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Islamic Finance and the SDGs: Financial Stability Perspectives

Abayomi A. Alawode
Head of Islamic Finance
Finance, Competitiveness and Innovation Global Practice

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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".

The Sustainable Development Goals (SDGs): 2

- 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)