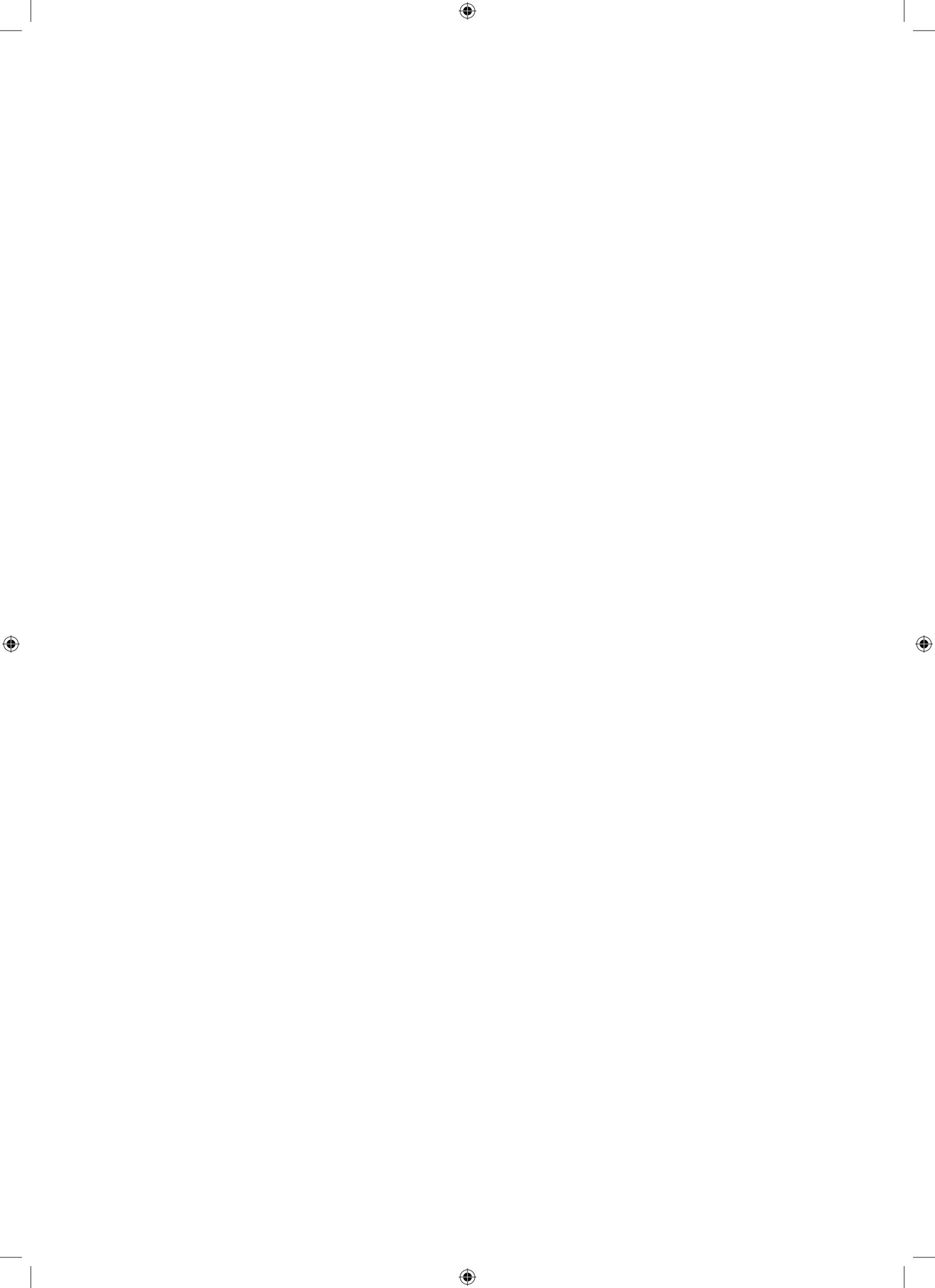
05

Law No. 1/2013

Microfinance Institutions (MFIs)

Distribution of Financing for Islamic MFIs in Indonesia







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