

Draft Concept Note

INNOVATIVE FINANCING FOR THE SDGs: THE ROLE OF ISLAMIC FINANCE

A Side-Event for the 2018 ECOSOC Forum on Financing for Development

23 April 2018, 13:15-14:30, ECOSOC Chamber, UNHQ, New York

Co-hosted by Indonesia, Bangladesh, UNDP, and the Islamic Development Bank

Background

The realization of ambitious 2030 Agenda for Sustainable Development requires the mobilization of resources from multiple sources with the right scale and mix of financing. The United Nations estimates a gap of \$2.5 trillion between the annual investment needs of \$3.9 trillion and current annual investments of \$1.4 trillion on SDGs. Interestingly, the underfunding is not due to shortage of funds, but it is due to the misallocation of funds. According to the World Bank estimates, there are more than \$42 trillion are invested in short-term securities with negative or very low yield indicating an opportunity to fund the long-term investments. However, this requires a departure from the tradition risk-transfer approach to a more inclusive risk-sharing framework.

Islamic finance based on equity participation and risk sharing principles can be one of the vital sources of innovative financing solutions. In contrast to conventional finance in which investments focus on risk and return, Islamic financing has a strong social value component. The vision of Islamic finance is to offer itself as a source of stability against the danger of over-leverage and short-termism in the current global financial system. While the compassionate principle provides a breather during hard economic times, the institutions of Zakat and Awqaf further help in reducing the income disparity especially among the lowest strata of the society. Together these principles can potentially promote the entrepreneurship and risk-taking capabilities in the financial system. Furthermore, the socio-religious funds are also not the monopoly of the Islamic community but could be expanded to other similar funds.

The Islamic finance industry has expanded rapidly over the past decade, growing at 10-12% annually. Global assets in Islamic finance have grown from about US\$ 200 billion in 2003 to US\$ 2 trillion in 2015 and are expected to reach US\$ 3.5 trillion by 2021.¹ Although, the Islamic finance sector predominantly consists of banking sector however, with increased awareness and appropriate enabling environment, Islamic finance could generate a significant contribution from the capital markets that can conveniently use in financing SDGs. For instance, 'Sukuk,' as an Islamic bond, has been increasingly used to provide an alternative solution for infrastructure financing. Furthermore, 'Zakat' and 'waqf' as solidarity-based Islamic finance mechanisms have the potential to promote additional financing sources for the poor.

Event Objectives

1. Raise awareness on how Islamic finance can be leveraged for financing for the SDGs.
 2. Reflect on how Islamic finance principles of equity participation and risk-sharing can enhance long-term funding for development, and share recent country experiences;
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3. Suggest how the use of “Zakat” and “Awqaf” can provide a solution to the challenges of extreme poverty and income disparity (shared prosperity) ;
4. Best experiences and lessons learned from examples of Islamic finance supporting the implementation of SDGs.
5. Formulate policy recommendations to enable member states to meet their long-term funding needs for SDGs.

Organizing Partners

The Side-Event will be co-hosted by Indonesia, Bangladesh, UNDP, and the Islamic Development Bank.

Format

The format of the Side-Event is a panel discussion with representatives of Government, international organization and related stakeholder followed with questions and comments.

Draft Programme

13:00-13:15	Registration
13:15-14:00	<p>PANEL DISCUSSION</p> <p>Introduction by: H.E. Amb. Dian Triansyah Djani, Permanent Representative of the Republic of Indonesia</p> <p>Moderator: Dr. Rami M. S. Ahmad, Special Envoy on SDGs, Islamic Development Bank Group</p> <p>Remarks by:</p> <ol style="list-style-type: none"> 1. H.E. Prof. Dr. Bambang P.S. Brodjonegoro, Minister of National Development Planning, Indonesia 2. H.E. Mr. Abul Maal Abdul Muhith, Minister of Finance, Bangladesh 3. H.E. Mr. Achim Steiner, UNDP Administrator 4. Mr. Elliott Harris, ASG for Economic Development / Chief Economist of UNDESA <p>Panelists:</p> <ol style="list-style-type: none"> 1. H.E. Prof. Dr. Zainulbahar Noor, Vice-Chair of the National Board of Zakat of Indonesia 2. Dr. Dawood Ashraf, Senior Researcher on Islamic finance, Islamic Development Bank
14:00-14:25	QUESTIONS AND ANSWERS
14:25-14:30	CLOSING