

IFN HALAL FINANCE

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DISCUSSION INTRODUCTION

THE HALAL ECONOMY: TODAY SOUTHEAST ASIA,
TOMORROW THE WORLD

What represents an effective Halal economy and what are the regional and global opportunities on offer servicing, supplying, financing and managing this sector? How large, potentially, is the Halal economy both domestically and internationally and how do we undertake effective sector value chain analysis? What are the prime sectors engaged in this exciting sector and what sectors are underserved? What environment is conducive for the growth of Halal ecosystems, infrastructure and value and supply chains and what financial incentives should be made available to promote growth? What do Halal sourcing programs and self-contained Halal parks offer companies engaged in the Halal value chain? Are companies in the Halal economy exclusively using Islamic financial services, and if not, why? What role does technology play and how do government and regulators enable, promote and grow the Halal ecosystem? Who are the major international players and how can Malaysia maintain and extend the country's head start in Halal industry services? How can Malaysia increase foreign direct investment into Halal goods manufacturing for both local consumption and export? We ask an expert panel for their guidance.

YOUR PANEL



HUSSAM SULTAN
*Regional Head, Commercial and
Transaction Banking (Islamic), CIMB*



DIANA SABRAIN
CEO/Co-Founder, OneAgrix



KHAMILAH MOHDYUSOFF
*Director of Food Technology and
Resource Based Industries Division,
Malaysian Investment Development
Authority*



PROF DR MARCO TIEMAN
CEO, LBB International



MOHD SUHAIMI ABDUL HAMID
CEO, Standard Chartered Saadiq



TOMÁS GUERRERO
*Manager, Halal Trade and Marketing
Centre*

IFN HALAL FINANCE: THE FUTURE OF THE ISLAMIC ECONOMY

IFN has long promoted the importance of a holistic, inclusive Islamic economy, and the Halal sector is the pivot around which all of this must revolve. In the recent inaugural IFN Halal Finance Forum, we brought together the movers, shakers and bankers that are both forging and financing this new commercial reality, for a discussion that was both pragmatic and empowering. **LAUREN MCAUGHTRY** writes.

A fast-growing business comprising everything from food, cosmetics and personal care to agriculture, pharmaceuticals and health, logistic services, media and tourism, the Halal industry has many faces. And with a growing Muslim population representing almost a quarter (24%) of the global population or 1.8 billion people around the world, the sky is the limit when it comes to both opportunity and audience. But how can we bridge the gap between Halal business and Islamic finance, making sure that these activities are funded through Shariah compliant methods and that the small businesses that make up the backbone of the Halal economy have access to the financing they need in order to grow?

IFN was delighted to welcome Hanisofian Alias, the vice-president of industry development at Malaysia's pioneering Halal Development Corporation, who delivered a keynote address characterized by optimism and commitment. "Halal values are fundamentally religious, and yet they offer a practical approach to interactions with the environment," he emphasized. "The core principles of the Halal economy are universal values that promote inclusion, equity, property rights and ethics. This creates a natural connection between Islamic principles and the UN SDGs." From an economic perspective, Hanisofian stressed the impact of Islam on global trade, with a potential Halal market size of US\$5.03 trillion by 2030. But importantly, he also noted the influence of non-Muslims moving into the sector, and the potential for growth that they bring.

Another key point was the impact of the global COVID-19 lockdown on the need for self-sufficiency, the impact that it had on the supply chain, and the growing focus on improving and sustaining sufficient access to goods and trade. Hanisofian also stressed that the rapid growth of the Halal industry made it imperative to focus on developing the appropriate infrastructure to support it. "Halal certification alone is not enough,"

he urged. "Factors such as quality, pricing, brand positioning and logistics must not be discarded. There is a need for new technology, and innovation plays an important role."

"We start by having a structure of dependable standards and a strong certification system"

- Khamilah Mohd Yusoff



Spreading its wings

In the first session of the event, hosted by Hussam Sultan, CIMB's regional head of commercial and transaction banking (Islamic), a panel of regulators, businesspeople and bankers discussed the factors that make up an effective Halal economy, and explored the regional and global opportunities on offer to service, supply, finance and manage the sector. Titled 'The Halal Economy: Today Southeast Asia, Tomorrow the World', the panel explored how to create a conducive environment for growth, the financial incentives that could help and the benefits of initiatives such as Halal sourcing programs and Halal business parks. The panelists also addressed the knotty problem of why not all Halal business is yet financed Islamically, and how this issue can be addressed, as well as discussing how Malaysia's experience and expertise can be leveraged globally as well as used to attract further inward investment into the country.

"Malaysia is the trend-setter when it comes to Halal standards," stressed Hassam. "It has also launched so many other pioneering initiatives, products and services. How can we start that journey

from Malaysia to learn the successful components of an Islamic economy, make Malaysia the benchmark and build on that success?"

Khamilah Mohd Yusoff, the director of the Food Technology and Resource-Based Industries Division at the Malaysian Investment Development Authority, discussed Malaysia's competitive position as a global leader. "We start by having a structure of dependable standards and a strong certification system," she explained. "Malaysia keeps pushing forward by offering robust industry support services. We have world-standard infrastructure and policies aimed at creating a holistic Halal economy model that can be replicated in other emerging economies. This also opens up collaboration opportunities, interconnected Halal sourcing, global market penetration and many other benefits."

"Malaysia is the first country in the world to create Halal supply chain standards for transportation, storage and retailing"

- Prof Dr Marco Tieman



Prof Dr Marco Tieman, a world-renowned scholar of the Halal supply chain and CEO of supply chain strategy consultancy and research firm LBB International, gave his insights into what the ideal Halal supply chain actually looks like, and how far away we are from achieving that goal. "Malaysia is the first country in the world to create Halal supply chain standards for transportation, storage and retailing. There have not been many takers for

retailing yet, but for transportation and storage, yes. So how far away are we? The standards have not yet been enforced by the government so not many companies in the Halal supply chain have put Halal systems in place yet. We might have only achieved perhaps 10% yet. Look at the whole supply chain including Islamic banking and finance, we are at an even lower level. But Malaysia has been leading this, at both a domestic and international level, and is doing a great job."

"There is a lack of consolidation of Halal food products, and a lack of distribution. How do we bridge that gap? We need to look at the traditional model of how the food sector is run, and how procurement officers trade. During COVID-19, when they cannot trade as usual, now is the time for digital transformation"
- Diana Sabrain



Diana Sabrain, CEO/co-founder of Halal e-marketplace OneAgrix, warned of the challenges of COVID-19 on Halal supply chains. "The supply chain is disrupted and the movement of Halal products globally is really broken. If a quarter of the global population by 2030 are Halal consumers, that's a very long-term perspective, but we need to look at the short-term as well. There is a lack of consolidation of Halal food products, and a lack of distribution. How do we bridge that gap? We need to look at the traditional model of how the food sector is run, and how procurement officers trade. During COVID-19, when they cannot trade as usual, now is the time for digital transformation."

Mohd Suhaimi Abdul Hamid, CEO of Standard Chartered Saadiq, called for Islamic banks to play a greater role across the Halal ecosystem. "Over the years, there is a growing awareness of the Halal economy, which calls for Shariah



compliance to be accepted throughout the entire supply chain of Halal business. But only 54% of Halal businesses are currently bank-financed, according to data from Bank Negara [Malaysia], and of these, less than a quarter use Islamic finance. We as Islamic banks must support Halal players."

Tomas Guerrero, the manager of the Halal Trade and Marketing Centre, added the difficulty facing the industry with regards to a lack of global standardization. "In the case of the Halal certification bodies, it's good to have many different bodies worldwide, a competitive market is healthy," he said. "But the main issue for the Halal industry is from a regulatory view. We have different standards for rating the same thing, and there are varying standards across the Muslim world. There are different approaches, the GCC standards are different to Southeast Asian countries, for example. This is a

"We as Islamic banks must support Halal players"
- Mohd Suhaimi Abdul Hamid



"But the main issue for the Halal industry is from a regulatory view. We have different standards for rating the same thing, and there are varying standards across the Muslim world"
- Tomás Guerrero



problem for companies, which are trying to sell to multiple countries. Sometimes these issues reduce the potential for Halal trade. I have seen some companies avoid going into Halal, because the rules of the game are not clear. But luckily, today we are finally seeing some global initiatives to address these problems — such as the Global Halal Accreditation Forum in the UAE. We hope these will push companies and organizations to overcome the current situation."(👍)

EXPANDING THE HALAL ECONOMY THROUGH FINANCING THE CORPORATE AND SME SECTOR

Where do corporate, trade finance, forex and treasury products for corporates play a role in the financing and development of the Halal economy? How can Islamic finance build appeal and maintain competitiveness in this segment? How can trade and export opportunities be effectively financed and leveraged on, while effectively allowing companies of all sizes to manage risk in the cross-border value chain? What Takaful and investment management solutions are demanded by and are available to corporates? What is the perception of Islamic finance among SMEs and what is the readiness of this vital sector in terms of accepting and adopting Islamic financial services? What can be done to increase this readiness in terms of education, awareness and, if necessary, incentivisation? When and how will the Shariah compliance of finance and funding sources be included as a vital consideration in Halal certification appraisals? How does technology - in particular, crowdfunding - offer a viable alternative for funding the SME sector? How are Islamic financial institutions positioning themselves to serve the corporate and SME sector, and what programs and initiatives are in place? What advice, leadership and guidance should financial institutions be offering their clients? We seek the opinions of an expert panel.

YOUR PANEL



SHABNAM MOKHTAR
Group Executive Vice President,
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AHMAD SHAHRIMAN MOHD SHARIFF
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MARK ALLEN
CEO, Thera Capital Management



NISA ISMAIL
CEO, Sedania As Salam



DR SUTAN EMIR HIDAYAT
Director of Islamic Economy
Supporting Ecosystem, National
Committee of Islamic Finance



WOLFGANG HOLZEM
CEO, eHalal Group



MALAYSIAN STRENGTH

The second day of the event was opened by a keynote address from Rizal Il-Ehzan Fadil Azim, CEO of Alliance Islamic Bank, who detailed the leading role Malaysia could and should play in developing the global Halal economy.

"We have a diverse range of Islamic financial institutions, both domestic and foreign, and Malaysia can expect half of its banking assets to be Islamic by 2030, as the industry's growth outpaces the conventional," Rizal stressed. "The Halal industry continues to offer enormous potential for growth, and in Malaysia we have the infrastructure needed to capitalize on the opportunity that this provides. The JAKIM Halal certification is one that is internationally recognized in 42 countries, including non-Muslim-majority markets. As the global Halal industry grows, Malaysia will continue to work on maintaining and providing global leadership for the Halal industry, at least in terms of a model of how to develop and maintain an Islamic economy ecosystem. To this end, there

will need to be deliberate development of linkages between the robust Halal standards that we have, with Halal-eligible enterprise communities, with Halal infrastructure providers, with a Halal-focused Islamic finance industry and with an investor ecosystem."

Following on from Rizal was a detailed dive into the nuts and bolts of how to expand the Halal economy through financing the corporate and SME sectors. Hosted by Shabnam Mokhtar, the group executive vice-president of SHAPE Knowledge Services, the panel explored the role that corporate, trade finance, forex and treasury products for corporates can play in the financing and development of the Halal economy, and how Islamic finance can both build

appeal and maintain competitiveness in this segment.

Distinguished panelists debated the perception of Islamic finance among SMEs and the readiness of this vital sector in terms of accepting and adopting Islamic financial services, and attempted to create a roadmap to move forward in terms of education, awareness and, if necessary, incentivization.

Of particular concern, of course, was how Islamic financial institutions are positioning themselves to serve the corporate and SME sector, what programs and initiatives are in place, and what advice, leadership and guidance should financial institutions be offering their clients: and the conversation was both frank and lively.



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"We want to support this journey from the lowest to the highest level — and the role of non-banking institutions such as Takaful and Waqf is very important in this"

- Dr Sutan Emir Hidayat



Dr Sutan Emir Hidayat, the director of the Islamic Economy Supporting Ecosystem at Indonesia's National Committee for Islamic Economy and Finance, outlined his own country's goals when it comes to creating a Halal ecosystem. "It is inspired by people from below the poverty line," he explained. "We want to empower them and enhance their lives, through Islamic social finance. Blended finance in Indonesia, supported by Islamic microfinance, will empower them to become bankable.

When they become bankable, as a small company, then there will be Islamic banks and fintechs that will take care of them and play a role in supporting and financing their activities. So we want to support this journey from the lowest to the highest level — and the role of non-banking institutions such as Takaful and Waqf is very important in this."

"Islamic trade is only a small percentage compared to the conventional, and we have to try and catch up with the bigger players as well as supporting the smaller ones"

- Ahmad Shahrir Mohd Shariff



Indonesia is creating new infrastructure such as Halal business parks to develop both domestic Halal activity and inward Halal investment, as well as human resources development, certification programs and scientific research and development.

Ahmad Shahrir Mohd Shariff, CEO of CIMB Islamic, stressed the importance of associating Islamic banks with sustainable activities, and broadening the audience for Halal products and services. "The Islamic banks are playing catch-up though," he pointed out. "Islamic trade is only a small percentage compared to the conventional, and we have to try and catch up with the bigger players as well as supporting the smaller ones."

"It is a social obligation for Islamic banks to come up with initiatives not only to help smaller companies as clients, but also to focus on social inclusion"

- Bilal Parvaiz



Bilal Parvaiz, the director of Islamic business and head of product management at Standard Chartered Saadiq agreed, and also pointed out that SMEs still struggle to easily access financing for their needs. "It is a social obligation for Islamic banks to come up with initiatives not only to help smaller companies as clients, but also to focus on social inclusion."

Joann Enriquez, CEO of Malaysia's groundbreaking Investment Account Platform (IAP), explained two big projects they are working on, to support the Halal economy, which should launch within the year. "First, we are structuring a product which will invest into working capital through a gold liquidity business that gives small and unbankable businesses access to funding by collateralizing their gold.

"Essentially, we are leveraging on the expertise of institutions and crowdfunding their investment through the IAP platform"

- Joann Enriquez



This is an effective mechanism to reach the grassroots level. The other project is to finance the working capital of a Bumiputera initiative [which] turned over US\$70 million in 2019 alone. Essentially, we are leveraging on the expertise of institutions and crowdfunding their investment through the IAP platform."

Mark Allen, CEO of agriculture-focused Thera Capital Management, explained that his unique approach was to get as close to the producer as possible, rather than competing with the banks. "We want to apply our expertise at the producer level," he explained, detailing innovative initiatives that give Halal producers a new avenue of funding.

"COVID-19 is driving a greater demand for credit services from smaller businesses"

- Nisa Ismail



Finally Nisa Ismail, CEO of Islamic trading platform Sedania As Salam which facilitates digital commodities trading, agreed that new avenues of funding were needed. "COVID-19 is driving a greater demand for credit services from smaller businesses," she explained.

To hear the full details of these detailed and immensely valuable sessions, listen online or download for free at www.redmoneyevents.com.

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