

Role of Islamic Economics and Finance in Sustainable Development Goals

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PRESENTATION OUTLINE

- ❖ Introduction.
- ❖ Environmental and Human Development Challenges.
- ❖ Role of Islamic Normative Framework for Cultural Change.
- ❖ Role of Islamic Redistributive Institutions in SDGs.
- ❖ Role of Islamic Commercial Finance in SDGs.
- ❖ Conclusion.

INTRODUCTION

Evolution of Concept of Development in Economics

- ❖ Per Capita Economic Growth.
- ❖ Human Centric Inclusive Development.
- ❖ Sustainable Development with focus on Human Capital and Environment.

A Look on SDGs from Maqasid al-Shari'ah and Islamic Economics Perspective

- Maqasid al-Shari'ah focus on protection and development of:
 - ❖ Spirituality (Hifdh al-Dien).
 - ❖ Physiology (Hifdh al-Nafs).
 - ❖ Intellect (Hifdh al-Aqal).
 - ❖ Sustainability (Hifdh al-Nasl).
 - ❖ Economy (Hifdh al-Maal).
- Islamic worldview emphasizes human *Falah* in both worlds.
- Islamic social and financial institutions focus on Maqasid al-Shari'ah and human *Falah*.

SUSTAINABLE DEVELOPMENT GOALS



TRANSFORMING OUR
WORLD:
THE 2030 AGENDA FOR
SUSTAINABLE
DEVELOPMENT

1 NO
POVERTY



2 ZERO
HUNGER



3 GOOD HEALTH
AND WELL-BEING



4 QUALITY
EDUCATION



5 GENDER
EQUALITY



6 CLEAN WATER
AND SANITATION



7 AFFORDABLE AND
CLEAN ENERGY



8 DECENT WORK AND
ECONOMIC GROWTH



9 INDUSTRY, INNOVATION
AND INFRASTRUCTURE



10 REDUCED
INEQUALITIES



11 SUSTAINABLE CITIES
AND COMMUNITIES



12 RESPONSIBLE
CONSUMPTION
AND PRODUCTION



13 CLIMATE
ACTION



14 LIFE
BELOW WATER



15 LIFE
ON LAND



16 PEACE, JUSTICE
AND STRONG
INSTITUTIONS



17 PARTNERSHIPS
FOR THE GOALS



ENVIRONMENTAL & HUMAN DEVELOPMENT CHALLENGES

The last five human generations have pushed planetary boundaries through:

- Unprecedented burning of fossil fuels.
- Rapid deforestation.
- Contamination of seas.

These anthropogenic disruptions have resulted in:

- Rise in temperature.
- Frequent heat waves.
- Floods.
- Melting of glaciers.
- Enormous loss of marine and tropical forest species.
- Rise in sea levels by about 8 inches since 1870.

ENVIRONMENTAL & HUMAN DEVELOPMENT CHALLENGES

Huge economic growth has come at a significant cost to the environment and life supporting systems on the planet.

Yet, economic growth is not shared equitably. The 8 richest billionaires own as much wealth as the poorer half of the world's population (Source: OXFAM).

We produce 17% more calories per person today than 30 years ago, despite a 70% increase in the population. But, we waste almost half of food we produce.

Yet, one in every four people in Africa goes to bed hungry every night (Source: FAO).

STATE OF DEVELOPMENT IN THE MUSLIM WORLD

Development Indicators	High Income	Middle Income	Muslim Countries
Economic			
GDP Per Person Employed (Constant 2011 PPP\$)	76,507	29,631	40,341
Poverty Ratio at PPP \$1.90 a Day (% of Population)	0.56	5.95	24.58
Education			
Literacy Rate (% of Adult Population)	98.46	93.22	73.46
Net Enrolment Ratio in Primary (%)	96.92	92.34	85.55
Health			
Hospital Beds (Per 1,000 People)	5.18	3.37	1.98
Improved Sanitation Facilities (% People with Access)	97.14	81.85	64.53
Improved Water Source (% People with Access)	99.28	91.89	82.04

Source: World Development Indicators, 2015

STATE OF DEVELOPMENT IN THE MUSLIM WORLD: TOP 20 OIC COUNTRIES BY HDI

Country	HDI Value	World Rank	OIC Rank
Brunei Darussalam	0.8556	31	1
Qatar	0.8498	33	2
Saudi Arabia	0.8373	39	3
United Arab Emirates	0.8355	41	4
Kuwait	0.8163	48	5
Oman	0.7930	52	6
Kazakhstan	0.7880	56	7
Malaysia	0.7792	62	8
Lebanon	0.7689	68	9
Iran	0.7656	70	10
Turkey	0.7611	72	11
Azerbaijan	0.7511	78	12
Jordan	0.7483	80	13
Algeria	0.7356	83	14
Albania	0.7328	85	15
Bosnia and Herzegovina	0.7325	87	16
Libya	0.7245	95	17
Tunisia	0.7212	96	18
Suriname	0.7143	103	19
Source: World Development Indicators, 2015	0.7064	104	20

ROLE OF ISLAMIC NORMATIVE FRAMEWORK FOR CULTURAL CHANGE

The theistic concepts of *Tawheed*, *Khilafah* and *Akhirah* govern the Islamic way of life.

Belief in the single source of creation defies racial, ethnic or gender basis of biases.

Concept of *Khilafah* raises the stature of human beings as moral beings with inbuilt and active conscience, which provides the ability to differentiate moral from immoral acts.

It inculcates the responsibility of custodianship, trusteeship and stewardship in human beings with regards to the use and ownership of physical property and environmental resources.

ROLE OF ISLAMIC NORMATIVE FRAMEWORK FOR CULTURAL CHANGE

Environmental stewardship requires that we use natural resources ethically so as to equally improve the welfare of society, other living organisms, and future generations (Alghamdi, 2014).

The relationship between human and nature is one of custodianship or guardianship, and not of dominance (Islam, M. N. & Islam, M. S., 2015).

The earth's resources are available for humanity's use, but these gifts come from Allah with certain ethical restraints.

ROLE OF ISLAMIC NORMATIVE FRAMEWORK FOR CULTURAL CHANGE

In the secular worldview, due to the absence of afterlife accountability, the rich people with absolute and inviolable property rights can command natural and environmental resources whose potential lifespan is much greater than the lifespan of their owners.

But, if the rich people believe in no afterlife accountability, they can extract and exploit these resources quickly and deprive future generations of their use.

According to the World Values Survey sixth wave (2010-2014), 29% respondents in 21 OIC member countries state that 'looking after the environment and to care for nature and save life resources' best describes their view and attitude towards environment as compared to 21% stating the same view in 39 non-Muslim majority countries.

ROLE OF ISLAMIC NORMATIVE FRAMEWORK FOR CULTURAL CHANGE

Extinction of species, global warming, climate change, depletion of ozone layer and massive carbon emissions are inevitable results of the individualistic paradigm.

Climate change is a slow, but cumulative process. Individual human lifespan is only an infinitesimally small fraction of the life of environmental resources and eco-system services.

Hence, the self-centric and this worldly view of life are incompatible with the concerns of sustainability and socially responsible behaviour.

ROLE OF ISLAMIC REDISTRIBUTIVE INSTITUTIONS IN SDGS

SDGs are ambitious and require all encompassing efforts and involvement of all sorts of institutions.

It is especially crucial for countries that are much behind the targets and need considerable effort and resources to pull themselves up to meet the targets.

Religious institutions which have a socio-economic character can also be employed in creating synergistic efforts towards achieving the sustainable development goals, especially in Muslim majority countries.

ROLE OF ISLAMIC REDISTRIBUTIVE INSTITUTIONS IN SDGS: ZAKAT

Zakat is a compulsory obligation in the faith of Islām to pay a certain part of surplus wealth to the specified beneficiaries every year.

Every year, 2.5% of wealth subject to Zakat has to be paid by the Muslims to the eight specified heads of beneficiaries and causes.

In Islāmic jurisprudence, if a Muslim owns an equivalent monetary sum of *Nisāb*, he has to pay 2.5% of surplus wealth above the *Nisāb* every year.

Zakat is an important institution in an Islāmic economic framework for poverty alleviation and economic welfare.

ROLE OF ISLAMIC REDISTRIBUTIVE INSTITUTIONS IN SDGS: ZAKAT

In institution of *Zakat*, the payer of *Zakat* and the receiver of *Zakat* belong to two different income classes.

The payer of *Zakat* is a non-poor person with surplus wealth above *Nisāb*.

The receiver of *Zakat* is usually a poor person with no surplus wealth above *Nisāb*.

The threshold wealth of *Nisāb* makes a distinction between the payer and the receiver and helps to achieve targeted wealth transfer to the people who are usually the poor people.

ROLE OF ISLAMIC REDISTRIBUTIVE INSTITUTIONS IN SDGS: ZAKAT

Zakat can achieve the redistribution objectives more effectively and consistently since wealth fluctuates much less than income over the business cycles.

Zakat system has an inbuilt mechanism to reach the right targets in terms of *Zakat* collection and disbursement.

The accumulated wealth can be much more than the single period income, especially in the high net worth individuals of the society. *Zakat* targets accumulated wealth and transfers it to the poor.

Oxfam (2017) reports that global wealth has reached \$255 trillion. It is enough to give \$1 a day to 767 million poor people for 910 years. A single year 2.5% *Zakat* on it will give \$1 a day to 767 million poor for 23 years.

ROLE OF ISLAMIC REDISTRIBUTIVE INSTITUTIONS IN SDGS: ZAKAT

FAO estimates that food per capita availability has increased since the 1970s, but still close to 800 million people suffer from hunger.

Unfettered Capitalism results in unmet needs as well as unused resources.

Zakat helps in wealth transfer as well as wealth circulation in the real economy to enhance employment of labor and non-labor resources and provide sustainable incomes to the poor.

Zakat could help in providing income support to the poor people who are food insecure due to lower and unsustainable incomes.

ROLE OF ISLAMIC REDISTRIBUTIVE INSTITUTIONS IN SDGS: ZAKAT

Oxfam reports that 8 individual persons have as much wealth as bottom 50% of the entire global population.

Their combined wealth is \$426.2 billion as of end-2016.

As per World Bank, there are 767 million people below the poverty line of \$1.90/day.

It means that poverty gap is \$531.9 billion ($1.90 \times 767,000,000 \times 365$) per year.

ROLE OF ISLAMIC REDISTRIBUTIVE INSTITUTIONS IN SDGS: ZAKAT

Nearly 50 percent of the people living in extreme poverty are 18 years old or younger.

A significant portion of our global population would not have a fair start to achieve socio-economic mobility.

Proper nourishment, basic medicines and vaccinations are necessary to avoid ill-health, stunting and loss of capacities for independent productive living in adulthood.

Unless effective redistribution happens, the purchasing power cannot be enhanced which is vital to afford even the basic necessities today, such as food, water and medicines.

ROLE OF ISLAMIC REDISTRIBUTIVE INSTITUTIONS IN SDGS: ZAKAT

Vital goal for achieving permanent poverty exit, enhancement of skills and capacities, and to ensure upward social mobility.

The financial institutions can come to the rescue once the people are able to hold enough assets and skills for enterprise.

But, much before that, people require survival and human capital development in the early stage of life.

Effective administration and management of the *Zakat* funds can help in scaling up the benefits in terms of strengthening institutions to create synergistic effects.

ROLE OF ISLAMIC REDISTRIBUTIVE INSTITUTIONS IN SDGS: ZAKAT

Zakat from endowment surplus households (those having higher wealth than *Nisāb*) to the endowment deficient households can help in providing income support and affordability for skills enhancement programs.

Zakat could also be used to provide funding for educational and health institutions, thereby contributing to human capital development which can provide decent work.

Zakat would ensure circulation of wealth in the productive enterprise, thereby directing capital to go in the real sector of the economy rather than sitting idle in the hands of the wealthy individuals.

ROLE OF ISLAMIC REDISTRIBUTIVE INSTITUTIONS IN SDGS: WAQF

Waqf is an important social institution in the Islamic framework. In the institution of Waqf, an owner donates and dedicates a movable or immovable asset for perpetual societal benefit.

The beneficiaries enjoy its usufruct and/or income perpetually.

Waqf can be established either by dedicating real estate, furniture or fixtures, other movable assets and liquid forms of money and wealth like cash and shares.

ROLE OF ISLAMIC REDISTRIBUTIVE INSTITUTIONS IN SDGS: WAQF

The cash *Waqf* can pool liquid donations in order to build institutions, such as schools, hospitals, and orphanages (Sadeq 2002).

Cash *Waqf* can pool more resources and ensure wider participation of individual donors (Aziz et al., 2013).

Waqf provides flexibility in fund utilisation as compared to *Zakāt* since *Zakāt* funds must be utilized for specific categories of recipients.

The institution of *Waqf* can be used to provide a wide range of welfare services, such as educational institutions, health institutions, environmental preservation programs and financial institutions like *Waqf* based microfinance (Habib, 2007)) and socially driven banks (Mohammad , 2011).

ROLE OF ISLAMIC REDISTRIBUTIVE INSTITUTIONS IN SDGS: WAQF

Alongwith income support and cash transfers, poor people also require skills and productivity enhancement in order to get out of poverty and achieve social mobility.

The increased and improved provision of education and health infrastructure funded through Waqf can enhance the income-earning potential of beneficiaries.

Real estate-based Waqf can generate proceeds through the rental of properties, which then can be used to finance social development needs. Cash and commodity based Waqf can provide interest-free loans (*Qard Hassan*) to the needy in sectors like education, health and agriculture.

ROLE OF ISLAMIC COMMERCIAL FINANCE IN SDGS

Achieving sustainable development rests on availability of funds, infrastructure, inclusive growth, creation of jobs, 'environment friendly' technological advancements and business processes reengineering. All of this is not going to be possible without availability of funds.

Around \$3.5 trillion to \$5 trillion is needed every year to make desirable progress on SDGs. At global level, investment in infrastructure is estimated to be US\$ 100 trillion over the next two decades (Ahmed et al., 2015).

In Middle East, there is immense potential to use solar energy alongside oil. In Arab world, the annual per capita share in water resource will be less than 500 cubic meters, less than 10% of global average. Lack of financing is one of the major obstacles for minimal use of renewable energy in developing countries.

ROLE OF ISLAMIC COMMERCIAL FINANCE IN SDGS

Financial sectors of developing countries are often underdeveloped and are unable to efficiently channel loans to produce renewable energy. World Bank estimates that developing countries spend about \$1 trillion a year on infrastructure.

An additional \$1-1.5 trillion will be needed through 2020 in areas such as water projects like dams, desalination plants, power projects and transportation projects.

ADB estimates that emerging Asian economies alone will require \$8 trillion over the next decade to satisfy growing demand in the areas of energy, water and transportation.

The financial crisis of 2007-09 and subsequent contagion effects has not helped in improving on the commitment to provide 0.7% of Gross National Income as Official Development Assistance (ODA) by the developed countries to the underdeveloped ones.

ROLE OF ISLAMIC COMMERCIAL FINANCE IN SDGS

With resources allocated to development by donor countries remaining insufficient coupled with the headwinds of financial and economic crises affecting many countries worldwide, it is important to explore alternative and complementary innovative financing mechanisms such as Islamic finance.

There is much potential for Islamic finance to promote sustainable economic development through such approaches as widening access to finance (including microfinance), financing infrastructure projects, and expanding the reach of Takaful (Islamic insurance).

As part of its commitment to the SDGs, the Islamic Development Bank has announced it will increase its funding of SDG related activities through its ten year strategy framework, from \$80 billion recorded during the MDGs, to \$150 billion over the next 15 years (2016-2030).

ROLE OF ISLAMIC COMMERCIAL FINANCE IN SDGS

Global Shari'ah-compliant assets totaled \$2.0 trillion at the end of 2015, and are expected to exceed \$3 trillion by 2020.

With resilient growth, effective risk mitigation and participative modes of financial products, Islamic banking and finance promises to play a significant role, especially in the Muslim world.

Islamic finance also can enhance financial inclusion, as it incorporates people who are excluded from the traditional financial system for religious reasons.

Islamic finance has some distinct advantages over the money based usurious interest based financial intermediation.

ROLE OF ISLAMIC COMMERCIAL FINANCE IN SDGS

Real sector based productive enterprise in Islamic finance has positive implications for the ecosystem. Risk-sharing shifts the emphasis from credit-worthiness of the borrower to be placed on the value creation and economic viability of investments that create new wealth.

High levels of debt in the conventional interest based financial architecture are one of the prime causes of financial crises (Buiter and Rahbari, 2015; Mian & Sufi, 2015).

As per Islamic Development Bank (2015), innovative Islamic financial instruments especially for infrastructure development such as Sukuk can be used to mobilize resources to finance water and sanitation projects (SDG-6), sustainable and affordable energy (SDG-7), build resilient infrastructure (SDG-9) and shelter (SDG-11).

CONCLUSION

SDGs revolve around human and societal well-being and they are in consonance with Islamic ethos and philosophy.

Islamic philosophy and worldview can renew our attitudes and outlook towards socio-economic problems and environmental challenges.

Islamic social finance institutions like Zakāt and Waqf can contribute towards scaling up efforts in commercially non-viable, but socially vital projects and programs.

Islamic finance could compliment SDGs through financial inclusion, microfinance, Takadul and financing infrastructure projects using Sukuk.



THANK YOU