

SINGAPORE AND ISLAMIC FINANCE: DRIVING FINANCIAL INCLUSION, SUSTAINABLE FINANCE, CAPITAL MARKETS AND THE HALAL ECONOMY

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DISCUSSION INTRODUCTION

SINGAPORE AND ISLAMIC FINANCE: DRIVING FINANCIAL INCLUSION, SUSTAINABLE FINANCE, CAPITAL MARKETS AND THE HALAL ECONOMY

The listing in Singapore of SPV Perusahaan Penerbit SBSN Indonesia III (PPSI-III)'s dollar Sukuk program, including a green Sukuk facility, highlights and showcases the Republic's potential regional role in Islamic finance. What more can the country offer Islamic finance in terms of listings, advisory, investment management and other important financial services? What do green Sukuk and green bonds offer issuers, what important factors drive green issuance and what competitive advantages does Singapore offer? With Singapore already playing a notable role in the provision of Halal goods and services, how can the Republic leverage its position in the Halal supply and value chain to become a hub in the regional and global Halal economy? Where and how can Singapore play a meaningful role in key Islamic social financial activities such as Takaful, Zakat and Waqf? We ask a respected panel for a new roadmap to success for Islamic finance in Singapore.

YOUR PANEL



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Market Strategist,
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FARMIDA BI
Chair, Europe, Middle East and Asia,
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CEO,
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SINGAPORE: IS THE LION READY TO ROAR?

Singapore is up there with some of the world's most sophisticated financial markets, competing with such global hubs as London, New York and Hong Kong. Its long-standing and well-established capital markets have, nevertheless, struggled to attract the Islamic inflows they might have hoped for, given its ideal location positioned in between two of the world's most prominent Islamic finance jurisdictions. At IFN Singapore Forum 2020, held online, an array of illustrious experts came together to discuss what the future of the Lion City might be in the field of Islamic finance. **LAUREN MCAUGHTRY** writes.

Singapore might face tough competition from its neighbors, but it also offers appealing opportunities in the fields of sustainable and responsible investment and Islamic fintech, along with its growing popularity as a Sukuk listing location. The listing in Singapore of SPV Perusahaan Penerbit SBSN Indonesia III's dollar Sukuk program, which included a green Sukuk facility, highlighted the Republic's potential regional role in Islamic finance, and IFN Singapore Forum explored in depth the potential of Singapore to further develop its capital market capabilities, especially in the field of green and socially responsible finance. But that is not the only area in which Singapore offers appeal for Islamic investors. The

country is a global leader in the arena of Waqf assets (which might come as a surprise to some) while it is also making its presence felt in the Halal supply and value chain.

So what more can the Republic offer Islamic finance in terms of listings, advisory, investment management and other important financial services, and how can it leverage its position in the Halal supply and value chain to become a hub in the regional and global Halal economy? Already, over 200 international banks have made Singapore their home and springboard into the region, and an increasing number of these banks are recognizing the growing demand for

dollar Shariah compliant services, leading them to set up Islamic finance desks as a strategic move to capture international Shariah dollars from clients across Asia and the Middle East looking to access the global markets.

A roadmap for the future

In the first day's session, 'Singapore and Islamic Finance: Driving Financial Inclusion, Sustainable Finance, Capital Markets and the Halal Economy', a panel of illustrious and experienced industry practitioners gathered together to debate the best way of driving forward Islamic finance in the Lion City — with

particular regard to opportunities within the green Sukuk; environmental, social and governance (ESG) investment; and Halal supply chain sectors. Moderated by Geoff Howie, a market strategist with Singapore Exchange (SGX), the wide-ranging discussion threw up a number of key challenges facing the Republic — along with a whole host of exciting opportunities.

Social impact and inclusion

A key topic was the issue of financial inclusion — with COVID-19 already having a disproportionate impact on people already struggling to make ends meet. "Is driving access to Islamic finance still attainable?" asked Howie.

Reports from the World Bank and the UN have suggested that the current crisis has set things backwards by about a decade — and about 500 million extra people are now in extreme poverty. "The advances we have made in the last decade have been unwound, and life is looking grim. Muslim-majority countries tend to be doing less well than the average for developing countries, so there is a huge need," noted Farmida Bi, the chair of Europe, Middle East and Asia at Norton Rose Fulbright. "One of the wonderful things about Islamic finance is that it has a stated purpose. At the heart of Islamic finance is the Maqasid, the purpose of the Shariah — helping society and diminishing harm. This is combined with a widespread global feeling that when we come out of this crisis, it needs to be a greener, more inclusive recovery. I'm not convinced that in the past, Islamic finance has treated financial inclusion with the attention it deserves. The focus has been on glamorous Sukuk projects and so on. But going forward, I think that the focus on inclusion should be more important.

"The focus on inclusion should be more important. It should be about making a difference to ordinary people"
— Farmida



It should be about making a difference to ordinary people. We have had green Sukuk, we have had social impact Sukuk, but not nearly enough. Once we get past this crisis, Islamic finance has to align itself better with this huge global movement. If there is one good thing that comes out of the coronavirus crisis, I hope that it will be the emergence of a more ambitious, more innovative, more inclusive form of Islamic finance."

"The pressure is accelerating to adopt sustainable practices — and I mean sustainable in a wider sense, not just the environment, but all aspects, from social impact to labor practices and so on. Pre-COVID, in this region, these issues were already relevant," added Ahmad Shahriman Mohd Shariff, CEO of CIMB Islamic. "With COVID-19, we have added another element of pressure. Our own customer base is struggling to cope with the pandemic, and the capacity of local governments is also strained. So over the last six months, Islamic banks across the region have started to rethink their approach. In Malaysia, we work a lot with Zakat money, with which we are working to build an end-to-end ecosystem for our customers. We use Zakat money to train the poor to become entrepreneurs, and then give them seed capital to start their business. It is the 'teach a man how to fish' concept. Over the past four years, we have seen these recipients becoming our own customers, utilizing our microfinancing and SME schemes as they get bigger and more successful. We are now starting to integrate social finance into commercial finance, and that will be the future going forward."

State support

But is Singapore able to emulate this trend? It is a financial hub sitting alongside the likes of London, New York, Shanghai and Tokyo, and it has all the transparency and regulatory strength required. But when it comes to Islamic finance, its approach is very much non-preferential. "Islamic finance is not accorded the kind of incentives that it has in other countries," pointed out Oliver Warner, the managing director of Singapore-based emerging market sustainability consultancy IBIS, who believes that there are great opportunities for Shariah compliant finance in Singapore, particularly in the fields of green and infrastructure finance. "Look around at other markets — the growth that has happened in Islamic finance has been driven largely by policymakers and regulators. To make Islamic finance

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flourish in Singapore, it probably needs similar incentives, tax breaks and public policy support."

Not everyone agreed, however. "Government support is always welcome, but I am not sure it's necessary," said Farmida. "I'm fascinated by the growth of ESG funds, which have grown from US\$21 trillion to US\$30 trillion over the last two years. Compare that to how long it's taken Islamic finance to reach just US\$2.4 trillion — it gives you a sense of the depth of the socially responsible investment out there, and I think that Islamic finance needs to respond to that speed of development."

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— Warner



Halal opportunities

Wolfgang Holzem is CEO of eHalal Group, which has spent some time developing a Halal certification system linked to the blockchain. The group faced some challenges getting traction in Asia, but interest is now growing, and Holzem believes that Singapore has the potential to play a key role in the Halal value and supply chain.

"It is a technology hub and a financial hub already," Holzem noted. "If Singapore could go back to its original roots as a trading hub, it could do really well. As an example, currently the Chinese government bans a lot of meat imports from Australia into China, because there is an oversupply. Singapore could play a leading role in getting that trading system going — especially with its connections with the Middle East and GCC countries. They could find new markets for Australian poultry and beef imports. If Singapore wants to be the Islamic finance hub for Southeast Asia, to be honest I don't think it will happen — Malaysia is too far ahead. But it has a big opportunity in Halal value chain management."

Investment

One aspect the panel all agreed on was the substantial opportunity for Islamic asset management in Singapore. "We already have Shariah products on the Singapore Stock Exchange, such as the FTSE USA Shariah ETF," pointed out Howie. "But the ETF [exchange-traded fund] still has a smaller AuM [assets under management] than it should, given its outperformance. Why is it not attracting more interest?"

Ahmad noted that lot of Singapore companies are already eligible to become Shariah compliant stocks by nature of their business activities — and often, what is holding them back is their financial structure. "If Singapore really wants to open itself up and attract Islamic investors to the stock exchange, these companies need to look at their balance sheet structure and make some simple changes, such as shifting from interest-based conventional debt to Islamic debt," he recommended. "That would invite a much wider pool of investors."

Ahmad believes that Singapore has an interesting opportunity in the capital markets, but it depends where it decides to focus its efforts. "There is pent-up demand for Islamic investments, and that pool is growing. But when we speak to potential




issuers or participants about Islamic structures out of Singapore, the feedback tends to be that they might as well just do it conventionally. There is a niche that Singapore could have developed, but it has been trying to do so for over 10 years with mixed success." But now could be the time. There are sizeable funds accumulating in Malaysia and Indonesia and they urgently need to start diversifying abroad. The Malaysian pension fund is one example, and the Indonesian Hajj fund is another. But Ahmad is unsure whether the will is there. "Do the players in Singapore want

to take advantage of this opportunity?" he asked. "More often than not, the answer is no, they just want to take the easy route."

Collaboration

Where there could be a real opportunity, however, is in a coordinated effort to bring Southeast Asian opportunities to the attention of global investors. "The retail proposition for Islamic finance in Singapore has not reached the scale to drive further investment to the region," thinks Ahmad. "From a wider perspective, Singapore really has more potential as a global hub through which to channel global investments onwards — acting as a bridge to other countries in the region with Islamic investment opportunities."

Holzem agreed. "I see Singapore as a hub for Malaysian and Indonesian companies to list on the SGX, or list Sukuk from other sovereigns. That's an opportunity. But setting up a complete new system I think is impossible. It needs to work together with Malaysia and Indonesia to ensure that everyone gets a slice of the pie."

To hear the full recording, and delve deeper into the complexities, challenges and opportunities facing Islamic finance in Singapore, watch the full IFN Singapore 2020 Forum OnAir [here](#). 

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