




# KEYNOTE SPEECH

## THE ROLE OF ISLAMIC BOND (*SUKUK*) IN GREEN AND SUSTAINABLE ISLAMIC FINANCE: ITS CONNOTATION ON SOCIAL PROSPERITY BY REALIZING ESG

Dr. Mohammad Habibullah  
([habibullah@iium.edu.my](mailto:habibullah@iium.edu.my))

IIUM Institute of Islamic Banking and Finance (IIiBF)  
International Islamic University Malaysia (IIUM)  
Kuala Lumpur, Malaysia



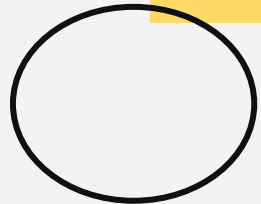
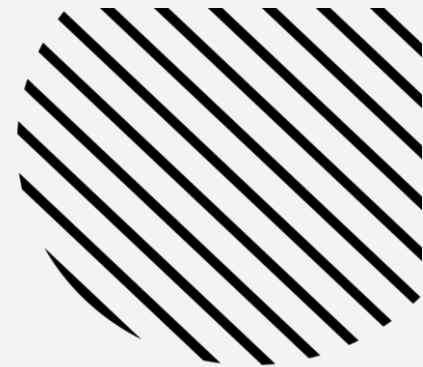


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# INTRODUCTION



Climate change and the loss of natural habitat are twin issues that are affecting people all over the world. Investment in thriving ecosystems must be increased immediately. There is, nevertheless, a considerable financing shortage. According to estimations from 2020, there is a financing shortfall of USD 4.2 trillion year for poor nations to close in order to meet the Sustainable Development Goals (SDGs) by 2030. A portion of this financial deficit might be filled by the private sector. However, the dearth of large-scale prospects, the generally illiquid nature of investment opportunities, unusual risks, relatively poor returns, and long-term perspectives make environmental initiatives extremely unappealing to the private sector.

# CONT...

The purposes of Islamic finance are set in the objectives (Maqasid) of the Shariah in protecting and preserving:

- .....
- a) religion and cultural heritage,
- b) life and dignity
- c) human intellect and personal development
- d) prodigy and future generations
- e) wealth and livelihood.

Modern Shariah scholars believe that each of these five goals of the Shariah includes protecting the environment and natural resources. For instance, the presence of life is a requirement for practicing religion and necessitates a favorable ecological context. Additionally, one of the fundamental tenets of the faith and its practice is cleanliness/hygiene. Similar to this, a healthy ecological environment is necessary for the protection and maintenance of life, intelligence, progeny (future generations), and wealth.





## GREEN AND SUSTAINABLE SUKUK IN DELIVERING SDG

According to estimates, the public and private sectors will need to contribute \$5 trillion to \$7 trillion annually to achieving the SDG objectives. However, the \$2.5 trillion yearly financing gap faced by low-income developing nations requires significant increases in public spending to close. As institutional investors gradually include ESG criteria into their investment mandates, demand for ESG investments is rising. This need is not being met by the existing ESG debt issuance supply, which creates a big potential for green and sustainability sukuk to fill the gap.

Sukuk provide an alternative funding channel for sustainable development projects since Islamic finance and ESG investing have similar guiding principles and complimentary investment strategies. In order to fund the SDGs by 2025, according to the UKIFC, green and sustainability sukuk may attract \$30 billion to \$50 billion in capital.



# ESG BOND ISSUANCE

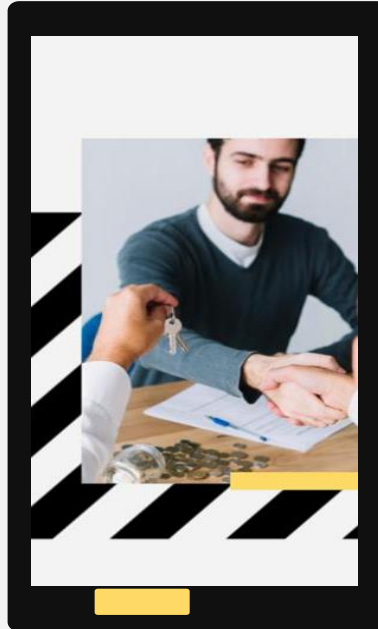
As sustainability bond offerings soared, fueled by Covid recovery efforts, global ESG bond issuance surpassed the \$1 trillion milestone in 2021, growing, on average, 70% yearly since 2019. However, issuance in 2022, which totaled \$429 billion in the first half, slowed down due to economic uncertainties. On the other hand, after a record-breaking \$6.1 billion in issuance in 2021, green and sustainability sukuk totaled \$4.4 billion in 2022. However, these sukuk only made up 4% of all sukuk issuance and 1% of ESG bond issuance.



# DEVELOPMENT OF GREEN AND SUSTAINABILITY SUKUK

## INDONESIA

The Sustainable Finance Umbrella Policy was published in 2017 by Indonesia's Financial Services Authority (OJK), which also established a sustainable finance taskforce and issued a sustainable finance roadmap in 2014. By taking these actions, it started to create a sustainable financial environment and win the financial sector's commitment to the government's climate change goal. Additionally, the OJK established green bond laws in 2017 to promote the creation of eco-friendly capital market instruments.



## MALAYSIA

The Malaysian government's 2021–2025 vision for developing sustainability and fostering the green economy included increasing green funding and incentives as well as encouraging investment in renewables. The Sustainable and Responsible Investment (SRI) Roadmap for the Malaysian Capital Market was introduced in 2019 by the Securities Commission Malaysia (SC Malaysia) to support these priorities, lay out the capital market's role in advancing Malaysia's sustainable development, and create a supportive SRI ecosystem. Additionally, the regulator created SRI and SRI-linked sukuk frameworks, which defined norms for asset owners to embrace ESG standards and matched disclosure and reporting needs with generally recognized best practices.





# SUKUK FOR NATURE SOLUTIONS

Nature and people all across the world are affected negatively by biodiversity loss and climate change. Due to their dependence on natural resources, the most vulnerable individuals and communities are disproportionately impacted by catastrophic events. One of the key causes of climate change and ecological degradation is land use patterns, such as deforestation and agricultural intensification.

The UN Sustainable Development Goals (SDGs) are a comprehensive list of objectives that have been established to address the most pressing problems confronting our planet. Current investments cover roughly a third of all investment requirements, leaving an annual investment shortfall of US\$2,500 billion. Only US\$52 billion is being invested in such initiatives, despite the fact that the necessary expenditure to preserve and restore ecosystems alone is projected to be between US\$300 and US\$400 billion. The public and charitable sectors provide the majority of this money.

Many (financial) organizations, including corporations, banks, and development agencies, are simultaneously looking for strategies to spur private investment in this area. Private investors may be able to fill more than half of the financing shortfall by economically supporting firms that have a good impact, according to certain asset managers and conservation specialists. However, due to the limited large-scale prospects, limited liquid investment options, non-transparent hazards, relatively poor profits, and lengthy time horizons, the private sector views nature conservation initiatives as being rather unappealing.

# INVESTMENT POLICIES

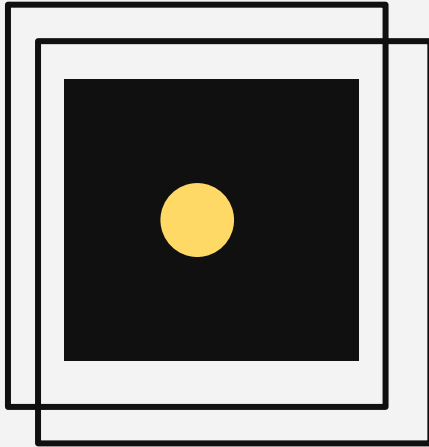
In order to successfully promote development and guarantee food security in a changing climate, agricultural systems must be transformed and reoriented. Climate-smart agriculture is a concept that aids in directing these efforts. Agriculture that is climate-smart has three major goals:

## Agriculture

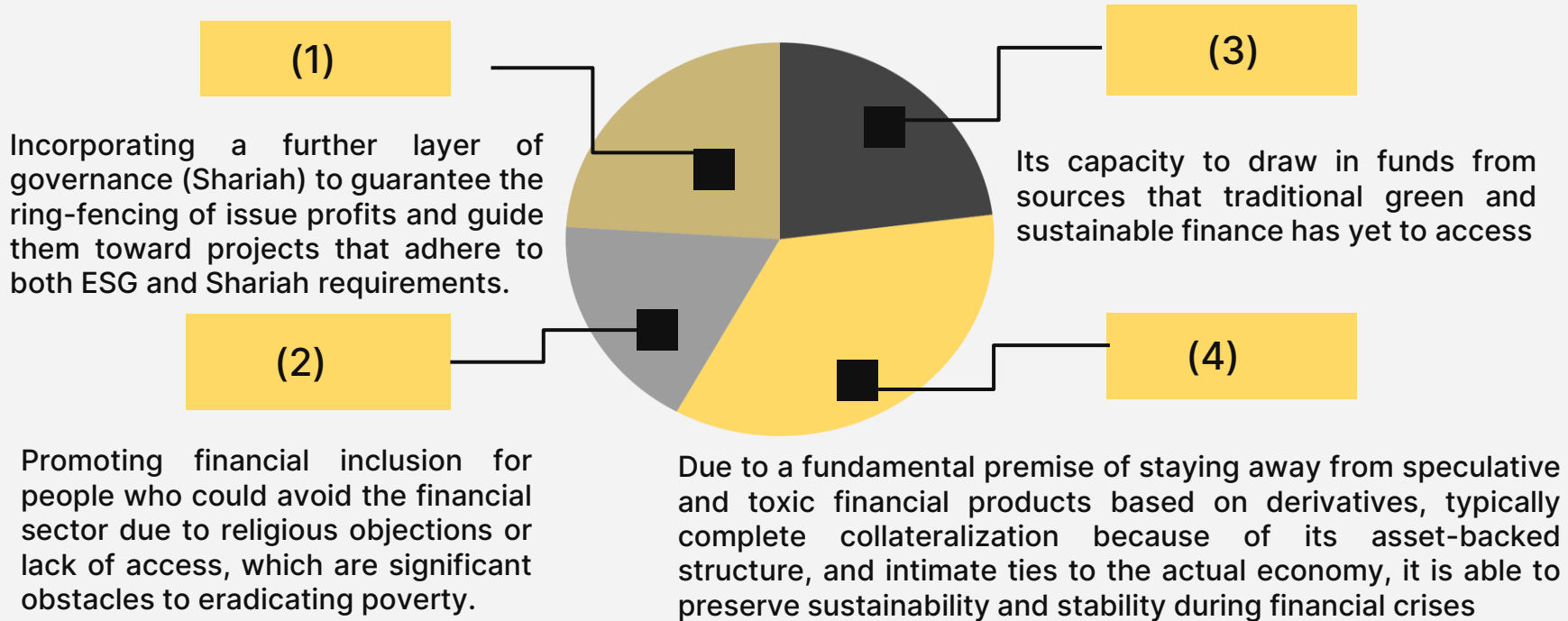
- Sustainably increasing agricultural productivity and incomes.
- Adapting and building resilience to climate change.
- Reducing greenhouse gas emissions and the use of (chemical) fertilizers.

## Forestry

This theme supports flourishing, healthy woods. Forests can be actively planted or protected. Reforestation is the practice of planting trees on land that was once covered with forest but has since been used for other purposes. Increased tree cover results from afforestation on previously unforested area. Maximizing the advantages that these forests offer requires a diverse tree cover, which is essential for healthy, functioning forests. Forests may yield income from a variety of sources, including timber sales and non-timber forest products like nuts and edible fruits.



# ROLE OF ISLAMIC FINANCE & SUKUK FOR SUSTAINABLE DEVELOPMENT (SDG) AND ESG:



# RECOMMENDATIONS

(1)

Creating ESG sukuk roadmaps and master plans and establishing particular ESG sukuk rules or principles.

(2)

Applying globally Recognized environmental and sustainability criteria to sukuk applications.

(3)

Make ESG assurance mandatory and standardize ESG disclosure and reporting standards.

(4)

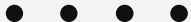
Develop issuer awareness and a personnel pool with expertise in ESG.

(5)

Provide rewards to investors and encourage investor awareness and capability development.

(6)

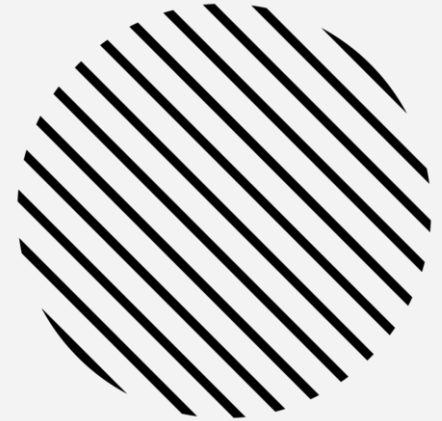
Attract investors without requiring them to comply with Shariah and Coordinating taxonomy methods.





# CONCLUSION

The central themes of the Qur'an are the boundless blessings of Allah, manifested in the cosmic system's balance, the rotational balance of the universe's objects, including the existence of Earth in the midst of the unending hostility of the universe, and the harmony of the many life-sustaining systems, including the oxygen and carbon cycles, water cycle, and food cycle. In the image, other scientific components of the cosmic balance are outlined. These dimensions make the spiritual link between humans and nature a necessary prerequisite for the development of the Nature-based Solution, which has become a cornerstone of international efforts.





**THANK YOU**

