Islamic Finance and the SDGs: Financial Stability Perspectives

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The Sustainable Development Goals (SDGs): 1

- In 2015, countries adopted a set of goals to end poverty, protect the planet, and ensure prosperity for all as part of a new sustainable development agenda.
- The new Agenda defined global sustainable development priorities and aspirations for 2030 and sought to mobilize global efforts to fulfil 17 Sustainable Development Goals (SDGs).
- The SDGs seek “to end extreme poverty in all its forms and to have in place the building blocks of sustained prosperity for all.”
- The SDGs are ambitious and formulated to “leave no-one-behind”.

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Addressing global poverty will require tackling the high levels of poverty in the member countries of the Organization of Islamic Cooperation (OIC).

OIC countries account for 22 percent of the world population and 7 percent of global GDP.

40 percent of the world’s poor who live on US$1.25 a day or less reside in OIC member countries.

Also, one-third of the global population now living in extreme poverty (defined as those living on less than $1.90 a day) are in OIC countries.

These statistics suggest a strong potential role for Islamic finance in pursuing the SDGs in OIC countries.
Islamic finance and the SDGs: 1

- The foundations of Islamic finance that support socially inclusive and development-oriented activities make it suitable for deployment in pursuit of the 2030 Agenda and the elimination of poverty.
- Given its direct link to physical assets and the use of profit- and loss-sharing arrangements, Islamic finance encourages the provision of financial support to productive enterprises that can increase output and generate jobs.
- The emphasis on tangible transactions also ensures that Islamic financing only supports transactions that serve a real purpose, increasing the chances of increased output at the country level.
Islamic finance and the SDGs: 2

- In addition, Islamic social finance instruments such as *waqf* (endowment), *zakat* (mandatory alms-giving) and *Saddaqah* (voluntary charity donations) can help support the poor and vulnerable groups in the society, thereby contributing to poverty reduction.

- Hence, Islamic finance can be a potent source of SDG finance given its emphasis on providing a safety net for the poor, its linkages to real economic activities, its partnership-based and equity-focused approach, as well as the widening geographic reach and the rapid expansion of its global assets in Muslim and non-Muslim countries.
Financial stability and the SDGs

- When financial systems malfunction, there are dire consequences for the real economy
- In a crisis, the poor are often the most vulnerable to the loss of assets, increased unemployment and the disappearance of income-generating opportunities
- Unstable financial systems prevent households from saving, investing or taking advantage of income-generating opportunities
- Unstable financial systems also obstruct the provision of critical financing to business enterprises, thereby stifling economic growth, prosperity and job creation
- Only safe and sound Islamic financial institutions and markets can support the SDGs
- We should therefore place emphasis on prudent and “responsible” provision of financial services
Elements of Islamic financial stability

- Strengthening Islamic financial institutions: first line of defence
  - Enhancing risk management
  - Strengthening corporate and Shariah governance
    - Deficiencies in corporate governance were among the factors that contributed to the global financial crisis

- Enhancing regulatory and supervisory frameworks
  - Tailored regulations (IFSB Core Principles); micro-prudential and macro-prudential
  - Off-site surveillance and stress testing
  - On-site examinations
  - Enforcement

- Financial safety net (LLR and deposit protection) and failure resolution
- Capacity building (for regulators and market players)