SOAS
University of London

مركز قطر للمال
Qatar Financial Centre

ISLAMIC SOCIAL FINANCE AND THE SUSTAINABLE DEVELOPMENT GOALS

Reports on SOAS-QFC Islamic Finance Workshop and Public Lecture
12 - 13 February 2020

Center of Islamic and Middle Eastern Law (CIMEL)
SOAS University of London

Qatar Financial Centre (QFC), Doha

Academic Partners

Center for Islamic Economics & Finance
College of Islamic Studies
جامعة حمد بن خليفة
HAMAD BIN KHALIFA UNIVERSITY

INCEIF UNIVERSITY

ISRA RESEARCH MANAGEMENT CENTRE

مركز قطر للمال
Qatar Financial Centre

EXPAND YOUR BUSINESS TO QATAR BY SETTING UP AT QATAR FINANCIAL CENTRE

Onshore Jurisdiction

QFC is an onshore business and financial centre that allows companies to operate in Qatar and in the region within a legal and tax environment aligned to international standards.

100% Foreign Ownership

The QFC permits registered firms up to 100% foreign ownership of their business in Qatar.

English Common Law

A legal, judicial and regulatory framework based on English common law and international best practice, with an independent court, regulatory tribunal and dispute-resolution centre.

Competitive Tax System

Fair and transparent tax regime that benefits from the Double Taxation Agreement Qatar has with 80+ countries, 10% corporate tax on locally sourced profit, no personal income tax, wealth tax or Zakat and an efficient advance ruling service.

100% Repatriation of Profits

Payments of dividends, interest, royalties and management fees out of Qatar by QFC companies are free from withholding tax, enabling tax-free repatriation of returns and profits for shareholders.

One Stop Shop

A quick and easy set up process that licenses, establishes, and supports businesses in and from Qatar. A dedicated Client Affairs team to support your business needs.

Trade in any Currency

Conduct business in any currency.

Are you ready to take your business to the next level?
Get in touch today.

+974 4496 7777
info@qfc.qa
www.qfc.qa

THE SOAS PUBLIC LECTURE AND WORKSHOP ON ISLAMIC FINANCE

ISLAMIC SOCIAL FINANCE AND THE SUSTAINABLE DEVELOPMENT GOALS

WORKSHOP AND PUBLIC LECTURE REPORTS

12-13 February 2020

Editor and Co-Chair:
Dr Jonathan Ercanbrack
Chair, Centre of Islamic and Middle Eastern Law

Centre of Islamic and Middle Eastern Law (CIMEL)
SOAS, University of London

Qatar Financial Centre (QFC) Authority

June 2022


Law
SOAS

TABLE OF CONTENTS

INTRODUCTION

The 14th annual public lecture and workshop on Islamic finance took place under the auspices of the Centre of Islamic and Middle Eastern Law (CIMEL) at SOAS University of London from 12-13 February 2020. Soon thereafter, the Covid-19 epidemic changed the world as we know it. Lockdown, quarantine, self-isolation, infection, and social distancing are just some of the terms or concepts that have come to frame our lives, and which prevented the SOAS Public Lecture and Workshop on Islamic Finance from taking place in 2021. After a long and challenging hiatus, I am delighted to be able to host these events once again, and, equally important, to disseminate the fruits of our collective labour, namely the workshop and public lecture reports from our previous workshop and public lecture events.

The workshop reports are based on written commentaries or position papers which workshop participants submit prior to the workshop, as well as the written transcriptions of the workshop proceedings. The voluminous material is compiled in two reports. The first, which we refer to as the 'analytical workshop report' provides an analytical gloss to the material, organising the ideas conceptually and fleshing these out with the assistance of secondary literature. The second report, the 'summary of the commentaries' also organises the information – there is no way around this – but its aim is to report the major themes solely and hence it does not expand or rely on secondary sources.

Finally, the public lecture is given by an esteemed practitioner in the Islamic finance industry. The report provides a summary of the public lecture, its main themes and discussion points. The topic of the public lecture is normally conceptually related to the workshop and so it offers a primer for more detailed, in-depth discussion.

ISLAMIC FINANCE WORKSHOPS (2006-2020)

Year	Title of the Workshop	Institutional Host
2020	Islamic Social Finance and the Sustainable Development Goals	SOAS UNIVERSITY OF LONDON
2019	Responsible Investment, Value-based Intermediation and the Future of Islamic Finance	SOAS UNIVERSITY OF LONDON
2018	Challenging Shariah Compliance of Islamic Finance Products	SOAS UNIVERSITY OF LONDON
2017	Fin Tech and Islamic Finance	LSE AND HBKU
2016	Islamic Infrastructure and Sustainable Development Goals	LSE AND HBKU
2015	Revisiting Islamic Securitisation and Structured Products	LSE AND HBKU
2014	Use and Abuse of Limited Liability	HARVARD AND LSE
2013	Insolvency and Debt Restructuring in Islamic Finance	HARVARD AND LSE
2012	Islamic Financial Intermediation: Revisiting the Value Proposition	HARVARD AND LSE
2011	Reappraising the Islamic Financial Sector	HARVARD AND LSE
2010	Islamic Financial Ethics and Ethical Governance	HARVARD AND LSE
2009	Risk Management: Islamic Economic and Ethico-legal Perspective on Risk Management	HARVARD AND LSE
2008	Sukuk: Economic and Jurisprudential Perspective	HARVARD AND LSE
2007	Tawarruq: A Methodological Issue in Shariah-Compliant Finance	HARVARD AND LSE
2006	Select Ethical and Methodological Issues in Shariah-Compliant Finance	HARVARD

ISLAMIC FINANCE PUBLIC LECTURES (2007-2020)

Year	Chair	Industry Professional	Academic/Scholar	Theme
2020	Sir William Blair	Prof Habib Ahmed	Dr Jonathan Ercanbrack	Islamic Social Finance and the Sustainable Development Goals
2019	Sir William Blair	Rafe Haneef	Dr Jonathan Ercanbrack	Towards Sustainable Development: Convergence of Islamic and Sustainable Finance
2018	Dr Jonathan Ercanbrack	Michael McMillen	Nick Foster	Redefining and Retaining Sharia Compliance in Islamic Finance
2017	Justice Ross Cranston	Prof Volker Nienhaus		Fintech in Islamic Finance: Shariah and Regulatory Issues
2016	Justice William Blair	Aamir Rehman	Siraj Sait	Revitalising Islamic and Social Finance: Rising to Current Humanitarian Challenges
2015	Justice William Blair	Jaseem Ahmed		Islamic Finance Standardization: Is it a Mirage?
2014	Prof David R Kershaw	Farmida Bi	Paul Mills	Risk Sharing and Cooperative Finance
2013	Justice William Blair	Azman Mokhtar	Prof Frank E. Vogel	Islamic Finance and Shari'a Compliance: Reality and Expectation
2012	Justice Ross Cranston	Muhktar Hussain	Prof Volker Nienhaus	Global Calls for Economic Justice: The Potential for Islamic Finance
2011	Sir Howard Davies	Iqbal Khan	Haytham Tamimi	Building Bridges Across Financial Communities
2010	Sarah Worthington	Stephen Green	M Umer Chapra	Global Perspectives on Islamic Finance
2009	Sir Howard Davies	Ian Pearson	Esam Ishaq	Islamic Finance in the United Kingdom: Current Initiatives and Challenges
2007	Justice Ross Cranston	Michael Hanlon	Mohammed Elgari	Islamic Finance: Relevance and Growth in the Modern Financial Age

I would like to thank Professor Syed Nazim Ali of Hamad bin Khalifa University in Doha, Qatar, for his leadership in conceptualising, organising and co-hosting these events. Nazim, as many of you know, is the person responsible for making these events an Islamic Finance institution in their own right with global recognition. I would also like to thank Professor Dr Mohamad Akram Laldin, and the organisation he directs, ISRA, for his invaluable support and collaboration of these events. Mr Husam El-Khatib, a steadfast participant and supporter of these events since their inception, deserves our gratitude. And so does Professor Frank E. Vogel, Founding Director of the Islamic Legal Studies Program at Harvard Law School, whose skilled moderation of the workshop makes it a success. There are many others whose contributions are critical to these events, and my collaborators and I are truly grateful to them.

The public lecture and workshop allow a select group of around 30-35 leading shari'ah scholars, economists, legal practitioners, bankers, and academics to gather for a day long closed-door discussion on an important contemporary theme within the field of Islamic finance. The workshop and public lecture are unique events with almost no parallel in the Islamic finance industry. The workshop is designed to discuss in the most rigorous fashion a contemporary topic, which participants

choose by poll in advance of the workshop. Because the workshop is not open to the public and adheres to Chatham House rules, which means that the information of the workshop may be reported but the source of the information may not be explicitly or implicitly identified, discussion is critical and without social or industry constraint.

I hope that you enjoy the following reports and find them as insightful and instructive as I have.

Sincerely,

Jonathan Ercanbrack

Dr Jonathan Ercanbrack
Chair
Centre of Islamic and Middle Eastern Law


Law
SOAS

REPORT ON THE PUBLIC LECTURE

SOAS Islamic Finance Public Lecture
12 February 2020

Islamic Social Finance and the Sustainable Development Goals

Prof. Habib Ahmed

Introduction

The Sustainable Developmental Goals (SDGs) were launched by the United Nations in 2015 as 'a commitment to strive for peace and prosperity for people and the planet.' The ambitious 17 SDGs aim to achieve 169 targets covering economic, social and environmental dimensions by year 2030. The achievement of the SDGs in many Organisation of Islamic Cooperation (OIC) member countries in 2019, however, was not satisfactory (with an average SDG Index score for 52 OIC countries being 60.7% compared to 77.7% for OECD members).

UNCTAD estimated that investments worth US$ 5-7 trillion would be needed annually to achieve the SDGs and the developing economies were likely to face an annual investment gap of US$ 2.5 trillion. The gap must be filled from different sources that includes the public, private and non-profit sectors. In this regard, the financial sector can play an important role in mobilizing resources to achieve the SDGs by contributing to infrastructure development, financial inclusion and creating social impact.

Financial Sector and Sustainable Finance

To have a positive impact on the SDGs, the purpose of the financial institutions has to change from the traditional model of profit maximisation to one that achieves triple bottom lines of profit, people and planet. Operationally, there can be a range of organizational types that can contribute to sustainable development by contributing to environmental, social and governance (ESG) related issues. While non-profits exclusively focus on social goals, many firms create certain social and environmental impacts while generating profit. Thus, the social financial sector would include non-profit organizations and financial institutions that creates social values along with economic value.

The financing instruments and products that can be used for social finance can be varied. While the non-profit institutions secure funds through grants and donations, financial institutions can use different instruments such as green, sustainable and social impact bonds; ESG and impact investment funds, social responsible investments, impact financing and loan funds, etc. for sustainable finance. Global Sustainable Investment Alliance identifies various types of sustainable investment strategies that can be used by investors that includes: negative/exclusionary screening; positive/best-in-class

screening; norms-based screening; ESG/SDG integration; sustainability themed investing; impact/community investing; and corporate engagement and shareholder action.

At the international level, various organizations have taken initiatives to develop principles and standards related to sustainable finance. The International Finance Corporation (IFC) introduced Performance Standards on Social and Environmental Sustainability in the 1990s for its own investment decisions. IFC along with some major global banks also created the Equator principles in 2003 that calls for including environmental and social risks in project financing. The United Nations initiated the Principles of Responsible Investments (2005), Guide to Banking & Sustainability (2016) and Principles of Responsible Banking (2019). More recently, Islamic Development Bank Group published the Sustainable Finance Framework in 2019 to guide its investment.

Major indices, data providers and credit rating agencies (such as S&P, MSCI, Bloomberg, FTSE Russell, Refinitiv, etc.) have developed indices to measure ESG performance of different companies to help investors make informed investment decisions.

The size of sustainable investments in the developed economies is significant. According to Global Sustainable Investment Alliance Report of 2019 the proportion of sustainable investments as a percentage of total managed assets was 63.2% in Australia, 50.6% in Canada, 48.8% in Europe, 25.7% in the United States and 18.3% in Japan.

Islamic Principles and Sustainable Development

Islamic teachings provide guidance that would lead to equitable economic development and enhance human dignity. Shariah values and principles promote social and environmental aspects of the SDGs and can be viewed at different levels. At a broader level, the overall purpose of shariah is to enhance welfare (*maslahah*) and prevent harm (*mafsadah*). At the societal and individual levels, *maqasid al-shariah* (objectives of shariah) requires protection and enhancing faith, life, intellect, posterity and property or wealth. The *maqasid* would imply guaranteeing a minimum amount of wealth and education that contributes to improving the quality of life for both the current and future generations. At the transactions level, justice (*adl*) must be ensured in all commutative and accessory contracts and benevolence (*ihsan*) guide gratuitous contracts.

There are numerous guidelines that suggest engaging in economic activities without harming the environment. Allah (God) being the Creator is the ultimate owner of all the resources and has shaped the natural world in balance (Quran 15: 19). The resources are given to humans to benefit from, and they must act as vicegerents and trustees in using them according to the guidance provided. Teachings of shariah encourage the preservation and avoiding misuse of the resources.

Islamic economists envisaged that an economy based on Islamic principles will fulfill the *maqasid al-shariah* and produce a vibrant economy balancing equity and growth. The Islamic financial system would be shariah compliant, inclusive, stable and promote social and economic development.

Islamic Social Finance and SDGs: Potentials and Instruments

Islamic social finance that can help promote the SDGs would include charitable instruments and Islamic financial industry's contribution to social and environmental issues. Islamic charitable instruments include *zakat*, *sadaqah* and waqf. While *zakat* is obligatory on all Muslims who have wealth above a threshold level that is spent on specific heads such as the poor, the needy and the indebted, *sadaqah* is voluntary charitable contributions beyond *zakat*. The estimates of the potential global *zakat* collections vary from US$ 127 billion to US$ 287 billion annually. This large amount can potentially contribute to SDG 1 (No Poverty), SDG 2 (Zero Hunger), SDG 3 (Healthy & Prosperous Life) SDG 4 (Quality Education), SDG 8 (Decent Work & Economic growth), SDG 10 (Reduced Inequalities).

Waqf is a form of *sadaqah* constituting endowed assets which generate returns that is used for social and developmental purposes. Historically, the *waqf* sector has played an important role in providing social services and promoting development in Muslim societies. Currently, most Muslim countries have significant *waqf* assets. For example, the value of waqf assets in Indonesia is estimated to be US$60 billion and with an estimated return of 5%, US$3 billion can be used for various socio-economic goals annually. While *waqf* is flexible in terms of how the returns can be spent and potentially contribute to different SDGs, this can be done only if the SDG related objectives are included in the *waqf* deed.

Beyond charitable instruments, Islamic financial sector can also contribute to sustainable development if they are guided by the *maqasid al-shariah* and change their business models to create social impacts. The industry can use different Islamic social and impact financing instruments including *sukuk* to contribute to the SDGs.

Islamic Social Finance and SDGs: Practice and Constraints

While *zakat* has a great potential to contribute to the people-linked SDGs, its impact is minimal due to lack of institutional development and sound management. Furthermore, since the heads on which the proceeds of *zakat* can be used is specified in the shariah texts, its use for planet-linked SDGs would be very limited.

Similarly, most of the existing waqf are not used to the potential due to lack of investments and management. The impact of *waqf* on SDGs may be small since deeds of existing waqf may not include SDGs related issues as most of them were established in the past. While many new waqf created are focused mainly for religious purposes such as mosques, there are some recent attempts to expand social waqf.

Even though Islamic financial industry has had impressive growth in its short history, there are questions raised about its social role and impact. The industry has been criticised for too much focus on legal compliance and becoming a prohibition driven industry. The lack of industry's contribution to social goals is apparent as none of the Islamic banks have adopted the Equator principles and only one Islamic bank (Jaiz Bank) signed up for the UN Principles of Responsible Banking. Several empirical research also confirms that the Islamic banks have insignificant social and environmental impact.

The lack of contribution of the Islamic financial industry to the sustainable development is partly due to the focus on profits and less on social and environmental impact. A survey of 103 CEOs of Islamic banks shows that their top most concern is shareholders' value and expectations, while financial inclusion is ranked 18th on their list of priorities.

Islamic Finance and SDGs: The Way Forward

While Islamic finance values and principles would produce a financial system that can promote SDGs, the practice does not reflect broader values/principles. There is need to understand why the gap exists and what needs to be done so that the practice of Islamic financial industry can reflect the shariah values. There are four ways in which the shariah values/principles can be translated into practice that can produce impact.

Epistemological/Conceptual Reframing

A key question relating to the practice of Islamic finance is to clarify what shariah compliance means. It can be interpreted narrowly to mean legal compliance which essentially entails negative screening or avoiding the prohibitions. Alternatively, Shariah compliance can be viewed broadly as enhancing the overall welfare (*maslahah*) and avoiding harm (*mafsadah*) and fulfilling the *maqasid al-shariah*. While the narrow perspective focusses on contacts used in transactions, the broader view relates to the goals and outcomes. Using the narrow legal perspective of shariah compliance will not be able to contribute to achieving the SDGs since it is not concerned with social, environmental and developmental impacts. What is required is to broaden the concept of shariah compliance that includes *maqasid* and impact of transactions. The epistemological reframing of shariah compliance to include *maqasid* has to be done by linking the ESG related issues to the shariah sources/texts and endorsement of the broader notion of shariah compliance by a recognized jurisprudential body such as International Islamic Fiqh Academy or AAOIFI.

1. Organizational and Cultural Reorientation

The key factor that forms organizational culture relates to the purpose of financial institutions which is determined by the shareholders and investors who own the business. The cultural orientation towards ESG issues will be reflected in the purpose will depend on whether a firm considers the interests of the shareholders only or also the other stakeholders. Firms focussing on profit maximization only would have ESG reluctant culture with no motivation to incorporate ESG factors in operations. Since social value creation does not benefit the banks directly, engaging in ESG related issues must be driven by ethical considerations. Some firms that are conscious about the social and environmental issues will be in the ESG grasp phase whereby, they become sensitive to ESG factors. Finally, in the ESG embedment phase, firms would integrate ESG factors in strategic decision making and operational practices.

The current state of Islamic financial institutions seems to be in the ESG reluctant culture. Most of the Islamic financial institutions are established with profit motives and shariah compliance is narrowly defined as avoiding prohibitions. As indicated, the extent to which the social and environmental goals will be included in purpose of Islamic banks will depend on whether the *maqasid* and ethical

considerations affect the decisions of shareholders and managers. Islamic values of *maqasid* along with notions of justice, benevolence, mercy, compassion, dignity, etc. can provide the ethical foundations to motivate investors and shareholders to include social and environmental concerns in their purposes.

Thus, there is a need to reorient the organizational culture in Islamic financial institutions by introducing the *maqasid* values that embeds the ethos related to sustainability. The *maqasid* orientation of the shareholders can move Islamic financial institutions to ESG grasp and ESG embedment phases which will increase the contributions of Islamic finance to the SDGs.

2. Innovations for providing social finance

The current product development practice of Islamic finance is reverse engineering: create Islamic replicas of conventional products. Islamic finance is a follower of conventional finance producing marginal innovations which also seems to be the case in Islamic sustainable finance. For example, some green and social sukuk issued are similar to their conventional counterparts.

Moving forward, contributing to the SDGs would require radical change in thought process which can produce innovative products that embed Islamic values & principles. This radical innovation requires right mind-set, knowledge, skills, and resources that can produce shariah-based solutions and produce social and environmental impacts.

Examples of radical innovation includes a cost-sharing partnership initiative taken by National Zakat Collection Agency (BAZNAS) and UNDP-Global Environment Facility in Indonesia. BAZNAS channeled USD 350,000 *zakat* funds to install four micro-hydro power plants producing a total of 180KW of electricity, which provided power to people living in remote rural villages in Jambi, Sumatra. The project provides power to 803 households, seven schools, four mosques, 19 prayer rooms, one Islamic boarding school and other village infrastructure. This initiative directly contributes to SDG 1 (No Poverty), SDG 4 (Quality Education), SDG 7 (Affordable and Clean Energy) and SDG 10 (Reduced Inequalities).

Another radical innovative model is Akhuwat microfinance scheme in Pakistan. Based on a model that establishes partnerships between more-affluent and less-privileged citizens, Akhuwat operates through mosques/churches and provides interest free loans (*qard hassan*) to deserving individuals. By January 2019, Akhuwat had 811 branches and disbursed Rs.78.5 billion to 3.19 million people. The repayment rate on loans was 99.95 percent. Akhuwat's model challenges deeply entrenched assumptions about microfinance models and directly contributes to SDG 1 (No Poverty), SDG 8 (Decent Work and Economic Growth) and SDG 10 (Reduced Inequalities).

3. Developing Enabling Legal/Regulatory Ecosystem

Expanding social finance would need an enabling legal/regulatory framework to guide and support Islamic financial institutions to create impact. For example, the EU initiated Sustainable Finance Regulations in 2018 that included the following elements: develop common taxonomy; foster transparency & long-termism in financial activities; develop green bonds standards; benchmarks for low-carbon investment strategies. Similarly, Social Finance, UK partners with government, the

financial community and the social sector to find better ways of resolving social problems in the UK and beyond.

Malaysia has developed a supportive ecosystem in Islamic social finance. Securities Commission Malaysia issued Sustainable and Responsible Investment (SRI) Sukuk Guidelines in 2014. Bursa Malaysia initiated sustainability reporting requirement for large companies in 2015 and the government has created incentives to increase the issuance of SRI sukuk by covering issuance costs and providing tax incentives. Similarly, Bank Negara Malaysia published guidelines on Value-Based Intermediation (VBI) in 2018 to encourage Islamic banks to deliver positive and sustainable impact to the economy, community and environment. These regulatory initiatives induce Islamic financial institutions in the country to come up with programmes that promote sustainable development.

Concluding Remarks

The investment requirements to achieve the SDGs are huge and the financial sector can play an important role in filling the gaps. Even though Islamic values and principles align with promoting sustainable development, Islamic financial sector has not been forthcoming to contribute to the SDGs. To remain relevant in the future, Islamic financial industry must change its course by aligning its operations with the higher purposes of shariah to create positive social and environmental impacts.

SOAS WORKSHOP ANALYTICAL REPORT

Islamic Social Finance and the Sustainable Development Goals

SOAS Islamic Finance Workshop
13 February 2020

Dr Jonathan Ercanbrack
Fara Mohammad

Introduction

In 2015, the United Nations adopted a set of 17 goals as part of its 2030 Agenda for Sustainable Development which are designed to end poverty, protect the planet and to ensure prosperity for all. Known as the Sustainable Development Goals (SDGs), the SDGs build on the lessons learned from the Millennium Development Goals (MDGs), which the United Nations described as 'the most successful anti-poverty movement in history'[1]. Like the MDGs, the SDGs focus primarily on developing countries although social, economic, and ecological concerns have now been extended to rich, industrialised countries as well.

The MDGs are said to have lifted more than one billion people out of poverty, enabled more girls to attend school than ever before, and initiated steps to protect the planet[2.] Despite these successes, the SDGs implicitly acknowledge that much remains to be done to achieve these goals. For example, in 2011, more than 60 per cent of the world's one billion extremely poor lived in just five countries. Too many women continued to die during pregnancy or child-birth related complications. And increasing inequality means that those on the lowest economic ladder or who are otherwise disadvantaged through age, disability or race have not shared in this progress. Perhaps most urgently, global warming and widespread environmental degradation continue unabated to threaten humanity's very existence. These and many other related problems are meant to be addressed in the SDGs.

A great deal of money is required to achieve these goals. Some authors estimate that $3 trillion has been found but that successful completion of the goals would require another $2-$4 trillion a year between now and 2030. The United Nations, along with international financial institutions such as the World Bank and the IMF, believe that Islamic finance has an important role to play in mobilising private funds to be able to achieve these goals. Moreover, many of the most significant development issues profoundly affect Muslims and Muslim majority countries. For example, although Organization

[1] United Nations, 'The Millenium Development Goals Report 2015' (United Nations, 2015) <https://www.un.org/millenniumgoals/2015_MDG_Report/pdf/MDG%202015%20rev%20(July%201).pdf>.
[2] Ibid.

of Islamic Cooperation (OIC) member states account for only 22 per cent of the world population, 40 per cent of the world's poor who live on $1.25 or less, live in these states. Furthermore, humanitarian disaster related to natural catastrophes as well as conflict affects OIC states disproportionately, with 30 of 50 conflicts in 2015 recorded worldwide having occurred in OIC countries. More than 68.5 million people worldwide have been forcibly displaced with just 5 countries, all of them Muslim majority, accounting for 68 per cent of refugees under the mandate of the UNHCR. Seventy-one per cent of people worldwide who require humanitarian assistance reside in OIC countries. It is therefore seen as appropriate and morally incumbent upon Muslim majority states and others to come to the aid of these vulnerable people in an Islamically acceptable way.

While SDG values are widely accepted as universal, the implementation and execution of the SDGs is complicated[3]. Different countries and cultures will have differing needs and thus, there is a need to look at the SDGs in a more contextualised manner in each country and community. Local institutions and local policies need to be developed into frameworks that work best for its communities[4]. This includes the introduction of programmes that mobilise private sector finance for sustainable development[5], in which Islamic finance can be at the core of the initiative to integrate sustainability into financial market practices[6].

There is wide agreement that Islamic finance is inherently capable of playing this role. Islamic finance has the tools to transplant sustainable principles into its legal sphere in the form of its own distinct principles, standards and contractual structures, as well as enhanced compliance auditing[7].

The Identity Issue

Amongst practitioners, academics, and other interested parties, however, there is considerable disagreement as to how or whether the industry already has integrated ESGs into its methodologies for producing financial services and products. For example, some argue that *zakat*, *awqaf* and other forms of charity have existed for a very long time, although their impact has not been accurately

---

[3] Jarrod Grainger-Brown and Shirin Malekpour, 'Implementing the Sustainable Development Goals: A Review of Strategic Tools and Frameworks Available to Organisations' (2019) 11(5) *Sustainability* 1381-1382.

[4] Louis Meuleman and Ingeborg Niestroy, 'Common but Differentiated Governance: A Metagovernance Approach to Make the SDGs Work' (2015) 7(9) *Sustainability* 12295-12298

[5] Aaron Bielenberg, et. al., 'Financing Change: How to Mobilize Private Sector Financing for Sustainable Infrastructure' (McKinsey Center for Business and Environment, 2016) 24-25. <https://newclimateeconomy.report/workingpapers/workingpaper/financing-change-how-to-mobilize-private-sector-financing-for-sustainable-infrastructure/>.

[6] Habib Ahmed, et. al., 'On the Sustainable Development Goals and the Role of Islamic Finance' (World Bank Policy Research Working Paper,2 015) 7266 <https://openknowledge.worldbank.org/bitstream/handle /10986/22000/On0the0sustain0e0of0Islamic0finance.pdf?sequence=1&isAllowed=y>.
See also Ahmet Gundogdu, 'An Inquiry into Islamic Finance from the Perspective of Sustainable Development Goals' (2018) 7(4) *European Journal of Sustainable Development* 381-382.

[7] Umar Moghul and Samir Safar-Aky, 'Green Sukuk: The Introduction of Islam's Environmental Ethics to Contemporary Islamic Finance' (2014) 27(1) *The Georgetown International Environmental Law Review* 54

measured[8]. Uniquely, the debate, in large part, centres on how the industry and its proponents define Islamic finance.

At the root of the debate seems to be a lack of terminological clarity about the meaning of foundational terms, namely, those which industry proponents use to characterise the industry such as Islamic finance and Islamic social finance; and how the industry understands itself in relation to the burgeoning field of social finance. Notably, the literature on Islamic finance shows that authors occasionally use "Islamic finance" and "Islamic social finance" interchangeably[9]. At other times, charitable modes of finance such as *qard hasan, waqf*, *sadaqa* and *zakat* are distinguished from the mainstream Islamic finance industry[10].

Another emerging area known as green finance uses tools such as zakat and *waqf*, which are integrated into blended finance transactions. The OECD defines blended finance as "the strategic use of development finance for the mobilization of additional finance towards sustainable development in developing countries"[11]. Blended finance addresses sustainable goals and seeks to develop inclusive microfinance solutions for smallholder farmers, rural access to clean energy, water treatment and sanitation solutions. These goals require reconsidering various sources of financing while leveraging existing public and development finance funds[12]. Blended finance transactions using Islamic structures add further complexity to the conceptual confusion as to what constitutes Islamic finance and where its ethical centre lies.

Significant differences exist between social finance and Islamic finance in terms of methodologies and operational experiences. In a typical Islamic finance transaction, shariah boards of Islamic banks are concerned with the legitimacy of financial instruments and the acceptability of contracts under Islamic law. Fatwas focus more on shariah audit and compliance concerning the legal structure of financial instruments, rather than the impact and purpose of the funding. Most applicants for funding from Islamic banks are aware of the types of projects which are acceptable and what is unacceptable. Therefore, in practice, the purposes for which funding is used is largely a matter for the applicant, not the bank or the shariah board.

In contrast, banks which offer social finance are more focussed on the purposes for which funding is utilised. Finance is to be used for activities classified as "social", implying a wider impact that benefits society is sought and not merely one which benefits the owners of companies whose projects are funded (profit maximisation). Social finance banks strive for positive externalities and favourable

---

[8] M. Kabir Hassan, 'An Integrated Poverty Alleviation Model Combining Zakah, Awqaf and Micro-finance' (Seventh International Conference –*The Tawhidic Epistemology: Zakah and Waqf Economy, Bangi, Malaysia*, 2010) 269-270 <https://www.ukm.my/hadhari/wp-content/uploads/2014/09/proceedings-seminar-waqf-tawhidi.pdf>.

[9] Saadiah Mohamad, 'Is Islamic Finance, Social Finance?' (2014) 2 *Journal of Emerging Economies and Islamic Research* 1-5.

[10] Khalifa M. Ali, 'Integrating Zakah, Awqaf and Islamic Microfinance for Poverty Alleviation: Three Models of Islamic Microfinance' (Islamic Research and Training Institute, 2014) <http://www.irti.org/English/Research/Documents /WP-1435-19.pdf>.

[11] OECD, 'OECD DAC Blended Finance Principles for Unlocking Commercial Finance for the Sustainable Development Goals' (*OECD*, 2018) <https://www.oecd.org/dac/financing-sustainable-development/ development-finance-topics/OECD-Blended-Finance-Principles.pdf>.

[12] Ibid.

multiplier effects in their extension of credit. They are not uniquely preoccupied with the common good, but their balance sheets embody a different conception of the common good compared to Islamic as well as mainstream commercial banks. Performance is assessed by means of not only financial ratios, but also social indicators[13]. Social finance, in large part, has become synonymous with the United Nations SDGs.

Despite the confusion, there is agreement that Islamic finance must progress, and, in part, is progressing into the next stage of development through the institutionalisation of social finance. The potentials of instruments such as waqf, *zakat*, and *sadaqah* should be unlocked to improve financial inclusion, financial sector stability and ultimately, enhance the contributions of Islamic finance to the SDGs. In this regard, a number of Islamic social finance institutions have begun to diversify their products and services to dedicated clean energy products, particularly solar home systems as they provide affordable access to clean energy. *Zakat* and *waqf* are the means by which incremental costs related to the administration of such services can be absorbed. This has made Islamic social finance more accessible and affordable[14]. The general focus is to develop a social scheme which can establish and finance public services, improving social welfare.

Scholarly, practitioner-focussed and other intellectual efforts are being channelled to orient Islamic finance towards the support of ESG considerations and the goals of the SDGs. For example, the United Nations Development Programme (UNDP) published 'Innovation in Islamic Finance; Green Sukuk for SDGs' in 2021, which is a joint publication with the Islamic Finance Council UK. The report illustrates that funding from green and sustainability sukuk can be raised to address SDG issues[15]. Another interesting example is the RFI report entitled "Environmental Impact in Islamic Finance', which discusses the integration of ESGs in Islamic businesses and the correlation with financial sustainability over the long-term[16]. It is widely held that Islamic finance should be able to contribute to the SDGs, although the ways in which it is able to do so are still being worked out[17].

The Traditionalist View

Many, if not most participants, view Islam and its modern developments such as Islamic finance as intrinsically social and therefore not merely capable of meeting SDGs but, by definition, encompassing those goals and possibly extending beyond these to deal with more multidimensional ones which

---

[13] Marek Hudon, B Armendariz and M Labie (eds), 'Ethics in Microfinance' in *The Handbook of Microfinance* (Scientific Work, 2011).

[14] Mohammed Obaidullah, 'Managing Climate Change: Role of Islamic Finance' (2018) 26(1) *Islamic Economic Studies* 44-45.

[15] UNDP, 'A New Report Reveals $50 Billion Potential in Islamic Finance for Climate Emergency and SDGs' (*UNDP*, 2021) <https://www.id.undp.org/content/indonesia/en/home/presscenter/pressreleases/2021/20210928.html>.

[16] RFI Foundation, 'Environmental Impact in Islamic Finance' (*RFI Foundation*, 2018) <https://static1.squarespace.com/static/5f22631adf9fc97d4730055d/t/5fbc8eca29c5e266901b49a4/1606192867118/Environmental_Impact_in_Islamic_Finance.pdf>.

[17] One exemplary initiative is the UNDP and IsDB Global Islamic Finance and Impact Investing Platform, which promotes market-based solutions to sustainable development challenges, with the aim of positioning Islamic finance and impact investing as leading enablers of global SDG implementation through private sector engagement. See UNDP, 'Islamic Finance Partners' (*UNDP, n.d.*) <https://www.undp.org/partners/islamic-finance>.

relate to God and the hereafter. For the sake of simplicity, let us call this view the traditionalist view, meaning that Islamic finance, in a traditionalist sense, should be understood as Islamic social finance. In principle, there should be no separation in meaning. Islamic principles originate in the shariah and therefore an industry which seeks to orient itself to such principles is necessarily compatible with social goals.

The Quran establishes a principle of responsible stewardship over the earth which can be seen as compatible with the SDGs environmental goals. According to the Quran, "it is He who has appointed you viceregent on the earth […]"[18]. The authoritative hadith from Sahih Muslim provides further details concerning the Quranic command: "The world is beautiful and verdant, and verily God, the exalted, has made you His stewards in it, and He sees how you acquit yourselves"[19].

These principles are the foundation for understanding sustainable stewardship and help to establish sustainable parameters for the Islamic economy including: (a) the abundance of goods, as promised by God to His believers; (b) the distribution of property rights in a balanced equilibrium; and (c) mutual cooperation among economic agents in a community of shared prosperity. These principles underlie Islamic commercial rules and therefore Islamic finance cannot be anything other than sustainable, lest it should succumb to secularism or the debt-based, capitalist economy, which, contrary to Islam's egalitarian ethos, is premised on greed and self-maximising behaviour.

Indeed, philanthropy and cooperation in the Islamic tradition are paramount. The broad term in shariah to describe philanthropy or charity is *sadaqa*. The mandatory *sadaqa* is termed zakat. When a *sadaqa* results in perpetual and constant benefits, it is often referred to as waqf. The Islamic economy is said to be built upon the foundations of these principles. Historically, Islam's strong encouragement of charity has influenced the approach to Islamic social finance. Philanthropy and cooperation help to bring about the well-being of individuals, groups and society throughout Muslim-majority polities[20]. Cooperative initiatives focussing particularly on the needy are often facilitated via contributions, grants or micro-loans (*qard*). The application of these concepts have also been built into the more complex, present-day Islamic finance structures and deals, leading to the view that Islamic finance is inherently social in nature.

Moreover, the shariah is concerned with empowering poor people to care for themselves and their families. Indeed, the social factor in Islam cannot be separated from ritual and worship ('*ibadat*) nor from private enterprise and the market. Social well-being is a primary objective of Islamic law and by extension, Islamic finance. Another way of understanding this perspective is to envision Islamic finance as comprising both a charitable and a business component. Both components must be active in their respective contexts in order to fulfil Islamic principles.

---

[18] Quran, 6:165.
[19] Sahih Muslim 2742, Book 49, Hadith 12.
[20] IRTI and Thompson Reuters, 'Islamic Social Finance Report 2017' (*Islamic Research and Training Institute*, 2017) <https://irti.org/product/islamic-social-finance-report-2017-2/>.

One of the earliest Islamic social finance initiatives during the mid-twentieth century can be seen in the form of *musharaka* and *mudaraba* local projects in Pakistan, focussed mainly in agriculture[21]. These were small, unofficial institutions set up by landowners in rural Pakistan, where landowners would deposit funds with poorer landowners without interest whilst charging a nominal administrative fee to cover any operating costs[22]. The first attempt to institutionalise an Islamic social bank namely, the Mit Ghamr banking institution, also came into existence during this period. Mit Ghamr's aim, which was to facilitate local community development, is said to have provided an 'optimal solution' for the Muslim community in terms of social and economic development during its short existence[23]. Philanthropic and values based on cooperation were assimilated into this system whereby, the savings of the people in the community would be utilised by the banking institution to provide capital to the participants. Funds were provided to the people for social and economic development and to mobilise idle savings [24]. Other Islamic social finance initiatives aimed at enhancing community development continued to be of importance in other parts of the Muslim world. In Bangladesh, for example, institutions such as Islami Bank Bangladesh and Social and Investment Bank have played prominent roles in the Islamic micro-finance space. In Pakistan, the Akhuwat establishment provides qard facilities aiming to instil and encourage values of cooperation and brotherhood[25].

Therefore, the shariah provides broad, foundational principles and instruments on matters concerning social and ethical values which are akin to the SDGs. Nonetheless, there is a need to interpret such principles to ensure that their distinctive features can be applied and developed into modern doctrines suitable for the current state of global affairs. Importantly, the definition and methods of sharia interpretation relating to SDG considerations must be such that the manner, impact, and end result of the transactions comply with the objectives of Islamic law. Islamic finance tools should be embedded in the structures and operations of Islamic finance transactions to address the social and ethical behaviours required to create a constructive and progressive impact on the development of the society and economy.

Therefore, Islamic finance necessarily includes charitable undertakings such as *zakat*, *sadaqa*, *qard hasan* and *waqf* while also offering a full range of equity- and sale-based financial services, and takaful products. Indeed, identifying the charitable modes of finance in what constitutes contemporary Islamic finance is viewed as vitally important since doing so expands the industry's inclusivity and touches on deeply held values.

---

[21] Mehmet Asutay, et. al., 'Reflecting on the Trajectory of Islamic finance: From Mit Ghamr to the Globalisation of Islamic Finance' (2013) 2(1-2) *Afro Eurasian Studies* 5-14.
[22] Abdelkader Chachi, 'Origin and Development of Commercial and Islamic Banking Operations' (2005) 18(2) *Journal of King Abdulaziz University: Islamic Economics* 15.
[23] Mehmet Asutay, et. al. (n 21).
[24] Abdelkader Chachi (n22).
[25] Mohammed Obaidullah, 'Introduction to Islamic Microfinance' (IBF Net Limited, 2008), 56-58 <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1506072>.

The Pragmatic View

Others take what might be termed the pragmatic approach, arguing that Islamic finance must actively seek to define itself as a form of social finance as this is a far more inclusive and widely adopted form of finance. Known for its universal values of generosity and concern for others, Islamic finance can broaden its global appeal in defining itself as social. There is concern that the traditionalist view of Islamic finance is idealistic and ignores the modern industry's legalistic adherence to shariah. Although the legalistic approach has contributed to minimising unsustainable debt fuelled growth, it has not sought to align itself with the SDGs for business purposes. In practice, very few Islamic financial institutions (IFIs) currently use SDGs as part of their business model although there is some momentum in relation to the launch of the UN Principles for Responsible Banking whereby a small number of Islamic banks are engaging with this initiative.

In relation to this, pragmatic discussions surrounding the growth of an Islamic moral economy have taken place in tandem with the industry's enormous growth and financial success. These discussions arose because Islamic finance was seen as failing to meet its social and economic aspirations. The gap between the objectives and practice of Islamic finance led to theorising around the establishment of a separate, independent third type of institution in the form of a non-banking financial institution. These institutions were to be created with the practicable objective of serving the social and developmental needs of Muslim societies, beyond the economic growth objectives of commercial Islamic banking26. Several specialised institutions have been set up in relation to this including Lembaga Tabung Haji in Malaysia which serves as a saving and investment institution whereby people will save their income for the purposes of performing their pilgrimage (hajj). Both Malaysia and Indonesia have also set up domestic institutions for the purposes of managing *zakat* funds and establishing a *waqf* system, for the purposes of community development[27]. Others have more recently suggested that there is a need to improve areas relating to impact investing in Islamic finance. This investment practice involves a proactive form of investment utilising a positive screening method that focuses on investments which achieve positive and measurable social and economic results[28.] This method departs from the customary negative screening method usually applied by practitioners in Islamic finance, which simply sets out areas that are not permissible for investing. There is also an increasing awareness that social values need to be better measured and accounted for within the Islamic finance industry to allow for its advancement, particularly with respect to achieving good governance and transparency.

Islamic finance is seen as a financing proposition shaped not only by legalism but also by values relevant to sustainability. It has the capacity to develop beyond mere financial contracts and should be conceptualised as a tool that provides beneficial financial means for the development and

[26] Mehmet Asutay, 'Conceptualising and Locating the Social Failure of Islamic finance: Aspirations of Islamic Moral economy vs the Realities of Islamic finance' (2012) 11(2) *Asian and African Area Studies* 93-113

[27] Mohammed Obaidullah (n 25).

[28] Michael S Bennett and Zamir Iqbal, 'How Socially Responsible Investing Can Help Bridge the Gap between Islamic and Conventional Financial Markets' (2013) 6(3) *International Journal of Islamic and Middle Eastern Finance and Management* 211-225.

sustainability of societies. The focus should be on how to achieve profitability and economic development whilst encouraging the delivery of SDGs. There are many factors that influence this dynamic, particularly the interconnected role of market forces. This includes non-state actors such as financial institutions, law firms, accounting firms and regulatory bodies. Market forces can incentivise the development of the industry's underlying foundations and definitions. In practise, such non-state actors compel the use of practices and standards that reflect its commercial practice[29]. Consequently, general rules are frequently displaced by the agreed terms of the contract which is written by such parties.

Several participants expressed concerns that it would be problematic to assign the role of aligning Islamic finance with SDGs as it would produce more compliance costs, resulting in greater inefficiencies and operational risks. A change to the business model of IFIs to account for SDGs may make it even harder to earn a profit in the already challenging legal and regulatory environment. Furthermore, it would not be prudent nor appropriate to include jurists or shariah scholars in decisions related to the strategy of SDG alignment, monitoring, compliance and reporting as this involves an inherent conflict of interest. Each role in the Islamic bank must be assigned a particular task, according to capability. Dedicated consulting firms, which measure and evaluate SDG impact, possess the requisite expertise to deal with the pivot toward SDG investment, which jurists cannot be expected to naturally possess. Moreover, the issue of rising costs in compliance and risk mitigation is becoming an increasingly complex, cross-functional effort across all financial institutions. Many institutions are looking at emerging technologies for transformation, together with advanced analytics and systems capabilities to promote proactive risk management within the institution[30].

In contrast, some proponents make no excuse for the industry's lack of SDG engagement. They argue that IFIs are commercial, profit-oriented organisations and, adopting Milton Friedman's paradigmatic view of the profit-maximising corporation, believe that it is wrong-headed or possibly naïve to hold IFIs up to a higher ethical standard. Lacking alternative economic tools at the time, the theorisers of Islamic economics adopted a modified version of the maximisation rule: the maximisation premise could be used but the function would be altered. Unfortunately, however, the modified elements of the rule were not put in place and gradually Islamic banking and finance has come to accept the maximisation rule as a given. Yet, already in the 1990s, conventional discourse began to change concerning the appropriate role of the corporation. More recently, the maximisation rule has come under intense scrutiny and the circular economy discourse, amongst other factors, has paved an alternative vision to that of the greedy, self-interested individual.

In 2021, there was unprecedented global market and policy momentum behind SDGs. Within Islamic finance circles, there is a general sense that the industry should broaden its conceptual horizons and scope to allow for it to develop holistically and organically, within the objectives of Islamic law. Opportunities to expand in areas of capital markets, takaful and social impact to allow for a more

---

[29] Jonathan Ercanbrack, 'The Standardization of Islamic Financial Law: Lawmaking in Modern Financial Markets' (2019) 67(4) *The American Journal of Comparative Law* 855.

[30] Deloitte, 'Empowering Risk Intelligence in Islamic Finance Managing Risk in Uncertain Times' (*Deloitte, n.d.*) <https://www2.deloitte.com/jo/en/pages/risk/articles/empowering-risk-intelligence-in-islamic-finance.html>.

comprehensive growth of Islamic social finance should be seized. Indeed, the growth of various types of social sukuk such as the green sukuk, SRI sukuk and vaccine sukuk show that there is momentum. There are also several Islamic crowdfunding platforms focussed on social impact in existence. Corporate boards and government leaders face rising pressure to demonstrate that they are adequately equipped to understand and oversee SDG issues — from climate change to human rights to social unrest. The responsibilities of corporate boards will broaden so that more time and commitment is devoted to shoring up their SDG skills and integrating sustainability into their policy and planning strategies[31]. Proponents of the profit maximisation theory of the corporation are on the defensive.

Market Developments and the Evolution of Industry Practices

Despite the debate concerning the identity of the Islamic finance industry, a shift in discourse concerning the industry's future trajectory is observable. This may be the result of the rapid shifts taking place in conventional finance and corporate social governance initiatives, which are moving rapidly to align themselves with SDG goals. There is a realisation that Islamic finance could be left behind if it does not move quickly to adapt itself to the new corporate ethos. Many observers see this as an opportunity to take Islamic banking and finance back to its Islamic economic roots, which some believe, were left by the wayside long ago. This would require a renewed emphasis being given to foundational issues including the development and application of a consistent philosophy of Islamic economics and finance. According to this viewpoint, the failure to understand the modern banking system and its role in the economy underlies the financing methodology of IFIs. The strategy has sought to mould Islamic contracts to conventional finance products and services with a clear preference for debt-based instruments such as the *murabaha*, the bay' *mu'ajjal* or the *bay' bi-thaman 'ajil*. Yet this has merely produced Islamic contracts that are economically equivalent to conventional ones.

The Malaysian central bank was the first to recognise and respond to the changes taking place in the corporate environment. In 2018, the Bank Negara Malaysia established the Value-Based Intermediation Financing and Investment Impact Assessment Framework whose aim was to deliver shariah outcomes through financial practices that generate positive and sustainable impact to the economy, community, and environment. The alignment between the Malaysian value-based intermediation initiative and SDG goals is unmistakeable, although Bank Negara Malaysia has also sought to distinguish the unique objectives (*maqasid*) of the shariah. The extent to which these overlap with the SDGs is a cause of some debate, but what is certain is that the thrust of the discourse has shifted. The debate no longer concerns whether Islamic finance should overcome its legalistic attachments but how.

[31] In 2021, many large companies set sustainability goals and published ESG related data. Yet these efforts are not always motivated by substantive ESG concerns. Investors, regulators, and the broader public are exercising greater scrutiny of corporate sustainability efforts, calling out what they perceive as greenwashing. See Richard Mattison et al., 'Key trends that will drive the ESG agenda in 2022' (*S&P Global*, 2022) <https://www.spglobal.com/esg/insights/key-esg-trends-in-2022>.

The Value-Based Intermediation (VBI) framework did not set out any legal principles, but it involved a change in the thinking, practice, and expectations of the industry players as well as their supply chain[32] in centring Islamic finance upon shared values of integrity, inclusivity, and sustainability. VBI has been defined as "an intermediation function that aims to deliver the intended outcomes of shariah through practices, conduct and offerings that generate positive and sustainable impact to the economy, community and environment, consistent with the shareholders' sustainable return and long- term interests"[33]. This definition embraces the goal of delivering the intended outcomes of the sharia and the goal of generating sustainable returns for shareholders and sustainable development. Together with the guidance documents issued, a framework was created to encourage Islamic finance to incorporate elements that reflected SDG values, in its implementation.

Alongside market developments, a considerable amount of academic research has sought to chart the path forward for Islamic finance. The following financial instruments are seen as particularly relevant:

> *Innovative Islamic financial instruments such as sukuk can be used to mobilise resources to finance infrastructure development projects such as water and sanitation projects (SDG-6) or sustainable transportation systems (SDG-11). Sukuk can also be used in promoting investments in climate change solutions (SDG-13), or funding health programmes in developing countries (SDG-3). Istisna contracts can be used to finance sustainable and affordable energy facilities (SDG-7) or build resilient infrastructure (SDG-9). Salam contracts can be used to support sustainable agriculture (SDG-2. Musharaka and mudaraba can be used to support financial inclusion of the poor through innovative business models (SDG-12) which could be instrumental in ending poverty (SDG-1), reducing inequalities (SDG-10), empowering women (SDG-5), and promoting peaceful and inclusive societies (SDG-16). Islamic funds can invest in* shariah *compliant businesses across a broad set of sectors, such as renewable energy (SDG-7), sustainable fisheries (SDG-14), forestry (SDG-15), agriculture (SDG-12), health (SDG-3), and education (SDG-4). Takaful can increase the resilience of the individuals and businesses to catastrophes or disasters (SDG-11). With its principles of risk-sharing, Islamic finance is well-suited to the financing of SME and start-ups, thereby contributing to more inclusive growth (SDG-8).* In this regard, the Islamic financial industry has shown movement in developing Islamic finance instruments that incorporate SDG elements[34.]

According to the World Bank and Securities Commission Malaysia (SCM) report, several other financial areas that may present opportunities for Islamic financial law include lending guidelines, insurance, IPOs, stock indices and asset securitisation[35].

---

[32] Bank Negara Malaysia, 'Value-based Intermediation: Strengthening the Roles and Impact of Islamic Finance' (*Bank Negara Malaysia*, 2018) <https://www.bnm.gov.my/documents/20124/761688/Strategy+Paper +on+VBI.pdf/a0de95e5-203e-35c3-0852-5164be0ffcd6?t=1581479860463>.

[33] Ibid.

[34] UNDP and Islamic Research and Training Institute, 'I for Impact: Blending Islamic Finance and Impact Investing for the Global Goals' (*UNDP and IRTI*, 2017) <https://www.iicpsd.undp.org/content/istanbul/en/home/library/ I-for-Impact-Blending-Islamic-Finance-Impact-Investing.html>.

[35] World Bank Group and Securities Commission Malaysia, 'Islamic Green Finance Development, Ecosystem and Prospects' (*World Bank Group*, 2019) <http://documents1.worldbank.org/curated/en/591721554824346344/ pdf/Islamic-Green-Finance-Development-Ecosystem-and-Prospects.pdf>.

In 2019, the SCM issued guidelines for Socially Responsible Investment (SRI) Sukuk, setting out the path for socially responsible sukuk. The guidelines cover a broad range of eligible projects but emphasise those which "preserve and protect the environment and natural resources, conserve the use of energy, promote the use of renewable energy, reduce greenhouse gas emissions and improve the quality of life for the society"[36.] Such SRI sukuk would be issued to fund sustainable and responsible investment projects. In addition, the SRI Sukuk Guidelines refer to investments which utilise trust and endowment structures, namely that of waqf[37.]

Some claim that Islamic social finance can address much broader societal concerns including cooperation, cohabitation, security, faith, and spirit of present and future generations. These wider concerns are frequently discussed in the maqasid al-shariah (hereafter, *maqasid*), a concept which facilitates a functionalist approach to jurisprudence in contrast with the *usul al-fiqh's* text-based formalism. Despite less emphasis placed on *maqasid* in the pre-modern era, the concept is widely viewed as the means for facilitating modern legal adaptation.

The Legal Solution

That the maqasid al-shariah are widely seen as the tools with which this change can be facilitated illustrates the continued relevance attributed to the shariah for finding solutions to modernity's challenges. A two-pronged approach whereby the industry seeks to ascertain and support the relationship between Islamic social finance with the *maqasid*, whilst at the same time endorsing Islamic social finance principles to domestic and international actors in the global industry is underway[38.]

The *maqasid* is defined as a 'purpose, objective, principle, intent, goal, end or principle in the Islamic law' which is there for the 'interest of humanity'[39.] The level of 'necessity' of a certain act or matter, is often used as the standard by which to identify and form the *maqasid*[40.] Historically, the classifications of the *maqasid* were divided into three levels: necessity (*darurah*), needs (*hajiyat*) and luxuries (*tahsiniyat*). These levels are further categorised into fundamental areas of 'necessity' which are deemed essential to preserve and protect. These are religion/faith, life/soul, offspring/progeny,

[36] Securities Commission Malaysia, Article 20.07, Guidelines on Issuance of Corporate Bonds and Sukuk to Retail Investors (SCM, 2019) <https://www.sc.com.my/api/documentms/download.ashx?id=78ced436-2082-4120-9e91-dce870f3a9f0>.

[37] The SCM has also launched another framework to facilitate the offering of Islamic funds with waqf features to enable the growth of social development, greater public good and wealth distribution. See Securities Commission Malaysia, 'SC Introduces New Framework to Facilitate Offering of Islamic Funds with Waqf Features' (*Securities Commission Malaysia*, 2020) <https://www.sc.com.my/resources/media/media-release/sc-introduces-new-framework-to-facilitate-offering-of-islamic-funds-with-waqf-features>

[38] Nor Razinah Zain and Engku Rabiah Adawiah Ali, 'An Analysis on Islamic Social Finance for Protection and Preservation of Maqāṣid Al-Sharī'ah' (2017) 176 (5872) *Journal of Islamic Finance* 133.

[39] Jasser Auda, 'Maqasid Al-Shariah: An Introductory Guide' (International Institute of Islamic Thought (IIIT), 2008) 7.

[40] Asyraf Dusuki and Abdulazeem Abozaid, 'A Critical Appraisal on the Challenges of Realizing Maqasid Al-Shariah in Islamic Banking and Finance' (2007) 15(2) *International Journal of Economics, Management and Accounting* 150.

intellect/mind, property/wealth and honour[41]. These six areas are viewed as matters that can be safeguarded and sustained through Islamic social finance[42].

Contemporary theorists have argued that the *maqasid* do not cover specific issues for particular groups or topics, such as families, societies and mankind or on areas relating to justice and freedom. Further, the *maqasid* are traditionally derived mainly from the Islamic legal heritage (*fiqh*) and not from the original sources. As a result of this, the maqasid have been expanded to encompass three new positions. First, the general *maqasid*, which includes the three levels of necessity discussed in the previous paragraph, and the new proposed *maqasid* including justice and facilitation. Second is the specific maqasid that relates to a particular topic or subject matter within Islamic law and the third, is the partial *maqasid* which refers to the intents behind a specific script, source or judgment. The enlarged concept is directed at a much larger audience spanning societies, countries and extending to the entirety of humanity. This provided the grounds to address new, universal issues and to develop feasible plans to improve, transform and restore Islamic civilisation[43.] The *maqasid* discussion and subsequent research have further developed to incorporate themes relating to development, human rights and new interpretations of Islamic law[44].

A universal *maqasid* is intended to be derived directly from the sources of Islamic law as opposed to the work of fiqh, which lays emphasis on the higher merits, meanings and principles of the holy sources. The unique combination of the sources and the modern need to develop, places importance on the concept of *maqasid*, a multi-dimensional formation encompassing different levels of necessity, decrees and judgments, actors and levels of universality[45.] Hence, there is surprisingly little debate concerning the extent to which *maqasid* can be employed as means of facilitating SDGs. In principle, the SDGs are viewed as being fully aligned with the *maqasid* because the overall objective of the shariah is the fulfilment of humanity's *maslaha* (common interest) which is premised on justice, mercy, and wisdom.

The SDGs, in contrast, are seen as somewhat restricted to the quantitative measurement of income and, presumably, in a quantitative sense, reflect the conventional focus on GDP, which is the predominant indicator of social progress. The use of GDP as a measurement of progress is woefully ill-equipped to address the unfolding natural resource depletions and degradations, particularly in developing countries, which rely on natural capital for 47 per cent of their wealth. On the other hand, the *maqasid* provide a much richer understanding of socio-economic development than conventional indices. The *maqasid* embody a much broader concern for intangible and sometimes immeasurable concerns such as those which relate to self-evaluation (*muhasaba*) as well as the preservation of life before birth, at conception level and after death. The *maqasid* extends to an infinite list of measures that emphasize justice and equity yet, maintains that the means to achieve such justice and equity in

[41] Jasser Auda (n 39).
[42] Nor Razinah Zain and Engku Rabiah Adawiah (n 38).
[43] Jasser Auda, (n 39) 8-12.
[44] Ibid., 27.
[45] Ibid., 8-12.

changing circumstances, will be guided by reason[46]. As long as the *maqasid* are integrated into the operative rules of Islamic banking and finance, SDG objectives will also be met. The *maqasid* must determine the parameters of shariah compliance rather than sustainability criteria such as the SDGs. This is the solution to overcoming the gap between the form and substance of Islamic finance products and services. It is the means for bridging the gap between the conventionally designed global economy and the sustainability concerns inherent in Islamic social finance.

A small minority expressed concerns about the extent to which the maqasid can be used as a source of law or whether traditional authorities or jurists' interpretations will be supplanted. Those who argue that *maqasid* or its functional equivalent, *maslaha*, cannot be used to supplant traditional authorities, argue that modern jurists should only interpret the law. Their role is one of interpreting the intention of the lawmaker, rather than making it themselves. Proponents of a more progressive use of maqasid argue that the law is dynamic, that the common interest (*maslaha*) of the umma should be the touchstone by which the law is interpreted. The textualist methodological tradition must be complemented by analytical and empirical techniques if the public interest and civilisational goals of Islam are to be realised. The development of Islamic economics and finance requires more than the focus on shariah legal sciences. It requires mastery of modern economics, amongst other topics. More fundamentally, it requires an attitudinal shift towards the critical understanding of contemporary advances in knowledge. This is the only means of meaningfully engaging in the production of Islamic knowledge with a view to knowing what is acceptable, what requires modification, what is to be rejected in the context of contemporary realities.

Systemic Shortcomings/Drawbacks of SDGs

The ethical and philosophical background of the capitalist economy is premised on self-interest. It is questionable whether this value system, which has led to ever-increasing levels of resource extraction, production, and consumption is a suitable model for poverty reduction, inequality, environmental degradation, the elimination of hunger and other noble objectives. The unlimited growth ideology of global capitalism is premised on unlimited natural resources and unlimited growth possibilities. This ideology is easily discerned in the use of GDP as an indicator of economic advancement. However, 'we cannot save nature and people without stepping out of the growth dogma'[47]. In this context, the SDGs are "actively dangerous" because they lock humanity into a distorted global development agenda, which is premised on a failing economic model.

The Global Financial Crisis exposed a financial architecture which incentivises greed and selfish behaviour. The 'chastened version', which the Financial Times' Martin Wolf referred to in his analysis of post-crisis regulatory modifications is not nearly enough to rectify the underlying structural

[46] Mehmet Asutay, 'A Political Economy Approach to Islamic Economics: Systemic Understanding for an Alternative Economic System' (2007) 1(2) *Kyoto Bulletin of Islamic Area Studies* 8-9.

[47] Claudia Neubauer and Matthieu Calame, 'Global Pressing Problems and the Sustainable Development Goals' (Global University Network for Innovation, 2015) <https://www.guninetwork.org/articles/global-pressing-problems-and-sustainable-development-goals>.

incentives for bad behaviour[48]. Nor will the free market or technological solutions be able to solve all of our environmental or social problems. Global hunger and poverty cannot be solved by market growth alone. Nor will technology ride to our rescue so that we are spared from making difficult compromises. On the contrary, 'we fail to see the deepest roots of our present failures, which have to do with the direction, goals, meaning and social implications of technological and economic growth'[49]. Indeed, a fundamental solution to these failures is to overcome the predominant ideology of the global capitalist economy, which is the 'secular religion of the advancing industrial societies'[50].

The SDGs do not acknowledge that the systemic inequality of the global capitalist economy in which the rich get richer, and the poor get poorer is directly related to global poverty, hunger, and climate change. The SDGs aim to ensure 'that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of poverty, inheritance, natural resources, appropriate new technology and financial services, including micro-finance'[51]. However, equal economic rights, absent policies which manage the top end of the economic scale, are premised on an outdated 'trickle down' policy, which in practice, does not happen[52.] In 2015, the 85 richest people in the world were as wealthy as the poorest half of the world while the richest 10 per cent of people produced half of the Earth's climate-harming fossil fuel emissions. The poorest half contribute a mere seven per cent and will experience the worst effects of climate change[53.]

Furthermore, the issue of inequality and taxation is not well addressed by the SDGs. The assumption that inequality can be reduced while leaving the grossly unequal distribution of wealth intact is mistaken. Genuine reform of the international system of taxation along with the reduction or elimination of tax havens and evasion have long been seen as the prerequisites to achieving the SDGs. Notably, progress in relation to these requirements has been made recently. In 2021, OECD countries agreed to a major reform of the international tax system, ensuring that multinational enterprises (MNEs) will be subject to a minimum 15 per cent tax rate from 2023. The landmark deal, agreed by 136 countries and jurisdictions representing more than 90% of global GDP, will reallocate more than $125 billion of profits from around 100 of the world's largest and most profitable MNEs to countries worldwide, ensuring that these firms pay more tax wherever they operate and generate profits[54.] The

---

[48] Martin Wolf, 'Financial Reform: Call to Arm' (*Financial Times*, 2014) <https://www.ft.com/content/152ccd58-3294-11e4-93c6-00144feabdc0>.

[49] Pope Francis, 'Encyclical Laudato Si from the Holy Father Francis on Care for Our Common Home' (*Vatican*, 24 May 2015) <https://www.vatican.va/content/francesco/en/encyclicals/documents/papa-francesco_20150524_enciclica-laudato-si.html>.

[50] Daniel Bell, *The Cultural Contradictions of Capitalism* (Basic Books, 1996).

[51] United Nations, 'Transforming Our World: the 2030 Agenda for Sustainable Development, Resolution Adopted by the General Assembly' (United Nations, 25 September 2015) < https://sdgs.un.org/2030agenda>.

[52] Claudia Neubauer and Matthieu Calame (n 48).

[53] Oxfam and Stockholm Environment Institute, 'The Carbon Inequality Era' (Oxfam and Stockholm Environment Institute, September 2020) <https://www.sei.org/wp-content/uploads/2020/09/research-report-carbon-inequality-era.pdf>.

[54] OECD, 'International Community Strikes a Ground-breaking Tax Deal for the Digital Age' (*OECD*, 2021) <https://www.oecd.org/tax/international-community-strikes-a-ground-breaking-tax-deal-for-the-digital-age.htm>.

implementation and effectiveness of the deal in jurisdictions around the world will be examined in years to come.

Concerns related to the least developed countries (LCD) are emblematic of the intrinsic conflicts inherent in the SDG goals. For example, will sustainability result in lower economic growth with detrimental effects on poverty alleviation? Debt burdens have risen significantly in the Least Developed Countries (LDCs) since 2013. These are compounded by high interest rates on commercially priced debt, which makes the servicing of these costs very difficult and creates market risks. The SDGs were silent on this issue and yet debt sustainability is a key obstacle to development. Thirty low-income and LDCs are now considered at high risk of default or in debt distress at a time when governments are expected to finance the implementation of the 2030 Agenda. The US$4.5 trillion per year investment required for realising the SDGs will have very serious implications, particularly for the LDCs.

Moreover, practitioners observe that the omission of finance from the SDGs is a central weakness. Achieving the SDGs requires trade-offs which involve issues of finance. A focus on finance is necessary if countries are to meet novel environmental challenges such as climate change. For example, what balance should be struck between immediate social goals and those of climate change? Should divestment from fossil fuels come at the cost of fulfilling domestic social goals? Will countries with large reserves of oil and gas stop extracting them in view of the imminent threat to the future of our planet? Can global development take place while also reducing emissions? A financial solution, proposed by William Nordhaus, the 2018 Nobel Laureate in economics, proposes the implementation of a pricing system for CO2 and similarly damaging greenhouse gases. The world's largest oil producers, Saudi Arabia, the United States and Russia are best placed to initiate such a Climate Club. Islamic finance, although new to this challenge, is a natural solution to this problem.

Islam Has a Role to Play

Some view the introduction of the SDGs as having allowed the issue of morality and ethics to re-enter the centre of economic discussion after having been ignored for decades by global policymakers and academics. The erosion of standards of responsibility and ethics, which the Global Financial Crisis illustrated, resulted in significant financial consequences but also damaged the trust of investors, businesses and the public in the financial system and democratic institutions. The SDGs, therefore, are an attempt to introduce more ethical, moral, and religious values into the economic, social, and environmental activities of humanity. Notably, many faith-based organisations have strongly influenced this revival through their development projects. Islamic finance is well placed to play a significant role in this discussion.

Islam has a role to play. Zakat, Islamic inheritance law, waqf and *sadaqah* are institutions that are designed to redistribute accumulated wealth in a fair and equitable way. Zakah, in particular, is considered the equivalent of a wealth tax, similar to the wealth tax famously proposed by Thomas Piketty in his ground-breaking book, Capital in the 21st Century. There is some juristic debate concerning the lawfulness of investing *zakat* funds to meet larger goals of poverty alleviation or

whether funds must be held in trust solely for the needs of nominated beneficiaries. However, the Jeddah-based Islamic Fiqh Academy resolved that the investment of zakat is lawful and therefore capable of amplifying the long-term benefits of zakat.

On the other hand, the piecemeal use of Islamic social finance institutions may be too limited an approach to have the type of society-wide impact required by the SDGs. While zakat donations and waqf endowments are welcome, such approaches are seen as of limited value in raising significant resources for social finance. A much wider discourse is needed concerning the ways in which the objectives of Islamic social finance can be incorporated in banking and capital markets. The challenge is to make this mode of thinking about social interests and the environment mainstream in all of our decision making. Islamic discourse is limited to some extent to the three institutions that represent Islamic social finance: zakat, waqf and micro-finance/micro-investment. This must be widened to include discussion of overall decision making, helping to craft a new model of the firm.

It could well be that the change may come from grassroots non-bank financial intermediaries, which are led by young technologically focussed entrepreneurs, championing self-governance and social community empowerment. The ability to mobilise funds for a collective good cause, presents a new mode of financing that mirrors the traditional Islamic principles of social finance[55].

Other methods of profit and loss sharing and risk-sharing, capital contribution and finance activities are also considered in these initiatives. The components of such initiatives rely on a group of partakers with a common social goal, which is seen as being similar to the common principles in Islamic finance, where social cohesion and inclusion is vital. This raises the question of whether this can present a unique chance to re-orientate Islamic finance and streamline its value proposition towards social finance.

Historically, social investment has not been directed toward risk return trade-offs as is the case with mainstream for-profit investment, which focuses on dividends and capital gains. The motivation has been to some extent philanthropic and therefore has been seen as less sustainable because most philanthropic activity is one-off and short term. Social housing bonds, for example, have proved especially popular for investment by quasi state institutions such as pension funds. Although returns are meagre, they are better than those of government bonds. The bonds can be traded and hence investors can exit at any time.

An innovative example of a socially responsible sukuk, which offers an Islamic alternative to the conventional social bond, is the so-called *'sukuk ihsan'*, which is the Malaysian sovereign wealth fund's first socially responsible sukuk[56]. Profits were channelled to a not-for-profit organisation to improve the accessibility of quality education in Malaysian state schools. It has reached over 65,000 students and 83 trust schools across 10 states in Malaysia. Notable developments in the SRI *sukuk* market have taken place in other countries too.

---

[55] Umar Oseni and Syed Nazim Ali, *Fintech in Islamic Finance: Theory and Practice* (Routledge, 2019).

[56] Khazanah Nasional, 'Khazanah Issues World's First Ringgit-denominated Sustainable and Responsible Investment Sukuk' (Khazanah Nasional, 5 June 2015) < https://www.khazanah.com.my/news_press_releases/khazanah-issues-worlds-first-ringgit-denominated-sustainable-and-responsible-investment-sukuk/>.

However, historically, ethical funds investment, which is similar to Islamic funds investment and primarily directed toward retail investors, is seen as more sustainable as it combines the profit-motive with social and sustainable objectives including the screening out of harmful elements such as tobacco, excessive alcohol and gambling addiction. The screening criteria of ethical investment is remarkably similar to Islamic finance screening methodologies.

Innovative modes of blended finance may help to improve the sustainability of social investment and allow social, environmental and health improvement objectives to be met. For example, waqf funds can be used as an incentive for cost absorption in Public Private Partnerships (PPP). Sukuk can be structured to make use of waqf funds as a catalyst to facilitate financing and completion of development projects. Infrastructure projects are capital intensive, long-term projects that have revenue generating capacity as well as large positive externalities for society and the economy. However, these projects are capital intensive and long-term, which creates financing problems, particularly for developing countries which are not able to finance projects solely from their revenue sources. Financing from multilateral financial institutions is needed as well as private financing, both foreign and domestic. Yet private financing faces a number of problems due to the legal, economic and governance challenges in developing countries.

Therefore, a change in financing patterns is required, from financing operating costs to financing upfront investments, and from short-term financing to long-term financing. Other obstacles to overcome include the capital intensity of projects which require detailed planning and analysis before designing and implementing a project. Financing from *awqaf* institutions can be used to make periodic incentive payments to sukuk investors during the gestation periods of PPP projects. Disbursements from *waqf* funds will be periodic and contingent on completion of various phases of the project, which also incentivises timely completion. The combination of *waqf* and PPP financing allows the main financing aspects of the project to remain with the project sponsors. In this way, the *waqf* does not acquire ownership of the financed property, which would be subject to restrictions. The integration of waqf with development financing offers a solution to PPPs at a lower cost. The proposal is also innovative because it offers a plausible means of reviving the role of awqaf in contemporary markets.

Furthermore, the humanitarian impact bond (HIB) for the International Committee of the Red Cross (ICRC) demonstrates an innovative way to finance socially useful projects while offering investors a competitive return. Social impact bonds are a relatively recent financial innovation whereby private investors participate in publicly funded programmes with the return on investment linked to the effectiveness of that programme. The first HIB was launched in the United Kingdom to finance a prisoner rehabilitation programme in 2010. Since then, the model has been adopted by public bodies in many other jurisdictions including the United States, Canada, and Australia for programmes as diverse as recidivism reduction, housing provision and health improvement.

In the HIB model, the ICRC raised funds from private investors, which it used to build and operate three new physical rehabilitation centres in Africa over a five-year period[57]. The centres will provide physiotherapy and mobility devices (wheelchairs, artificial limbs, and braces) for thousands of people. ICRC donors, including the governments of Belgium, Switzerland, Italy, the UK and the "La Caixa" foundation, have agreed to a payment by results mechanism. The mechanism requires necessary training for staff as well as the testing and implementation of new efficiency mechanisms. The return to social investors is linked to the success of the ICRC in achieving those results. Moreover, donor partner donations are also linked to the results achieved by the ICRC. ICRC is incentivised to create more efficiency in the projects. The programme is subject to ongoing evaluation by an external evaluator. Social investors can earn a competitive return while making a positive humanitarian impact.

There is considerable scope to build on and adapt the ICRC HIB structure for Islamic finance. Using a *musharaka*, for example, the charitable organisation seeking finance acts as the project manager and commits to using the existing assets to the musharaka for the purposes of generating a return. So, in the case of the ICRC, the contribution would have been the physical buildings of the rehabilitation centres or the land on which they are to be constructed. The major advantage of using the musharaka is that the ICRC or similar organisation would have a real stake in the success of the project. If the project is unsuccessful, it too would lose money, unlike the conventional structure.

This pioneering structure could be a vital tool in matching private investors to development institutions such as those providing medical care, education, or employment opportunities. The ability of private investors to earn a competitive return while engaging in humanitarian work should be attractive to the private sector. This is strengthened by the structure's requirement for projects to produce verifiable results, which incentivises efficiency and accountability in the charitable sector.

The implementation of true risk-sharing and profit and loss sharing contractual models available under Islamic finance encourages a long-term investment focus. It is this method of thinking and practice that needs to be encouraged and instilled in the industry. The institutions that can provide equity modes of financing can range from venture capital firms, private equity firms, investment banks, asset management funds and microfinance institutions. These institutions manage risks of equity financing by playing an active role in advising and participating in the activities of firms and institutions to ensure that value including SDG-related value generation, is added before exiting. These activities are a closer approximation of the Islamic norms of risk-sharing and participation than are those of debt-focused commercial banks.

The Role of Regulation

A collective responsibility and paradigm shift is required to integrate ethical and equitable principles, particularly sustainable considerations in an institution's decision making and forward strategy in

[57] International Committee of the Red Cross, 'The World's First "Humanitarian Impact Bond" Launched to Transform Financing of Aid in Conflict-Hit Countries' (ICRC, 6 September 2017) <https://www.icrc.org/en/document/worlds-first-humanitarian-impact-bond-launched-transform-financing-aid-conflict-hit>.

Islamic and conventional finance. The roles of national and/or international regulators to support this shift are viewed as essential. Without proper control institutional culture shapes itself and behaviours may develop which are unethical. The 2008 Financial Crisis highlights the extent to which financial transactions are premised on trust. Trust was shattered by banks' pursuit of excessive profit and high-risk behaviour at the expense of the customer. Therefore, embedding an ethical culture in an institution is necessary for creating trust[58].

Yet regulation alone is not sufficient. Ethics and law are sometimes separate and governments and regulatory bodies are not always able to change that. For example, when the culture of an organisation is at odds with ethical behaviour, there may be little that the regulator is able to do to change the behaviour. Regulation is also frequently focussed on events in the past whereas the objectives of the SDGs require future-focussed change.

Change, particularly cultural change, takes a great deal of time[59]. This is magnified by the international scope of the SDG project where regulators and organisations operate in different jurisdictions across the globe. Alongside regulatory control, ethics must also be realised through persuasion and incentive.

Regulation will be important in developing an ethical finance approach across all sectors of the economy. Regulatory changes often address one or more of the SDGs and they also encourage the adoption of more ethical mindsets and initiatives. One example is the non-financial reporting EU Directive (2014/95/EU) which requires large public interest entities with over 500 employees (listed companies, banks, and insurance companies) to disclose certain non-financial information[60]. As required by the directive, the EU Commission has published non-binding guidelines to help companies disclose relevant environmental, social, and governance-related information in a way that fosters resilient and sustainable growth and employment, and which provides transparency to stakeholders[61]. Another example is the Bank of England, which has responded to climate change by supervising the financial risks[62]. Additionally, it has sought to enhance the resilience of the UK financial system by supporting an orderly market transition to a low-carbon economy.

The implementation of corporate social responsibility is addressed differently the world over. Some countries mandate CSR policy disclosures and inclusion in the annual report whereas others rely on corporations to adopt best practices. India is said to have become the first country to mandate corporate social responsibility under its Companies Act 201363. Amongst other provisions, the Act provides that companies must spend at least 2 per cent of their average net profit of the preceding

---

[58] Association of Chartered Certified Accountants, 'Culture vs Regulation: What is Needed to Improve Ethics in Finance?' (ACCA, October 2014) <https://www.accaglobal.com/lk/en/technical-activities/technical-resources-search/2014/december/culture-vs-regulation.html>.
[59] Ibid.
[60] Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 (Official Journal of the European Union, 15.11.2014).
[61] European Commission, 'Guidelines on Non-Financial Reporting (2017/C 215/01)' (Official Journal of the European Union, 5.7.2017).
[62] Bank of England, 'How is the Bank of England Responding to Climate Change?' (Bank of England, 14.02.2022) <https://www.bankofengland.co.uk/knowledgebank/how-is-the-bank-of-england-responding-to-climate-change>.
[63] India Companies Act 2013, sch VII, s 135.

three years on social development. Since enactment of the Act, a change of corporate mindset can be seen. Total CSR fund investment by companies exceeded INR 50,000 (US$7.15 billion) by 31 March 2019. A large share of these funds is directed towards education and skills development projects, followed by healthcare and sanitation initiatives.

Islam has much to contribute to the question of ethics, cultural change, and the normative content of regulation. The formulation of regulation with a view to the ethical purposes of regulatory requirements would be improved, in appropriate circumstances, by examining the maqasid guidelines. Islam's ethical purpose in human relations and business transactions is to ensure justice and fair dealing and these ethics are essential in bringing about harmony, equilibrium, and social progress.

SUMMARY OF COMMENTARIES

SOAS Workshop on Islamic Finance
13 February 2020

Islamic Social Finance and the Sustainable Development Goals

Dr Moutaz Abojeib[64]

Introduction:

The United Nations adopted in 2015 the SDGs agenda comprising 17 sustainable development goals (SDGs) and 169 measurable targets centred on five pillars: people, planet, prosperity, peace, and partnership. Following the adoption of these goals, there is a growing interest about the SDGs among Islamic finance stakeholders. The SDGs have been described as a perfect fit with the purpose and principles of Islamic finance and its goals are perfectly aligned with the philosophy of Islamic finance. It has also been asserted that Islamic finance can play an important role in supporting their implementation. This has been evidenced through various researches, keynote speeches and reports. UN, Word Bank and IMF among others noted that potential contribution of Islamic finance to the SDGs are also likely to help the industry to progress in the coming years. Overall, SDGs are seen by Islamic finance industry from two different angles: as a key global movement from which Islamic finance can learn from, and as an area in which the Islamic finance community can meaningfully contribute to.

This paper, which is produced based on the notes and commentaries shared by the participants of the workshop "Islamic Social Finance and SDGs" held at SOAS - University of London on 13th Feb 2020, discuss the mentioned above topic in some details. Whereas the full set of commentaries are extremely valuable and beneficial, this 'summary of commentaries' paper aims at formulating some guidelines on establishing the link between Islamic finance and SDGs, and reporting proposals for maximising the social impact of Islamic finance and its contribution to SDGs. To serve this purpose, some necessary selection, merging of ideas and thorough editing have been done by the editor, while the list of contributors is placed at the end.

This paper is divided into three sections; the first section reports the positive aspects of SDGs as well as their limitations that need to be addressed, reformed and upgraded. The second section discusses further the link between SDGs and Islamic finance, while the third section reports the proposals presented by the various participants.

Sustainable Development Goals (SDGs): The potential and limitations

Positive aspects of SDGs in relation to Islamic finance

*Dr Moutaz Abojeib is a trainer, Islamic finance expert and researcher at the International Shari'ah Research Academy for Islamic Finance (ISRA), Malaysia. Dr Abojeib can be contacted at Moutaz.aj@gmail.com

SDGs as a global agenda have several positive aspects that could be considered in order to advance the wider objectives of Islamic finance and Islamic economics. Among these aspects are:

- The 17 objectives of the SDGs such as ending extreme poverty and hunger, curbing inequalities, and confronting discrimination are noble objectives which are generally well aligned with *maqasid al-shariah.*
- The 2030 Agenda represents a compromise among 193 governments and various organisations, and it is widely acknowledged by international institutions that the principles of Islamic finance can contribute towards the achievement of the SDGs. This recognition can be used as the basis of cooperation between Islamic finance and a much broader base of other stakeholders in order to know each other and benefit from each other.
- "Leaving no one behind" is the central, transformative promise of the SDGs. It is the moral issue of our age and it represents an ambitious blueprint for action for the SDGs. It is about helping others and working for the common good and therefore, it is in line with the Muslim belief that the Prophet (peace be upon him) was a mercy not only to the whole humanity (not just Muslims) but even to animals and other worlds.
- The SDG objectives brought the issue of morality and ethics to the centre of economic discussion after being ignored for decades. Any discussion about reforming the capitalist system or even replacing it will be at the advantage of Islamic finance that is rooted in ethical and moral values.
- The advent of the SDGs has also re-established the relation between economic development and religion. Religious organizations and donations are increasingly recognized as a source in financing the SDGs and religion is no longer an obstacle to development. Any link between religion and development is a positive development for Islamic finance.
- Although Organization of Islamic Cooperation (OIC) member countries account for 22% of the world population, they house 65% of the world's poor. Therefore, SDGs agenda for eliminating poverty is of a great interest from Muslim countries and their Islamic social finance agenda.
- The SDGs generally operate on a principle-based analysis and apply negative screening and positive impact analyses. The Islamic finance community has deep experience in deriving rules from principles. The screens used for investing in public securities are a prime example. The Islamic finance community may have expertise to offer the broader SDG community in converting principles into concrete rules that can more easily be applied in practice. Furthermore, a full accounting of natural resources and impact of economic activity on ecosystems is necessary for realising ESGs. Islamic finance can be useful in this regard.

Limitations and shortcoming of SDGs:

Although the above-mentioned similarities between the SDGs and Islamic finance are generally acceptable from a shariah perspective and could be aligned with the *maqasid al-shariah*. However,

the SDGs are also embedded with a number of limitations that need to be addressed, reformed and upgraded in order make it be fully in line with the *maqasid al-shariah*:

- Despite the positive reforms, SDGs still rely on the prevailing capitalist system while it is widely acknowledged today that the system is facing huge problems. Despite the post 2008 crisis reforms, fundamental issues facing the financial system remain unchanged. SDGs are inadequate in delivering the new economic system. Inequality cannot be resolved under the current economic system where the redistribution of wealth is unfair and biased. In addition, the SDGs do not demand explicitly an end to financial speculation. Fundamental change is necessary and Islamic economics can help play this role.
- Adoption and the implementation of the SDGs is running into some major hurdles such as the rising public debt in some developing countries. SDGs did not mention any instruments to overcome such issue. Without a solution for the increasing debts SDGs will remain an empty promise[65]. Debt vulnerabilities are increasing at a time when governments are faced with large financing needs to implement the 2030 Agenda.
- The SDG objectives are a voluntary agenda, so no guaranties on its implementations. In fact, many reports indicating that the 2030 Agenda is hard to achieve. For instance, while total global military expenditure reached the historic high of US$ 1.822 trillion in 2018, no SDG can be achieved by 2030 without global peace.
- SDGs agenda lacks adequate motivation to incorporate all dimensions in an efficient and timely manner for all stakeholders. There is a gap between each of the different pillars of sustainable development, which is likely to result in unbalanced and unintegrated treatment of the SDGs.
- SDGs will have very substantial resource implications across developed and developing countries. For instance, in developing countries alone, the required investment for the Sustainable Development Goals would be approximately US$4.5 trillion per year for food security, basic infrastructure (road, water and sanitation, and power station), health and education and climate change mitigation.
- Strikingly, the omission of finance from the SDGs is their main weakness because primarily via financial mechanisms most trade-offs can be explored, evaluated and resolved between the achievement of immediate social goals and longer-term progress. Further, such trade-off differs considerably from country to country[66].

---

[65] Thirty low-income and least developed countries are now considered at high risk of or in debt distress, and debt to-GDP ratios exceed 70 per cent in a third of all SIDS. (Achim Steiner, Statement at the 38th Meeting of the International Monetary and Financial Committee, https://www.undp.org/2018/38th_Mtg_of_the_International_Monetary_and_Financial_Committee_IMFC.html

[66] For instance, environmental challenges are very complex and impose difficult questions that are not explicitly unsewered through SDGs agenda. Such questions may include: Should countries with large reserves of oil and gas stop extracting them? Should they not be allowed to use the revenues from the sale of oil and gas to pursue domestic social issues. Beyond that they should surely strive to restructure their economies in order to make them less dependent on fossil fuels. But who is entitled to tell them how fast and rigorously such transition efforts should be undertaken?

- There are concerns regarding 'green-washing' of SDGs that is misrepresenting non-sustainable finance as sustainable. This is because often SDG claims are made by management themselves or by consultants who report to management. Having independent ethical advisors/auditors appointed directly by shareholders is vitally important.

Islamic finance & SDGs: Establishing the connection

Sustainability is intrinsic component of Islamic finance

In the world of Islamic finance, sustainability itself does not subsist anymore as an objective to be pursued in trying to put a limit (a boundary) to the excess of capitalism. On the contrary, sustainability becomes a tool to pursue the final objectives (*maqasid*) of shariah: a core instrumental principle (not an aim in itself) in order to follow the Revealed Message. Therefore, it is not Islamic finance to be called to look at *maqasid* as an instrument for sustainability, but (reversely) it is the intrinsically sustainable essence of the shared prosperity underlying its methodology to be functionally instrumental to pursue the objectives of shariah. By following shariah, the Muslim believer makes his human life sustainable as much as the financial system guarantees the sustainability of the entire eco-system in pursuing the *maqasid*.

The key link is the shariah objective (*maqasid*)

The Qur'an names human beings as God's stewards in the created world. Within this mandate, private property is permitted with the understanding that whatever wealth or property a person 'owns' is given by God as a trust. The scope of humanity's stewardship is sufficiently broad to embrace the free market. Yet, shariah rules impose some limits to ensure fairness, justice, poverty elimination, social and environmental well-being and transparency. As a result, Muslims are expected to adhere to moral guidance governing property and wealth and maintain this trust. shariah rulings need to constantly be contextualised toward addressing contemporary issues facing the ummah. From ending poverty and hunger to promoting responsible production and consumption, providing affordable housing, better healthcare and education. shariah deliberations on Islamic financial matters should reflect on the evolving needs of the economy and society. From this perspective, SDGs might be aligned with *maqasid al-shariah*, since the overall objective of shariah is the fulfilment of *maslaha* (common interest) of mankind. According to Ibn Al-Qayyim Al-Jawzi, ''shariah is all Justice, mercy, common interest and wisdom. Any rule that departs from justice to injustice… or departs from common interest to injury, or departs from wisdom to frivolity is not part of shariah, even if it is arrived at by way of interpretation'' (*I'lam al-Muwaqiin*).

The limitation of using *maqasid* as a base rule

Although SDGs are generally acceptable from shariah perspective and could be aligned with *maqasid al-shariah,* the SDG are also embedded with a number of limitations that need to be addressed,

reformed and upgraded in order make it fully in line with the *maqasid al-shariah*. As such, the following remarks shall be considered:

- There is no way of equating SDGs with *maqasid* al-shariah. *Maqasid al-shariah* are much broader, equipped by practical means and mechanism to achieve its objectives while the SDGs are good promises but devoid of concrete systems and implementation mechanisms.
- *Maqasid al-shariah* and SDGs have two different world views and two different motivations for implementation.
- While *maqasid* can be referred to in establishing the link, promoting the use of *maqasid* as a shariah parameter for acceptable interpretation of the textual authorities is encouraged. However, any attempt to substitute those authorities with *maqasid* altogether must equally be discouraged. Just as in any legal system, the primary duty of a judicial officer is to discover the intention of the lawmaker and interpret the law in line with such an intention. Hence it is said that the duty of a judge is to state the law and not to make the law.
- The need for applying the rule of preference (*tarjih*) in all of these instances must be emphasised. A sound recognition of the pecking order/ ranking of *maqasid* (as either being a product of necessity, need or ordinary embellishment); and *maslaha* (as either being private or public, primary or subsidiary; real or imaginary, or being either recognised, rejected or loose) are crucial.
- In measuring, the economies' outcomes and performances, most indices remain focused on income and tangible measures such as GDP. GDP is a poor measure of natural resource related wealth. It says nothing about sustainability; it provides a snapshot in time that is only useful then. From a *maqasid al-shariah* point of view, such measures are either too deficient for evaluation of comprehensive human development and very different in their emphasis and underpinning fundamental bases from the objectives of shariah. *Maqasid al-shariah* are broader in number of dimensions and more complex to construct. The broadness is captured in its multidimensionality instead of a single number.

Islamic finance and the SDGs are aligned in many ways

Indeed, there is a connection between the principles of Islamic finance and of the UN SDGs. Both of them want to achieve more responsible, equitable, and real economy-oriented financing where no one is left behind. In fact, it is difficult to imagine differences between the two if they are aiming at achieving certain common objectives such as SDG 1 (No Poverty), SDG 2 (Zero Hunger), SDG 3 (Good Health and Well-Being), SDG 4 (Quality Education), SDG 6 (Clean Water and Sanitation), SDG 7 (Affordable and Clean Energy), SDG 8 (Decent Work and Economic Growth), and SDG 9 (Industry, Innovation and Infrastructure) or SDG 10 (Reduced Inequalities), and SDG 16 (Peace, Justice and Strong Institutions). Moreover, the principle requiring underlying assets in each Islamic financial transaction makes Islamic finance a good match for the financing of infrastructure, which is part of SDGs 6, 7, 9, and 11. Furthermore, the Islamic finance industry's prohibition of financing certain

sectors such as weapons and armaments can be aligned with SDG 16, aiming to promote peaceful, just and inclusive societies. Lastly, the principle of profit and loss sharing inherent to Islamic finance could, contribute to achieving SDG 10, related to reducing inequality and easing the negative impact of economic blows.

The Way forward: Proposals to align Islamic finance with SDGs:

Redefining the concept of Islamic Social Finance (Terminology clarity)

Everything which claims to be Islamic must necessarily be social. Using the word 'social' may imply that there is another type of Islamic finance which is not social. The term Islamic Social Finance refers to modes of finance that are rooted in Islamic ethics and intended for social benefit. As such, if progress is to be made in this area, terminological clarity (especially for those active in Islamic finance and social finance) is needed to establish much better levels of understanding. In addition, Islamic social finance is not only about *zakat*, *waqf*, *sadaqa*, and Islamic microfinance. Islamic finance is about socially responsible financing. Islamic Social Finance should also play a role in banking, capital markets (for example *sukuk*) as well as all other investment funds that have a social impact. Hence, we mainstream the thinking of others' environment in all our decision making. Furthermore, the concept of Islamic social finance is not limited to the alleviation of hunger and poverty, rather it includes satisfying social needs of cooperation, cohabitation, security, faith and mind of the present and future humanity. Being shariah compliant is about ensuring the minimum requirements for morally correct behaviour. One of the models that can help in achieving the social Islamic finance objective is the concept of *Akhuwat* (solidarity) that could be used as an approach to target micro entrepreneurs and assist them through interest-free loans. Islamic social finance must go well beyond the traditional mechanisms. The conventional division of economy into three sectors (which are the commercial private sector, public social sector, and a third social voluntary sector) has led to less discussion about the hybrid model that is crucial. Many Islamic banking experts still insist that the role of Islamic banking is to maximize returns for their shareholders. It is as if the three sectors cannot be integrated. If we widen the discussion of Islamic social finance, we can then have a new model of the firm.

1- **Revisiting the Islamic banking model:**

   Islamic finance has not been as financially inclusive as hoped. Financial inclusion was a major selling point for the introduction of Islamic finance into the nations with a large percentage of unbanked Muslims. The presumption appears to be rebuttable now. A possible reason for this is the fact that a large portion of the population have not seen significant differences between the operations of Islamic banks and conventional banks. Islamic economics, banking and finance must genuinely solve problems of the *ummah* and not just provide legally compliant instruments that do not necessarily establish justice and wellbeing for all or which pursue the objectives of the shariah. In addition, just providing longer repayment periods to allow people to afford an already overpriced house, does not genuinely solve the provision of the basic human right of shelter, which is a crucial goal of the objectives of the shariah. Solutions must

be sought in a framework where finance is unified with economics and the socio-economic goals of society. In Islamic banking, there is soul- searching required and the way forward is to re-visit its Islamic economic foundations. Maybe the current discourse on circular economy and social finance will provide the incentive and impetus to re-connect Islamic banking to its roots. It is the responsibility of all to assist in bringing Islamic banking and finance home.

2- Bringing Islamic finance home through the Circular Economy Social Finance (CECF):

Contemporary Islamic finance has contributed to Muslim societies' progress. However, there are tensions in contemporary Islamic finance, especially seen in the literature of Islamic banking, both in theory and practice. There is still much more that can be achieved and the role and contribution to the general well-being of the way forward for Islamic finance is to re-align itself with its Islamic economic (IE) foundations that were presented in the late 1960s and 1970s, but that were slowly marginalized with the advent of commercial Islamic banking in the mid- 1980s. The circular economy and social finance discourse allows us a valuable opportunity to re-visit the understanding and role of Islamic finance to overall human wellbeing. This will bring about the realization of the visionary ideals put forward by pioneers of contemporary Islamic economics. A circular economy is an alternative to a traditional linear economy (make, use, dispose) in which we keep resources in use for as long as possible, extract the maximum value from them whilst in use, then recover and regenerate products and materials at the end of each service life. The 3Ps (people, planet and profits) model is what the circular economy paradigm brings to Islamic economics and finance. Stemming from the Islamic worldview and Islamic economic philosophy discussions about the nature of resources, the nature and role of man as *khalifah*, the ethical principles that this brings in economics and finance plus the call for socio-economic justice and equity, naturally makes the circular economy and social finance discourse relevant.

3- Value-Based Intermediation initiative:

In 2018, Bank Negara Malaysia proposed the initiative of Value-Based Intermediation (VBI). The initiative aims to re-orient Islamic finance business models towards realising the objectives of shariah that generate positive and sustainable impact to the economy, community and environment through practices, processes, offerings and conduct. The VBI Assessment Framework is aiming to be a reference for Islamic financial institutions that intends to incorporate environmental, social and governance (ESG) risk considerations in their own risk management system. This initiative deserves to be welcomed as a valuable and praiseworthy effort. The proposed framework includes a functional interrelation between sustainability and the *maqasid al-shariah*. Through the reliance of the VBI on shariah in the determination of its values, moral compass and priorities, the VBI is viewed as a means to deliver *maqasid* to the extent to which (good) practices generated sustainability.

4- Moving from ''legalism'' toward ''*maqasid*-oriented management systems'':

Islamic financial institutions rely on monitoring/supervision of shariah scholars for their products and practices. The process should function as both shariah compliant and at the

same time related to new social, ethical and environmental considerations. shariah advisors or committee should be involved proactively rather than reactively as it is at the present. Many shariah scholars simply lack awareness of ethical issues and concerns. Yet, if we leave jurists and the legal methodology to take care of SDG alignment, then we will have more compliance, more documentary work at high costs, inefficient frictions of business processes, while basically letting companies suffer to meet minimum standards. Hence, there is a clear need to cater for *maqasid*-oriented management systems to have a strategy to address SDG alignment. The role of economists and jurists therein is foremost to create the right governance structure, minimising conflicts of interest and encouraging the mandate of the management, e.g. by including these aspects in the remuneration of the management and staff.

5- Blended Finance:

Islamic Finance has long been considered as a prohibition driven industry. With Islamic Social Finance, the established conditions must be met; however, the purpose of the discussion is more positive in the outlook, namely, to mobilize funds and contribute to the objectives of Islam, the betterment of society and dignity of its people. This is called by the OECD and World Economic Forum (WEF) as Blended Finance[67]. Blended Finance is the strategic use of development finance and philanthropic funds to mobilize private capital flows to emerging and frontier markets. Blended Finance enhances the impact of limited philanthropic and development resources by using those funds to tap into the trillions of dollars of private capital available in global markets. It offers promising potential as an ecosystem solution to close the development funding gap. To realise the blended finance, several financing structures including Islamic finance has been outlined. In this regard, partnerships between the private sector and international organisations such as Islamic Development Bank (IDB) and Islamic Organization for Food Security seems to be crucial to the success of blended finance. It shall be understood that pushing businesses for zero-waste, zero emissions and serving other social and environmental objectives may imply additional costs on them. Therefore, there is a need for subsidies to ideally eliminate the cost of finance. Governments with resource constraints may not be able to support directly but they can facilitate the bringing together of social finance and commercial finance; social finance paying the cost of finance and commercial finance providing the principal of finance so that the impactful business gets cost free finance. This can be done using different contracts, involving different parties applied to different good causes - impactful business, low cost housing, climate reversal initiatives, forestation etc. *Zakat*, *waqf*, and general *sadaqah* can be blended with commercial finance in innovative ways. Imagine a capital structure by which commercial capital is complemented with *sadaqah* provided as first-loss capital such that the first losses are absorbed by capital allocated for philanthropy. *Waqf* can also be a concessionary financier, waiving return in excess of its principal under certain circumstances for the social good.

[67]https://social-finance-academy.org/uploads/wef-oecdblended_finance_a_primer_development_finance_philanthropic_funders_report-2015.pdf

6- **Regulatory pressure and reducing the knowledge gap among the various countries:**

There is urgent need for stakeholders' collaboration to reduce the widening knowledge gap in the field of Islamic finance between certain regions of the world. For instance, only one university in Nigeria offers a degree programme in Islamic Finance. International organizations like QFC, IsDB, ISRA, etc. may consider the endowment of Chairs of Islamic Finance in some of the developing world universities. In addition, regulatory pressure will be important in moving the dial towards a more ethical finance approach, not just for the Islamic finance sector but also for the conventional sector. These regulatory changes and initiatives are often relevant to one or more of the SDGs and they will help encourage the adoption of more ethical mindsets and initiatives.

7- **Using *Zakat* to realise SDGs:**

According to an IsDB report, the worldwide *zakat* contributions alone had an estimated value of up to $1 trillion in 2018. What this implies is that *zakat* alone can provide more than 1/3 of the needed funds for realisation of SDGs, and that represents an incredible potential to fight hunger and reduce poverty in the world. However, certain shariah and operational issues have to be tackled first if *zakat* must play its rightful role in actualizing the SDGs targets[68]. For instance, investing *zakat* in social welfare programmes and economic development projects has also generated scholarly debate. Some are of the opinion that *zakat* must be given to their respective owners as mentioned in the Noble Quran without delaying or investing it in any project[69]. On the other hand, some other contemporary scholars opine that giving *zakat* to the recipients for their immediate needs alone is not sufficient to realise the purposes of *zakat*, especially the important goal of poverty alleviation and overall advancement of the standard of living in the Muslim communities. They suggest that investment of the *zakat* fund will go a long way in amplifying the long-term benefits of *zakat*. A comprehensive shariah applied research will be very helpful to address such debate.

8- **Distributing Zakat through UNHCR to solve the refugee's problem:**

A total of five countries account for 68% of the refugees with more than 13 million, the vast majority of them are Muslims with more than 40% of them are children[70]. In contrast to this situation, it was estimated in 2008 that Muslims donate between USD 20 billion and USD 200

[68] These include whether zakat can be given exclusively to one of the eight categories of beneficiaries mentioned in the Noble Quran (Attawbah: 60), in this case the extremely poor and vulnerable members of the society. Abu Haneefah, Malik and Ibn Hanbal say yes, while Asshafii held a different opinion.

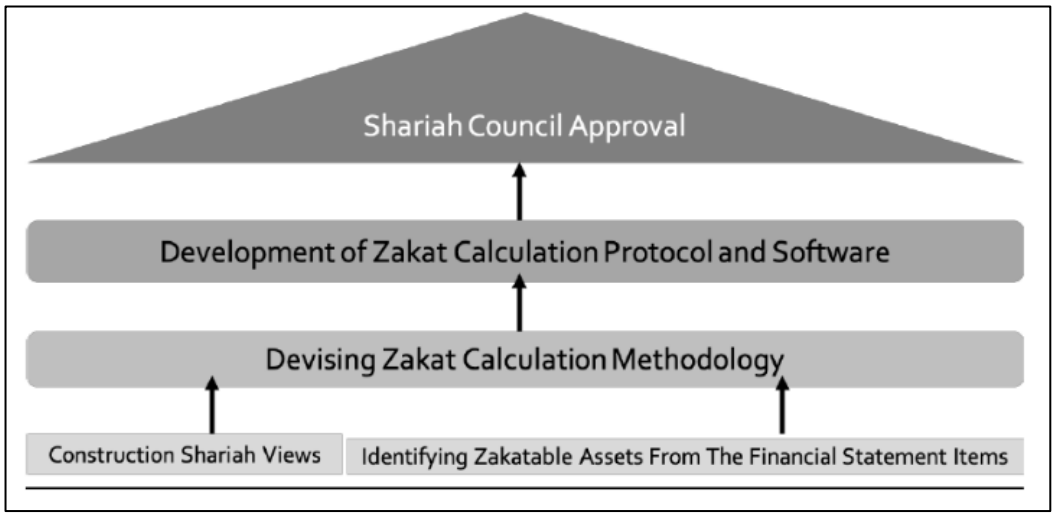
[69] They argue that doing that may expose the zakat fund to a loss as there is no assurance that the projects will yield profit. They also argue that zakat is an act of worship which has its own rules, conditions and defined time of performance, just like any other religious rite. According to this group of scholars, investing zakat fund will be tantamount to changing an injunction of Allah concerning the time and way of enforcing zakat obligation. They equally buttress their view by positing that zakat fund is the property of its statutory beneficiaries, investing same without their consent therefore constitutes an infringement of their God-given right.

[70] A total of five countries account for 68% of those refugees under the mandate of UNCHR: the Syrian Arab Republic (6.3 million), Afghanistan (2.6 million), South Sudan (2.4 million), Myanmar (1.2 million), and Somalia (986,400). Muslims make up the majority population of most of these nations. Moreover, children below 18 years of age constituted 52% of the refugee population in 2017.

billion annually worldwide in forms of *zakat* and other charities. On another hand, the UNHCR has a funding gap of USD 3.7 billion to eradicate the needs of the refugee crisis. For this reason, the UNHCR has launched the *zakat* collection project. In a nutshell, it is permissible for the UNHCR to act as a legal agent to collect and distribute *zakat* on behalf of Muslims as far as the *zakat* funds are given to the categories mentioned in Quran. While *zakat* funds must not be used for administrative and operational costs. The administrative and operative costs can be covered by Muslim *sadaqah* funds alongside *waqf* funds.

9- Digitising *zakat* calculation for SDGs (DZMS):

The currently available software applications for *zakat* do not take into account the unique financial reporting dimension of different business types as well as not facilitating the different opinions amongst the jurisprudential schools of thought pertaining to what constitutes as '*zakatable'* assets. Therefore, Digitizing Zakat Calculation for SDGs (DZMS) is suggested. The proposed solution shall be comprehensively designed to account for the various needs of different business types. It shall also ensure accountability and transparency, with the permission of collecting and distributing it to the UNHCR. The method of calculating the *zakat* must be approved and shall accommodate the requirements of state authorities. Additionally, the corporate entities are also required to make disclosures of the financial statements on the DZMS platform to ensure the calculation, collection, and distribution is being done in live time. The development of DZMS may follow the below figure:



The structure will encourage corporate entities to perform the *zakat* obligation on behalf of their Muslim shareholders. This in return will amplify the *zakat* collection of UNHCR. DZMS will also significantly reduce *zakat* miscalculation due to manual counting and ensure *zakat* calculation and payment to be done in an automated manner and transfer it smartly which in the long run will notably reduce monitoring and administrative costs. DZMS can be employed by state authorities by imposing it in their respective stock markets, which may help them to monitor *zakat* payments by corporate entities in their jurisdiction.

10- Using modern instruments:

Islamic finance is not merely offering financial products that are shariah compliant, but also in the ability to offer innovative products that contribute to the broader notion of shariah. Its establishment is purported to achieve various socio-economic justice as mandated by the objective of shariah which aims at realising human wellbeing and preventing harm and difficulties to the general public, and complying with the ethical norms propagated by shariah. Cash *waqf* and SRI *sukuk* are among the modern innovative structures that can be used for such purposes. Cash *waqf* is now actively used in many Muslim countries as an effective tool for social finance and welfare programs such as promoting educational scholarship and healthcare facilities. In Malaysia, several Islamic banks promote and practice cash *waqf* known as Islamic bank assisted cash *waqf*. *Sukuk* is another instrument that can be used to enhance the SDGs through funding infrastructure projects. For instance, in Malaysia, a retail *sukuk* has been issued to finance the extension of the capital city's Mass Rapid Transit (MRT) rail network. Besides that, green *sukuk* which have emerged as a shariah-compliant instrument for financing renewable/clean energy projects can play a vital role in meeting one of the SDGs. For instance, the Malaysian government's sovereign wealth fund SRI *sukuk* '*sukuk ihsan*' was issued to exclusively target institutional investors whereas the proceeds were channelled to Yayasan AMIR, a not-for-profit organisation to improve the accessibility of quality education in Malaysian government schools. It has reached over 65,000 students and 83 trust schools across 10 states in Malaysia[71]. This shows that SRI *sukuk* can be used to mobilise resources to realise the SDGs noting that being a shariah compliant instrument, SRI *sukuk* attracts a larger investor base and gains broader mainstream relevance.

11- Innovation is required:

Growth, especially through innovation, is still required to bring people out of poverty. Initially, the Islamic finance industry started to grow out of the desire to conduct mainstream business in an Islamic compliant manner. Now, with technologies and fintech evolving and having a basic Islamic financial infrastructure, the inclusion of SMEs and micro enterprises is the next logical step to fill the most pressing human need. Financial inclusion can now be maximised under Islamic finance with FinTech. For instance, in case of refugees, the blockchain technology is being used to create digital identities of the refugees whereby a number to identify the refugee who does not have a passport or identification papers is issued. It is also used to control the possibility of the same person receiving assistance multiple times or from multiple sources.

12- Waqf-aligned development targeted sukuk for infrastructure and social financing (WADTS):

Waqf can be used in public-private partnerships as an investment catalyst so that long term investments in the public infrastructure of developing countries can be realised. The suggested structure, termed as WADTS represents a family of *sukuk* that are (1) development

[71] There have been remarkable developments in the SRI sukuk market in other countries. In 2018, Indonesia issued US$1.25bn of sovereign green sukuk. The uptake in green sukuk to finance renewable energy projects is due to several factors, including an increase in renewable energy projects (particularly on solar energy), low capital costs, and the fact that they are Shariah-compliant.

oriented to finance infrastructure, energy and social needs (2) stage-wise outcomes-based finance products that (3) tap *waqf* initiatives and resources as catalysts (not as main financing) to (4) facilitate the main financing and completion of (5) specific (6) development oriented projects. They involve raising social investment to pay fully or partly for interim returns to investors in socially useful projects or infrastructure projects that improve social and developmental outcomes and reduce long-term costs. By utilising the *waqf* institution simply as incentive provider (or sometimes cost absorber) for overcoming some key hurdles in PPP financed projects, these *sukuk* can help to attract long-term private investment and enhance social and economic impact. *Waqf* institutions can directly invest in the project for the long-term, or they may agree to make periodic incentive payments to the investors during the initial period when revenue stream has not yet started, while such payments may be adjusted in the later periods. This payout stream arrangement will be attractive to the investors, who without such a structure, might hesitate to invest due to its long-term nature. *Waqf* will work as a tipping factor (catalyst) to influence investors to invest. The pay-out from *waqf* will be periodic, staggered, and contingent on completion of various phases of the project, thus it will also be a driver for timely completion. Overall, *waqf,* being an outside party when it steps in as voluntary incentive provider, assumes a new economic development role for itself which is powerful, resilient and applicable in a variety of circumstances.

13- A Shariah compliant Social impact investment: Lessons learned from HIB-ICRC model

Social impact bonds are a relatively recent financial innovation whereby private investors participate in publicly funded programmes with the return on investment linked to the effectiveness of that programme. For instance, the humanitarian impact bond (HIB) follows this model in that funds raised by the International Committee of the Red Cross (ICRC) from private investors are to be used to build and run three new physical rehabilitation centres in Africa over a five year period. Certain ICRC donors (such as the governments of Belgium, Switzerland, UK and the la Caixa Foundation) have agreed to a payment-by-results mechanism including necessary training for staff as well as the testing and implementation of new efficiency initiatives and the return to the social investors is linked to the success of the ICRC in achieving those results. If the centres perform poorly the social investors could lose part of their original investment, but if they succeed, the social investors could receive a competitive return. For the social investors, there is an opportunity to earn a return while also making a positive humanitarian impact. The conceptual shift from charitable donation to socially responsible investment is an important one. There is considerable scope to build on and adapt the ICRC HIB structure for Islamic finance. In terms of structuring, Islamic finance would be well suited to this style of funding through, for example, the *musharaka* (partnership) structure. A charitable body seeking finance (the Project Manager) would agree to commit existing assets to a *musharaka* for the purposes of generating a return (the building in case of ICRCs for example). An advantage of this structure is that the Project Manager would have a real stake in the success of the project, as it would lose money if the project failed. This structure could be used for providing medical care, education or employment opportunities

to excluded groups. Its requirement for projects to produce verifiable results should be attractive to the private sector, and would promote efficiency and accountability in the charitable sector.

ACKNOWLEDGEMENT

Alamad, Samir, Islamic Social Finance and the SDGs*, Head, Sharia Compliance Dev., Al Rayan Bank, Birmingham, United Kingdom*

Alaro, Abdul Razzaq A., Commentaries on Islamic Social Finance and SDGs, *Professor of Islamic Law University of Ilorin, Nigeria*

Al-Amine, Muhammad Al Bashir, Islamic Finance and the Sustainable Development Goals (SDGs)**,** *Islamic Corporation for the Development of the Private Sector (ICD) Shariah Advisor, IDB Group*

Ali, Syed Salman, Some Comments on CIS-SOAS Workshop 2020**,** *Lead Economist, Islamic Research Training Institute, IDB Group Jeddah*, *IDB Groups, Jeddah, Saudi Arabia*

Altenburg, Michael, Islamic Social Finance and the Sustainable Development Goals: Some Thoughts on Commonalities, Differences and Implications, *Partner, MAF Group, Lucerne, Switzerland*

Barkatulla, Mufti A., Role of Shariah Scholars In Maqasid Based Approach Towards SDG, *Shariah Scholar, London, United Kingdom*

Bi, Farmida, The Red Cross Humanitarian Impact Investment Bond And The Scope for a Shariah-Compliant Equivalent**,** *Chair***,** *Europe, Middle East & Asia, Norton Rose Fulbright, London United Kingdom*

Cattelan, Valentino, Translating Sustainability into Islamic Social Finance, *Lecturer in Law, Ethics and Society - The Institute of Ismaili Studies London, United Kingdom*

De Belder, Richard and Shaikh, Omar, UKIFC Council Comments on SOAS Workshop Theme: Islamic Social Finance and SDGs, *UKIFC Council, Glasgow, United Kingdom*

Foster, Nicholas HD, Islamic Social Finance and the Sustainable Development Goals: on Social Finance and Islamic Social Finance, *Independent Scholar and Research Associate, School of Law, SOAS University of London (School of Oriental and African Studies)*

Gassner, Michael, Stakeholder Approach as key for Islamic Product Innovation, *World Congress of Muslim Philanthropists / Global Donors Forum*

Jumat, Zul Hakim and Ali, Syed Nazim, Digitizing Zakat Calculation for SDGs - Humanitarian Causes, *Center for Islamic Economics and Finance, College of Islamic Studies***,** *Hamad Bin Khalifa University, Doha, Qatar*

Haneef, Mohamed Aslam, Bringing Islamic Finance Home Through the Circular Economy Social Finance Discourse, *Professor, International Islamic University Malaysia*

Khan, Tariqullah, Institutionalizing Policy Frameworks for Effectiveness of Social Finance *Professor of Islamic Finance, College of Islamic Studies Hamad Bin Khalifa University, Doha, Qatar*

Laldin, Mohamad Akram, Islamic Social Finance and Sustainable Development Goals, *Professor and Executive Director, ISRA, Kuala Lumpur Malaysia*

Rehman, Aamir A., Aligning Finance with the Sustainable Development Goals (SDGs): What Islamic Finance Has to Offer, *Senior Advisor, the United Nations Development Programme (UNDP) and Senior Fellow, Columbia Business School, New York, USA*

Sultan, Hussam, The Need for Natural Capital Accounting and its Relevance to the Notion of Stewardship of the Earth, *Regional Head, Commercial and Transaction Banking*, *CIMB Islamic Bank Bhd, Kuala Lumpur, Malaysia*

Wilson, Rodney, Islamic Social Finance and Sustainable Development Goals, *Emeritus Professor, Durham University, United Kingdom*


QATAR F CIAL CENTRE
OFFICE
SOAS
Challenges of Retaining
Shari'ah Compliance in
Islamic Finanace