

# ICM – SOCIAL FINANCE INTEGRATION

Tech solutions to integrate traditional Islamic Social Finance instruments into Islamic Capital Markets (ICM).

## CONTEXT

With the rapidly evolving ICM landscape, there is potential to explore and build avenues to integrate traditional social finance instruments rooted in Islamic values and intended for social benefit.

Integrating new tech-enabled capital market solutions in relation to Islamic social finance instruments such as *waqf*, *zakat* and *qard hassan* can facilitate a wider and deeper positive impact to the society.

These instruments do not traditionally fall within the ambit of the capital market as the funds are mainly given for benevolent purposes. However, with increasing awareness and demand from the Muslim community who seek to integrate their financial activities with outcomes that would also fulfil religious intentions, touchpoints between Islamic social finance and capital market are becoming more prevalent.

There has been ongoing effort in this direction in Malaysia, particularly around funding for social impact, with the recent introduction of Waqf-featured Fund Framework. The framework facilitates the offering of unit trust funds and wholesale funds with waqf features that integrate commercial and social objectives. Under this framework, investors will also have the opportunity to invest and participate in products that could deliver sustainable benefits for society.

However, there remains immense scope for ideas and solutions that can further unlock the development of Islamic social finance in ICM. Fintech / tech intervention can provide transparency in communication and distribution of zakat or benevolent funds across givers and beneficiaries. This could be achieved through solutions for a Muslim in managing his wealth across channels to distribute benevolent funds with capital market touchpoints such as payment of zakat or investments in waqf or financing through qard hassan.

## INDICATIVE SOLUTION DOMAINS

- Facilitation of Islamic social finance instruments within the capital market ambit through new product / services, and fintech-enabled integration of Islamic social finance applications into ICM.
- Using *qard hassan* as a form of microfinancing by utilizing ICM to offer these benevolent loans to beneficiary without the burden of returning profit as it is a loan extended on a goodwill basis.
- Adapting global best practices around *qard hassan* for Malaysia, including as a courtesy interest-free loan or loans for productivity in various fields to enable the borrower to start an independent life or to increase income – such as loans given to small producers, entrepreneurs, farmers and consumers in need.
- Awareness-raising, collection and distribution of *zakat* through capital market or via touchpoints with capital market for better integration of *zakat* across the investment journey. Some solutions may include –
  - Payment: facilitating calculation and payment of *zakat* on the gains made by the investor, to raise awareness on the need to pay *zakat* on investments and enabling such payment as well.
  - Distribution: channel to distribute *zakat* to social impact funds or outcomes to link capital market to the distribution network of *zakat* across different segments of the economy.
  - Reporting: data monitoring and reporting on the flow of these funds for communication to users and further connecting investor with the outcomes of the funds.