

International Conference on Islamic Finance

Circular Economy

*Towards Impactful, Sustainable and
Value-based Intermediation*

CIEF Conference Report

February 5-6, 2020

مركز الاقتصاد والتمويل الإسلامي
كلية الدراسات الإسلامية
جامعة حمد بن خليفة
HAMAD BIN KHALIFA UNIVERSITY





CIEF Conference Report | February 5-6, 2020

International Conference on Islamic Finance: Circular Economy

Towards Impactful, Sustainable and Value-based Intermediation

Edited & Compiled by

Mudassar Baig

Research Fellow, Research Division
College of Islamic Studies, Hamad Bin Khalifa University

Zul Hakim Jumat

Researcher, Center for Islamic Economics and Finance
College of Islamic Studies, Hamad Bin Khalifa University

Center for Islamic Economics and Finance
College of Islamic Studies | Hamad Bin Khalifa University
P.O. Box 34110 Doha, Qatar

Cite this report as: Baig, M., & Jumat, Zul Hakim. (2020), Summary report of the 'International Conference on Islamic Finance 2020' hosted by the Center for Islamic Economics and Finance (CIEF), College of Islamic Studies, Hamad Bin Khalifa University in Doha, Qatar on February 5-6, 2020.

ABSTRACT

The global growing challenges of landfills, environmental degradation, climate change, and other environmental stressing factors are all believed to be the by-products of the world linear economy paradigm. In recent years, a new circular economy paradigm emerged as an alternative and solution that promote the principles of zero-waste and sustainable agenda. This report summarizes the paper presented International Conference on Islamic Finance (ICIF) 2020, which deliberated on the prospects of a handshake between Islamic finance and circular economy. The two-days conference presents original papers from both scholars and professionals from various academic and industrial disciplines under seven different themes: (1) Islamic Finance and Circular Economy: the next frontier for positive change; (2) Sustainable Financing for impact and value creation; (3) Convergence of Islamic Finance and Circular Economy; (4) Islamic Perspective of Circular Economy and Sustainability; (5) Reimagining Islamic Finance: demonstrating impact and positive change; (6) Circular Economy: concepts, models - challenges and opportunities; (7) Circular Economy Innovations - Case Studies.

INTRODUCTION¹

Islamic finance has come a long way over the last four decades. In its current transformative decade, Islamic finance is facing the challenge of strategic sustainability, which requires the Islamic finance industry to revisit its operational paradigm.

The challenge can be seen in forms of the growing global landfills crisis, ecological and environmental degradation, climate change, and other environmental stressing factors, which are widely understood to be the by-products of the current linear approach of the world economy. While this approach of 'taking, making, using, disposing and wasting' the planet's resources is the dominant economic paradigm, the laws of ecology, like the water cycle, demonstrate that nature does not ever waste.

With the underlying principles of zero-waste and sustainable agenda, over the last few years, the circular economic system, which explores ways, processes and incentives that aim to minimize and ideally eliminate all types of waste, is gaining global attraction. That being so, what are the prospects of a handshake between Islamic finance and this emerging new paradigm?

Thorough studies and deliberations are needed to explore prospects for economics, finance, business, management and other fields of humanities to learn from nature through the lens of Islamic values along with the multidimensional Sustainable Development Goals of the United Nations (UN SDGs). The circular economy, if applied correctly, can first and

¹ **Disclaimer:** The views expressed in the Center for Islamic Economics and Finance lectures and seminars reports are those of the author(s) and do not necessarily reflect those of the CIEF or Hamad Bin Khalifa University. These reports have not undergone any formal review and approval process; the purpose of disseminating these merely to make them available to wider audience. For personal use these reports can be downloaded.

foremost help countries like Qatar to fight the risks of climate change by becoming the first GCC country to implement sustainable economy and business model. It also allows companies to get much more value out of the energy resources, materials and other primary sources they use. That additional value can then be deployed to optimize their services, contribute to their clients' return on investment and promote transparent sustainable practices in the communities they operate.

This conference, organized by the Center for Islamic Economics and Finance of the College of Islamic Studies with the support of the Qatar Financial Centre, thus set out to probe and take stock of the existing knowledge and prospects for transforming economies to achieve and sustain multidimensional development by bringing together original papers deliberating on Islamic finance and the circular economy.

The conference convenes scholars, intellectuals and professionals from various academic and industrial disciplines to discuss on the following themes:

1. Islamic Finance and Circular Economy: The Next Frontier for Positive Change
2. Sustainable Financing for Impact & Value Creation
3. Convergence of Islamic Finance & Circular Economy
4. Islamic Perspective of Circular Economy & Sustainability
5. Reimagining Islamic Finance: Demonstrating Impact & Positive Change
6. Circular Economy: Concepts, Models - Challenges and Opportunities
7. Circular Economy Innovations - Case Studies

SUMMARY

This conference was organized by the Center for Islamic Economics and Finance of the College of Islamic Studies with the support of the Qatar Financial Centre. It sets out to probe and take stock of the existing knowledge and prospects for transforming economies to achieve and sustain multidimensional development by bringing together original papers deliberating on Islamic finance and the circular economy. This was followed by keynote addresses by distinguished speakers which included Mr. Hassan Jummah Al-Mohannadi (Assistant Undersecretary for Environmental Affairs, Ministry of Municipality and Environment), Mr. Yousuf Jaidah (Chief Executive Officer, Qatar Financial Centre (QFC) Authority), Dr. Marc Vermeersch (Executive Director, Qatar Environment and Energy Research Institute (QEERI), Qatar Foundation), Dr. Raghavan Seetharaman (Group Chief Executive Officer, Doha Bank, Qatar), Dr. Mehmet Bulut (Rector, Istanbul Sabahettin Zaim University Istanbul, Turkey) and Sheikh Prof. Ali Al-Quradaghi (Secretary-General of Muslim Scholars Union, Qatar).

Dr. Emad El-Din Shahin, Interim Provost, Hamad Bin Khalifa University, and Dean, College of Islamic Studies, Hamad Bin Khalifa University, gave the welcoming remarks for the conference. On behalf of HBKU, he extended welcome to all the attendees, and particularly, to the international guests.

The first session was a panel discussion on 'Islamic Finance and Circular Economy - The Next Frontier for Positive change'. The panelists discussed the various aspects of the Circular economy and the role of Islamic finance in it. It was argued that carbon tax is an essential component of a circular economy. Responsible investments notably are very closely linked to Sharia, and this forces companies to act more responsibly. A balance between growth and sustainability needs to be achieved, and the solution may not be very straightforward as we

consider all the necessary parameters. A barrier to start on this path in Qatar is that the country is blessed with many resources, which leads to a highly wasteful life. The poorest people have the best recyclable habits, the best use of secondhand items, while the wealthiest naturally tend to be the biggest culprits around the globe.

Innovations such as Green Sukuk can provide impetus to the circular economy efforts. Proactive efforts to finance technologies that help in achieving the circular economy need to be taken. Kahrama has been taking active steps to encourage sustainability, renewal energy production, energy conservation, water-saving, and achieve the Qatar National Vision.

Disincentives for higher consumption, such as higher electricity prices and higher gas prices in Qatar, might provide a compelling reason to adopt circular economy. A favorable approach while less compelling would be to gradually change the attitude as this avoids the indirect impact of disincentives on the business, economy, and employment.

The second session was hinged on the topic of 'Sustainable financing for impact and value creation'. Dr. Omneya Abdelsalam, Associate Dean and Professor of Islamic Finance, College of Islamic Studies, Hamad Bin Khalifa University, spoke on the 'Determinants of Firms' Sustainable Development Goal Performance: Evidence from Qatar and Global Firms'. She said that there are several SDGs in which the Qatari companies' performance rates highly on a global level. As part of her research, SDG performance was measured after aggregating data from several databases, and an aggregate score was calculated. Determinants of SDG performance were determined through regression exercises. Institutional ownership was found to be surprisingly, negatively correlated to the SDG performance.

Dr. Tariqullah Khan, Professor of Islamic Finance, College of Islamic Studies, Hamad Bin Khalifa University, then spoke on the 'Islamic Blended Finance for Impactful SMEs to

Achieve SDGs'. According to him, the perspectives of stakeholders at various levels have to be understood – Local, National, and Global. The paradigm of multidimensional development leads to impactful circular businesses. Blended finance, which advocates social subsidy for businesses, leads to the emergence of impactful SMEs.

Dr. Ahmet Faruk Aysan, Dean, School of Management and Administrative Sciences Istanbul Sehir University, Turkey, then discussed on 'Sustainable Development and Blockchain'. He believed that conventional banking is transforming, and this is likely to affect the course of Islamic banking too. Blockchain can serve as an effective tool as an SDG accelerator. When properly used, Blockchain-powered platforms can enable impact investing ventures. Blockchain has significant potential to contribute to Islamic financing. For instance, UNHCR established a blockchain-based zakat refugee fund. Dr. Khelifa Mazouz, Professor, Cardiff University, United Kingdom, elaborated on his research in the area of 'Value Creation and Unethical Corporate Donations'. The research was conducted on the effect of personal political contributions of directors on the reputation of their company. It was found that these political donations are directly proportional to the IPO premiums. These donations also had a negative correlation with the IPO survivability. Dr. Brahim Saadouni, Professor, University of Manchester, United Kingdom, then spoke on 'Sustainability and Private Equity in the GCC: The Case of Shariah-Compliant and Non-Shariah Compliant Investment'. According to him, private equity in GCC is an emerging class that has been formally structured at the start of the 2000 decade. The PE industry in the GCC lacks informational depth with no empirical studies regarding its performance, legal and regulatory frameworks. An empirical study showed that Shariah compliance adds value to PE performance in the GCC.

The third session of the conference was based on the topic, 'Convergence of Islamic finance and circular economy'. It started with Dr. Mohamed Aslam Haneef, Professor, International Islamic University Malaysia giving a brief talk on 'Bringing Islamic Finance Home through the Circular Economy Social Finance Discourse'. He suggested that the 4Rs – Recycle, refuse, reuse, and reduce, summarize the concept of circular economy. There is plenty of argument in the literature on the role of Islamic banking in achieving the well-being of human beings. There is a disconnect between what the theoretical Islamic finance says and what is being implemented in practice. The scope of Islamic social finance is a lot broader than what the narratives restrict.

Dr. Nafis Alam, Professor, Asia Pacific University, Malaysia, then spoke on the 'Circular Economy Financing: Islamic Finance Perspective'. In his talk, he emphasized that circular economy aims to reduce resource consumption, reduce environmental deterioration and harmonize development among the economy, environment, and society. Financing of the circular economy can come from the public, private or hybrid funds. Green Sukuk proceeds can be used to finance projects. A collaborative effort is required amongst central authorities, local governments, financial institutions, and enterprises towards the establishment of a sustainable financing mechanism. Dr. Abdul Rashid, Associate Professor, International Institute Economics, Pakistan, then spoke on 'Circular Economy, Green Economy, and Sustainable Development: Establishing the Interconnections and Discouraging the Role of Islamic Finance'. According to him, sustainable development, green economy, and circular economy are considered a common avenue to conciliate economic, social, and environmental goals. Sustainability concept has been considered too vague to be implementable, and this, it has started to lose its momentum. There is a strong interconnection among sustainable development, green economy and circular economy, and the three supplement each other.

Dr. Ahmed M. Badreldin, Researcher & Lecturer, Philipps-University Marburg, Germany, then briefly shared his views on 'Transparency and Investment Recommendations for Islamic Investment Accounts: An Empirical Analysis'. UN Sustainable Development Goals talk about the way to spend but not about the way to fund the projects – sustainable funding. Strong quality signal helps stabilize and encourage long-term sustainable investment in non-standard products. The early warning system allows the regulators to take proactive steps to avoid shocks in the system. Traffic-lights-system should be published by external agencies and not by the banks or the regulators.

The first session on the second day, which was the fourth session of the conference was based on the topic, 'Islamic perspective on circular economy and sustainability'. Dr. Ali Al-Quradaghi, Secretary-General of Muslim Scholars Union, Qatar began the session with his talk on 'Islamic perspective on Circular Economy'. He said that Circular Economy is nothing new. It is more like a call to return to take care/conservation of the gifts of Allah. The preparation of economic thoughts is from self-tarbiyah. Verse 11:61 of the Quran says, 'He has produced you from the earth and settled you in it'. Islamic economic thought is a natural thought (*fitrah*) of economics. He who is modest [in expenditure] will never be poor according to a Hadith. We need to develop the culture of serving the community and to know that we all are actually partners in the earth's resources and that this earth is for all of us. There is a need to abstain from the culture of consumerism, and following the 'trend'. The main objective of Islamic economics is to achieve 'balanced economics'. The Islamic thought of balanced economics comprehensively covers the aqeedah, ethics, and human values.

Dr. Abdulazeem Abo Zaid, Associate Professor, College of Islamic Studies, Hamad Bin Khalifa University and Dr. Mohammed Gammal, Associate Professor, College of Islamic

Studies, Hamad Bin Khalifa University then gave a session on 'Islamic Perspective on Environment and Sustainable Development'. They said that human beings are only vicegerents, so they should not think they own this world, rather this is a responsibility that has been given to us. They elaborated the five objectives of Islam which are the preservation of religion: 16:90 "Indeed, "Allah orders justice and good conduct...", preservation of self: to save the new diseases and problems on humans due to waste of resources, preservation of Mind: Islam calls for proper thinking of economics and all parts of life, preservation of lineage: environment conservation to support the humanity on earth and preservation of wealth: Asks not to waste even money, and resources. The Islamic law of 'reviving the dead land' is also an example of environmental protection. Waqf is also a tool for conservation. Dr. Omer Mahgoub Mohamed El Hussien, Head Auditor, Qatar Amiri Guard, then went on to discuss 'The Impact of Islamic Methodology of Sustainability and Circular Economy on Qatar National Vision 2030'. He said that Islamic ethics could fix the disproportionate exploitation of resources. QNV, which involves human development and environmental developments, is showcasing the Islamic thought of conservation and development. A new understanding of Islamic texts is required according to the principles of Islam. Beginning from educating the masses, to the self-proper use of resources is planned in QNV. 60% of revenue generation will be from non-oil & gas resources. Change is required at both the Operation level and the consumer level.

Dr. Salman Ali, Assistant Professor, Indian Institute of Management Raipur, India thereafter discussed on 'Sustainability and Profitability: Can Adherence to Ethical Codes Makes Decision Making Easier'? He stressed that there is an inherent conflict between profitability and sustainability. Humans are vicegerents of Allah on earth, responsible for its

well-being. Muslim Ummah is an ummah of moderation that aligns perfectly with the attitude required for achieving circular economy.

Dr. Omar Javaid, Assistant Professor, Institute of Business Management, Pakistan thereafter presented on the topic of 'A Multi-layer Analysis and Solution for Climate Crisis: From the restructuring of Production to the restructuring of Knowledge'. According to him, the world is a medium through which his creator provides for his sustenance needs and is meant to be taken care of. A Muslim's world view incorporates the idea of circularity – what goes around, comes around, either in this world or the hereafter. Wealth is not the ultimate goal, but a means toward spiritual, psychological, and social attainment in Islam. Islam provides a sustainable and responsible system of Production and Consumption to maximize rewards on the Day of Judgement by serving the local stakeholders.

The fifth session was on 'Reimagining Islamic finance: Demonstrating impact and positive change'. The first talk in the session was given by Dr. Adam Ng, Deputy Director, INCEIF, Malaysia, on the topic of 'The Impact of Sustainable Banking Practices on Banks' Stability'. According to him, the environment and sustainability damages are a source of direct and indirect risks for financial institutions, which may have significant repercussions. Incorporating sustainable banking practices is in the best interest of the banks themselves, and it leads to greater stability for them. Dr. Ahmed Khalaf al-Dikhil, Professor, Tikrit University, Iraq, then spoke on 'Social Responsibility of Islamic Banks via Circular Economy Projects'.

According to him, Islamic banks should be more careful of SCR due to Islamic connection to their activities. Some say that SCR is obligatory, and others count it as voluntary - this is a problem. The circular economy calls for a behavioral and communal thought process.

Mr. Salah Gueydi, Director of Tax, Qatar Financial Centre Authority, then discussed on 'Role of Knowledge in the Transition to Circular Economy: Sustainability and Sharia Perspectives'. He said that the knowledge gain, unlike material exchange, is not a non-zero game. It is a positive-sum game. Exchange of knowledge is not instantaneous, unlike material exchange. Knowledge exchange is time and attention bound. These and other characteristics of knowledge make it crucial in the transition to circular economy. Achieving sustainability using knowledge is perfectly in line with Sharia principles and objectives.

Mr. Abdulrahman Olukade, Ms. Jainaba Kolley, and Mr. Mubarak Mohammed Kabir Musa, MSc Islamic Finance Student, College of Islamic Studies, HBKU, then presented on their research on the topic, 'Solving the Problem of Water and Sanitation in Nigeria through the Use of Blended Finance'. There is a huge gap between the need of the Nigerian population concerning water and sanitation and what is available on the ground. There are significant deficiencies in the water infrastructure, such as lack of water meters, lack of any transparency and accountability in the use and distribution of this valuable resource. Regulation should ensure the appropriate training and skills are developed to work with private sections and philanthropic organizations. Dr. Valeed Ahmad Ansari, Dean & Professor, Department of Business Administration, Aligarh Muslim University and Dr. Shariq Nisar, Professor, Rizvi Institute of Management & Research, Mumbai, India gave a presentation thereafter, on 'ESG Analysis, Corporate Governance, and Shariah Screening: Mutual Learnings for a Better Investment Climate'. According to their research, the Sharia index in India has significant positive momentum, although it is a passive investment strategy. A study reveals that ESG index produced maximum return and also performed better than other indices. Islamic finance could emulate a positive and proactive approach towards societal expectations of SRI investment. The limit on leverage adopted for Sharia investment offers a valuable lesson for

SRI. The convergence of ESG and Sharia criteria can help rebrand Islamic finance and attract more wide-based investors.

The sixth session was on 'Circular economy: Concepts, models - challenges & opportunities. Dr. Evren Tok, Associate Dean for Innovation, & Associate Professor of Public Policy, College of Islamic Studies, Hamad Bin Khalifa University, spoke on the 'Educational Designs, Innovation and Circular Economy in the Muslim World'. He suggested that social justice and social change are at the core of the circular economy. Events such as Makermajlis at HBKU have been working on creating and promoting concepts of SDGs. Dr. Muhammad Tahir Jan, Associate Professor, Kulliyah of Economics and Management Sciences, International Islamic University, Malaysia, then spoke on 'A Consumer Perspective of the Circular Economy: An Empirical Investigation through Structural Equation Modelling'. He said that convenience/availability and environmental impact are two important factors to be considered in the purchasing decision of consumers, which have an effect on realizing circular economy. Policymakers, practitioners, and regulators need to be aware of the perceptions and mentality of the consumers, which affect their decision-making process when purchasing circular products.

Dr. Muhammad Tariq Majeed, Associate Professor, Quaid-i-Azam University, Pakistan, presented on 'Financial Development and Ecological Footprint in OIC Countries Islamic Perspectives and Empirical Evidence'. The financial sector tends to contribute to the circular economy paradigm by improving the quality of the environment. Priorities of the financial sector towards environmentally friendly financing can help to preserve the earth's environment. Ms. Salwa Hamed Al Mulla, Technical Expert, Office of the Vice President, State Audit Bureau, Qatar, discussed on 'The Concepts, Challenges, and Opportunities of Circular

Economy'. Qatar is working a lot in the field of resource conservation and waste management; the most evident would be educating the masses. There are different measures used for this for all age groups. Unfortunately, some religious gatherings like taraweeh and Ramadan feasts are gathering more and more waste. The need to teach the public about conservation of the environment should start from cultural, religious and then schools and colleges etc.

CONCLUSION

Based on the dialogue and consultations and consensus from each session adopted, the following points were summarized for the conference:

Need for A New Paradigm

The paradigm of multidimensional development leads to impactful circular businesses. Blended finance, which advocates social subsidy for businesses, leads to the emergence of impactful SMEs. Social justice and social change are at the core of the circular economy. Sustainable development, green economy, and circular economy are considered a common avenue to conciliate economic, social, and environmental goals. The circular economy aims to reduce resource consumption, reduce environmental deterioration and harmonize development among the economy, environment, and society.

Alignment with Shariah

Responsible investments are very closely linked to Sharia. Maqasid Sharia principles also attest to this alignment and linkage. According to the Islamic point of view, human beings are only vicegerents, so they should not think that they own this world. Rather they should consider the world as a responsibility that has been bestowed onto them. The convergence

of ESG and Sharia criteria can help to rebrand Islamic finance and attract a wider spectrum of investors.

Tradeoffs

A balance between growth and sustainability needs to be achieved, and the solution may not be very straightforward as all the necessary parameters need to be considered.

Stumbling Blocks in Qatar

A barrier to start on this path in Qatar is that the country is blessed with ample resources, which leads to a highly wasteful life. Institutions such as Kahrama, however, have been taking active steps to encourage sustainability, renewal energy production, energy conservation, water-saving, and achieve the Qatar National Vision. Qatar is also working a lot in the field of resource conservation and waste management; the most evident would be educating the masses. There are several SDGs in which the Qatari companies' performance rates highly on a global level. Disincentives for higher consumption, such as higher electricity prices and higher gas prices in Qatar, might provide a compelling reason to adopt the circular economy paradigm.

Proactive Efforts Using Technology, Regulations, and Increase of Awareness Required

Proactive efforts to finance technologies that help in achieving circular economy need to be taken. Policymakers, practitioners, and regulators need to be aware of the perceptions and mentality of the consumers, which affect their decision-making process when purchasing circular products. A collaborative effort is required amongst central authorities, local governments, financial institutions, and enterprises towards the establishment of a sustainable financing mechanism. Innovations such as Green Sukuk can provide impetus to the circular economy efforts. Blockchain can serve as an effective tool as an SDG accelerator.

A favorable approach whilst less compelling would be to gradually change the attitude as this avoids the indirect impact of disincentives on the business, economy, and employment. We need to develop the culture of serving the community and to know that we all are actually partners in the earth's resources and that this earth is for all of us.

Based on the paper's presentations and discussion from all session of ICIF held on February 5-6, 2020 held at CIS-HBKU, Doha Qatar, the following recommendations were adopted:

1. Islamic Finance along with Circular Economy will bring along a positive change in the economy and benefit for ummah
2. Sustainable financing and achievements of SDG goals will be a key to achieve Value Creation in the global economy
3. There should be a Convergence between the objectives of Circular economy and Islamic Finance.
4. There is a need to revisit the concept of Islamic Finance and align it with the goals of Islamic economics
5. Alignment of the objectives of sustainable developments, Circular Economy, Green Economy within the framework of Islamic finance
6. Avoid focusing on a conventional or Western economic model. Islamic economics and finance should concentrate on developing its own code/model/framework.

Acknowledgment:

This conference is sponsored by Qatar Financial Centre and spearheaded by Dr Syed Nazim Ali, Director, Research Division and the Center for Islamic Economics and Finance (CIEF), College of Islamic Studies (CIS), Hamad Bin Khalifa University (HBKU). A special thanks to Bahnaz Al-Quradaghi, and Zul Hakim Jumat of the CIEF and Saqib Hafiz Khateeb and Mudassar Baig of the Research Division, CIS-HBKU for their efforts in organizing the conference.