The Potential of Islamic Finance in Achieving the SDGs

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Outline...

1. Setting the Context:
   - Financing the SDGs?
2. Islamic Finance
   - Is there potential?
3. What is Islamic Finance?
   - Principles & characteristics
4. How can Islamic Finance Help?
   - Modalities & Examples
Introduction

- The SDG, compared to the MDGs, came through an extensive consultative process,
- comprehensive (economic, social & environmental),
- covering all countries (not only developing countries),
- with political will (193 countries signing on),
- And reporting mechanisms on identified targets and indicators...
What Does Take to Achieve the SDGs?

SDG Implementation – The Building Blocks

- Leadership/Political Commitment
  - Partnerships
  - Effective Institutions
  - Good Governance
- Physical Infrastructure
- Human Capital and Technology
- Social Inclusion
- Security and Political Stability
- Effective Policies
- Monitoring and Accountability
- Global Partnerships
- Credible Strategy
- Sound Economic Management
Financing the SDGs

- Estimates: USD 3-4 Trillions annually till 2030
- ODAs? Annually about USD 143 Billions
- All financing by MDBs is about USD 127 Billions
- How will this financing gap be tackled?
- Addis Ababa Actionable Agenda (AAAA)
- The call for resource mobilization (Public, Private, local, global)
- Engaging the private sector. Trillions of dollars are sitting idle or even making negative return..
- Engaging the crowd, with crowd funding platforms
- Engaging philanthropists through specialized funds
- Many creative initiatives will have to come alive, if the SDGs to stand a chance of becoming a reality!
Potential of Islamic Finance

- 23% of the world’s population embraces the Islamic Faith, while less than 2% of the world’s financial assets are compliant with Islamic Finance.
- About 2 billion people in the world do not have bank accounts (speaking of financial inclusion), many of them live in Islamic countries.
- The deployment of Islamic Finance solutions could attract millions of those who voluntarily withdrawn from the financial system for religious reasons (IFSB) – 11% in OIC countries sight religion as a reason not to participate.
- The poor will miss out on the economic activity and the rich will miss out on investment opportunities, and thus mobilizing resources for the sake of development.
Growth of Islamic Finance

- Total assets are reaching **USD 2 Trillions**, with an annual growth exceeding **15%** globally.
- It appears to be not only because of religion, but because it is proving to be a viable financial model that brings **additionality** to the global financial system.
- Proved to be **more stable** in the aftermath of the financial crisis a decade ago.
- Impressive growth rate in the three Islamic countries in the G20 (Indonesia 40%, Turkey 28%, Saudi Arabia 17%), and several other countries.
- Many international conventional banks are creating Islamic Finance windows (e.g. London, Singapore, etc.).
- The proliferation of new IF instruments, tapping international capital markets (e.g. Sukuks, etc.).
What is Islamic Finance?
The Principles of Islamic Finance

- By its nature, Islamic finance is pro-development and a vehicle for shared prosperity (Objectives of Shariaa)
- Focus on Economic inclusion and social justice
- No speculations nor ambiguity (Gharar)
- Dealing with real assets (in the real economy)
- Based on Risk Sharing and Transparent Contracts
- Encouragement of Entrepreneurship, discovery and ethics
- Solidarity Schemes (Zakat, Waqf, interest-free loans, etc.)
- Could help in empowerment (across the entire chain: Before, During and after the subject economic activity)
How Can Islamic Finance Help in Achieving the SDGs?

- The SDGs are comprehensive and indivisible, not to mention the great deal of interaction among the goals (i.e. when lifting people from poverty, they are more capable of taking care of their health, education, etc.)
- Financing SDGs related directly to human development might require different financial instruments vs. financing SDGs related to physical infrastructure.
- Islamic Finance offers new ways of addressing both small and medium projects and mega infrastructure and PPP projects.
Islamic Finance & the SMEs

- The SMEs are important (90% of jobs)
- SMEs are mostly active in informal markets missing out the benefits of being integrated with global markets;
- Throwing Money at the poor with not solving their problem.. Things could get worse!
- If empowered in creating wealth, enhance capabilities to generate income, boost the self esteem of communities, they would take care of their needs. SDG 2,3,4,5, etc.
- To consider the client as Business Partner Not as a Creditor Consumer!
Opportunity Markets

Active Poor & Disadvantaged People: Over 5 billion
(Most disadvantaged = Rural Productive Families, Women & Youth)

Rich & Advantaged
(Medium & High Income)

Low Return & Informal Opportunities Market

High Return Opportunities Markets (HROM)

The ISSUE = Unequitable Access-for-all to HRBOM
The Paradigm Shift

From

“Financing for Development”

to

“Empowering for Development”

The Notion of Creating Wealth as means for empowerment and win/win approaches
What are The Beneficiaries Needs?

Financing is not the only fundamental need

- Business and Job Opportunités
  - Strategic Partnership to Access Promising Markets
  - Entrepreneurship Capacity Building
  - Solidarity and Participatory Finance
  - Support Investments & Business Infrastructure

Strategic Partnership with the private sector
Again by its nature, Islamic finance does encourage investment and trade (more than debt) to achieve progress in development and prosperity.

- Promotes Inclusive Development and Social Justice
- Encourages Risk and Reward Sharing
- Encouragement of Entrepreneurship, discovery and ethics
- Solidarity Schemes (Zakat, Waqf, interest-free loans, etc.)
- 17 Modes of Financing:
- could help in empowerment (across the entire chain: Before, During and after the subject economic activity)
### Possible Modes of Islamic Finance

<table>
<thead>
<tr>
<th>#</th>
<th>Mode of Financing</th>
<th>Role of the Financial Institutions</th>
<th>Role of the Beneficiaries</th>
<th>Kind of Business</th>
<th>Benefit and Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Sales related Financial Products:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Murabaha (Buy-resell),</td>
<td>Sell</td>
<td>Buy</td>
<td>Trade</td>
<td>Access to Goods</td>
</tr>
<tr>
<td>2</td>
<td>Bai-Ajal (Instalment Sale),</td>
<td>Sell</td>
<td>Buy</td>
<td>Trade</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Salam (Forward selling)</td>
<td>Buy</td>
<td>Sell</td>
<td>Trade</td>
<td>Access to Markets</td>
</tr>
<tr>
<td>4</td>
<td>Istitnaa (Manufacturing)</td>
<td>Manufacture</td>
<td>Buy</td>
<td>industry</td>
<td>Promote Manufacturing</td>
</tr>
<tr>
<td>5</td>
<td>Parallel Istitnaa</td>
<td>Buy Manufactured Goods</td>
<td>Manufacture</td>
<td>Manufacturing</td>
<td></td>
</tr>
<tr>
<td>(ii) Placement related Financial Products: Mudarabah, Muzaraa, Mussakat, Mugharassa (Venture capital in Agriculture production),</td>
<td></td>
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<tr>
<td>6</td>
<td>Mudharaba (Profit sharing)</td>
<td>Participate and Follow-up</td>
<td>Execute Works</td>
<td>Diversified Works</td>
<td>Promote works</td>
</tr>
<tr>
<td>7</td>
<td>Mussakat</td>
<td>Participate and Follow-up</td>
<td>Follow-up Agriculture</td>
<td>Agriculture</td>
<td>Development of Agriculture and Agribusiness production</td>
</tr>
<tr>
<td>8</td>
<td>Muzaraa</td>
<td>Participate and Follow-up</td>
<td>Execute Agriculture Activity</td>
<td>Agriculture</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Mugharassa</td>
<td>Participate and Follow-up</td>
<td>Plant trees</td>
<td>Orchards</td>
<td></td>
</tr>
<tr>
<td>(iii) Lease and Leasing financial Products:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Ijara (Lease)</td>
<td>Lease</td>
<td>Rent</td>
<td>Service</td>
<td>Access to Equipment</td>
</tr>
<tr>
<td>11</td>
<td>Ijara Wa-Iqtinaa (Leasing)</td>
<td>Rent and Sell</td>
<td>Rent with possibility of purchase</td>
<td>Lease with possibility of purchase</td>
<td>Access to Equipment</td>
</tr>
<tr>
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<td>Mode of Financing</td>
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<tr>
<td>(iv)</td>
<td>Equity related financial Products: Musharaka, Musharaka Mutanakissah,</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Musharaka</td>
<td>Participate</td>
<td>Participate</td>
<td>Works</td>
<td>Promote Business</td>
</tr>
<tr>
<td>13</td>
<td>Musharaka Mutanakissah</td>
<td>Participate and withdraw</td>
<td>Participate and Own</td>
<td>Business</td>
<td></td>
</tr>
<tr>
<td>(v)</td>
<td>Savings, micro-insurance (Takaful),</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Savings,</td>
<td>Construct &amp; Realize Works</td>
<td>Buy</td>
<td>Public Works</td>
<td>Promote of Public Works</td>
</tr>
<tr>
<td>15</td>
<td>Micro-insurance (Takaful),</td>
<td>Buy</td>
<td>Construct and Realize Works</td>
<td>Public Works</td>
<td></td>
</tr>
<tr>
<td>(v) Free loans (Qard Hassan) and (vi) Grand(Ihssan, Zakat, Waqf, )</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>Qard Hassan</td>
<td>Participate</td>
<td>Get a loan</td>
<td>Varies</td>
<td>Access to Finance</td>
</tr>
<tr>
<td>17</td>
<td>Grant</td>
<td>Participate and withdraw</td>
<td>Get Financed</td>
<td>Varies</td>
<td></td>
</tr>
</tbody>
</table>
IDB’s support to SMEs

- Lines of Finance: Over USD 650 millions serving SMEs through national banks in member countries.
- ISFD Projects / Poverty Arm of IDB Group/
- Economic Empowerment through NDFIs identifying NGOs
  (examples: Sudan & Palestine)
- ICD / Private Sector Arm of IDBG.. Intermediaries strategy providing Lines of Finance to Local Banks.. Channeling Resources for Development (USD 398 Million) + Advisory
How can Islamic Finance Mobilize Resources for Mega Projects

- The Infrastructure financing deficit (2.5 trillion annually)
- The natural fit between Islamic Finance and infrastructure
- The natural fit between Islamic Finance and PPP
- Different instruments provides flexibility in customizing support for specific projects

Examples of Modes for financing:

- Sukuk
- Ijara (Leasing)
- Installment Sale
- Istisnaa (order to make)
- Equity and SPVs
- Etc.,
Cases

- Konya Integrated Health Campus – Turkey
- Doraleh Container Terminal Project – Djibouti
- Queen Alia International Airport - Jordan
- Madinah Airport – Saudi Arabia
- Klang Valley Expressway Project – Malaysia
Challenges & Opportunities

- Unified sharia’h boards
- Sharing risk with conventional banks
- Pricing: fixed vs. floating
- Financing with conventional banks
- Fees (e.g. commitment fees, late payment)

- Creating enabling environments
- Building capacity
- Tapping into unreachable beneficiaries
- Unleashing the investment potential of high net worth individuals and institutions in some rich areas
Commitment of IsDB to the SDGs

- The manifestation of this commitment is through four lines of activities:
  - Awareness
  - Alignment
  - Advocacy
  - Adaptation

- Challenges with Alignment
- Challenges with Ownership from the trenches

- Eventually IDB should serve its Member Countries
In conclusion

- Agenda 2030 and the SDGs represents a universal framework for comprehensive development, human dignity and living non one behind is coherent with ‘Maqasid Al-Sharia’ (Objectives of Sharia)
- The Financing Gap is huge, and Islamic Finance presents viable additional capabilities for resource mobilization through creative and productive modes of financing
- Financing is necessary but not sufficient. A paradigm shift is needed from Financing for development to Empowerment for development. Islamic Finance offers instruments in this regard
- Islamic Finance has the potential to bring additionality to the efforts of mobilizing resources at the local, national and global level for the sake of realizing the SDGs.
Thank you
### SDG Comparative Analysis Map

**SDGcam**

The SDG comparative analysis map provides a detailed comparison of the Sustainable Development Goals (SDGs) targets and indicators. The map includes strategic analysis and summary data to aid in understanding and tracking progress towards the SDGs.

The table and diagram are part of a comprehensive tool for analyzing progress and identifying areas for action. This tool is particularly useful for stakeholders working towards achieving the SDGs.
<table>
<thead>
<tr>
<th>IDBG 10-Year Strategy</th>
<th>STRATEGIC OBJECTIVES:</th>
<th>STRATEGIC PILLARS:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Inclusiveness</td>
<td>Connectivity</td>
</tr>
<tr>
<td></td>
<td>Economic &amp; Social Infrastructure</td>
<td>Private Sector Development</td>
</tr>
<tr>
<td></td>
<td>Inclusive Social Development</td>
<td>Cooperation Between Member Countries</td>
</tr>
<tr>
<td>1. No Poverty</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>2. End Hunger</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>3. Good Health</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>4. Quality Education</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>5. Gender Equality</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>6. Clean Water &amp; Sanitation</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>7. Affordable &amp; Clean Energy</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>8. Decent Work &amp; Growth</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>9. Industry &amp; Infrastructure</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>10. Reduced Inequalities</td>
<td>3</td>
<td>2</td>
</tr>
</tbody>
</table>

**Capacity Development**

**Islamic Finance Sector Growth and Development**
Mainstreaming


1. Raising awareness
2. Inclusive participation
3. Reviewing plans and adapting SDGs
4. Horizontal policy coherence
5. Vertical policy coherence
6. Financing and budgeting for the future
7. Monitoring, reporting and accountability
8. Assessing risks and fostering adaptability
SDG mast is based on the eight practice areas for SDG mainstreaming as outlined by the United Nations Development Group (UNDG) in its publication 'Mainstreaming the 2030 Agenda for Sustainable Development: Reference Guide to UN Country Teams' (see adjacent).

How to Use This Tool
The 'Diagnostics' sheet contains a set of 16 questions about SDG mainstreaming. Answer each question using the Scoring Legend adjacent to the question (out of 4) and then provide a brief statement with evidence to support your score.

The 'Results' sheet summarizes your self-assessment in a radar plot and provides space for you to write a brief executive summary.

The Developer
The SDGmast beta version was developed by Darren Swanson, Director of Novel Futures, a Canadian-based consultancy supporting sustainable development. SDGmast beta version is an open source diagnostic tool, available for any organization to use and adapt.