Eradicating Extreme Poverty and Promoting Financial Inclusion: The Roles of Islamic and Sustainable Finance

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A Gradual Convergence?

- There has always been a sense of social responsibility within Islamic finance and in Islam.
- Is there now a growing convergence between Conventional and Islamic Finance?
- Increasingly, conventional finance — and western investors — do not wish to invest into “sin industries” (gambling, tobacco, alcohol).
- Investors in conventional finance regimes are increasingly interested in investing into economic activities that do “Social Good” — where returns may be lower — but a social good is achieved.
- Movements such as the #MeToo movement is shifting the way in which some money moves in western countries away from firms, for example, that are seen as negatively impacting women.
- Financial flows are increasingly being impacted by social issues/concerns.
There is an important relationship between access to finance and financial services – and poverty reduction.

In this regard, Malaysia does extremely well as an upper middle income country.
Emerging FINTECH Innovations can significantly help meet the goals of SDG 1 and can be designed to have Islamic features.

1. Mobile Banking
2. Digital Platforms
3. Crowd Funding
4. Psychometric Testing
5. Big Data
6. Social Development Bonds
MOBILE BANKING

Digital Finance/Electronic Payments have the power to unlock financial resources to individuals and MSMEs currently “locked out of the system”.

- Electronic payment and other services leave a “digital footprint” for MSMEs – who otherwise suffer from issues around asymmetry of information;

- Electronic payments permit the enhanced use of BIG DATA to finance MSMEs;

- Electronic payments permit greater financial innovation – i.e. M-Kopa and M-Shwari;
DIGITAL PLATFORMS

Mobile Money – combined with Digital Platforms – provides much of the basis of the fintech revolution.

Digital Platforms permit Crowd Funders and Peer to Peer Lending (P2P) to take place (i.e. Kiva for micro finance). Crowd funding could easily be designed as Islamic finance (particularly equity crowd funding).

Digital Platforms facilitate the manipulation of Big Data.

Digital Platforms can help make some Gender Finance and Green Energy solutions possible.
DATA, BIG DATA, and PSYCHOMETRICS

Many adults in emerging economies do NOT have a bank account. Many less have a bank loan. Consequently, Credit Information coverage is low;

Meanwhile social and other data is expanding exponentially and is being used to assess the repayment capacities/willingness of the un-banked to determine their eligibility for potential loans;

Psychometric testing is also increasingly being tested on the unbanked to predict their financial behaviors;

FinTechs are experimenting with the use of such data as a predictor of repayment behaviors – and making loans accordingly.
Women are disadvantaged in Credit Markets

- They are 20 percent less likely than men to have a bank account;
- 17 percent less likely to have borrowed formally;
- Are more likely to be part of group lending schemes;
- Loan sizes tend to be smaller.

Tools such as – (a) Digital finance; (b) Psychometric testing; and (c) Big data:

Permit women to be evaluated for credit in non-traditional ways — enhancing financial access. Digital platforms also permit women to transact from their homes and thus develop home based businesses — which is often important for Muslim women.
The two biggest constraints to SME development, employment and poverty reduction, are: (a) Access to Finance and (b) Access to Energy.

Innovations in energy (particularly solar) combined with fintech innovations – if brought together – hold out a “game changing formula” for ground breaking development.

Models such as M-Kopa in Kenya (leased solar panels, M-Pesa pre-payment options, and the ability to “turn off” the grid for non-payment) are emerging and offer ground breaking possibilities for deprived communities – delivered on a sustainable basis.
There is a growing realization that young firms generate the most employment in all economies. Young firms are unlikely to receive bank lending – and they are unable to service debt.

Early stage equity financing (Islamic) – in conjunction with big data, Psychometric testing, etc – can help propel these start up firms through the Valley of Death and to potential rapid future growth.

Again – this is can clearly be easily designed as an Islamic instrument.
Social Impact Bonds

Social Impact Bonds (SIBs) – are output based financing. They provide private funding and private expertise to meet a tightly specified social objective (in a PPP arrangement).

They provide private investors potential returns on their investments – if certain social or developmental targets are reached.

Given their emphasis on achieving certain goals – and sharing in upside and downside risks – these could be designed as Islamic financial products for investors.

The most developed case is the Peterborough Prisoners case which provided private funding to reduce the reconviction rate of released prisoners in Britain.
THANK YOU

THINK OUTSIDE THE BOX