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CIBAFI BRIEFING

"Islamic Finance & the United Nations Sustainable Development Goals"

CIBAFI is pleased to present its eleventh "CIBAFI Briefing" on Islamic Finance & the United Nations Sustainable Development Goals (UN SDGs). This briefing presents an overview of the UN SDGs and Islamic finance and the opportunities that it represents to fill the current gap in financing the goals. It presents how important Islamic banks view the UN SDGs and the initiatives taken to achieve them, through the findings of a survey conducted by CIBAFI.

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1. Introduction

The SDGs represent today one of the main topics discussed in every high-level meeting and grouping. Since their adoption in 2015 by the UN General Assembly, the global agenda has turned to the issue of sustainability and what to do to achieve the goals outlined by 2030. Notions of sustainability such as the SDGs, the UN Principles for Responsible Investment (UNPRI), Socially Responsible Investment (SRI) and environmental, social and governance (ESG) values have been developed, penetrating strongly in the market and leading global investors to show increased interest in sustainable and responsible investments.

With sustainability and ethical values being at the core of their practices, Islamic financial institutions represent one of the main channels for the attainment of the SDGs and the promotion of sustainability. Islamic finance plays a major role in increasing financial inclusion through its propositions based on risk-sharing and wealth redistribution, thus achieving the reduction of inequalities, economic growth and possible poverty eradication.

2. The United Nations Sustainable Development Agenda

In September 2015, the United Nations General Assembly set 17 Sustainable Development Goals to be achieved by 2030. The 17 SDGs are: 1) No Poverty, 2) Zero Hunger, 3) Good Health and Well-being, 4) Quality Education, 5) Gender Equality, 6) Clean Water and Sanitation, 7) Affordable and Clean Energy, 8) Decent Work and Economic Growth, 9) Industry, Innovation, and Infrastructure, 10) Reducing Inequality, 11) Sustainable Cities and Communities, 12) Responsible Consumption and Production, 13) Climate Action, 14) Life Below Water, 15) Life On Land, 16) Peace, Justice, and Strong Institutions, 17) Partnerships for the Goals. These goals are accompanied by 169 targets and 231 indicators.

The SDGs focus on six key elements, which are: 1) People, 2) Dignity, 3) Prosperity, 4) Justice, 5) Partnership, and 6) Planet, aiming to build peaceful, inclusive and well-governed societies. All elements are interconnected whereby the attainment of one of the goals will have direct positive impact on the others. The UN 2030 Agenda calls on all elements of society to work together to achieve a sustainable future for all. Many initiatives have started to emerge in order to contribute to the achievement of the SDGs. They include the United Nations Global Compact, a voluntary initiative based on CEO commitments to achieve sustainability, and, especially the UN Environment Programme - Finance Initiative (UNEP FI).

The UNEP FI is a global partnership between UN Environment and the financial sector, closely linked to the SDGs, with an environmental bias. It has a number of components and covers investment and insurance as well as banking. For example, recent publications include the Positive Impact Real Estate Investment Framework, a consultation document on Underwriting Environmental, Social and Governance Risks in Non-life Insurance Business, and Natural Capital Credit Risk Assessment in Agricultural Lending. Of most interest, however, is the Principles for Responsible Banking, which relate strongly to the SDGs. CIBAFI recently commented on a consultation paper about these, following consultation with the membership[1].

Given the ambition of the 2030 Agenda, it may not be surprising that realizing the SDG targets is going to require a comprehensive approach that includes the mobilization of huge financial resources from both the public and private sector. By some estimates, realizing the 2030 Agenda will cost over US $2.5 trillion annually until 2030. This resource demand will be challenging for many countries, especially the less developed ones. Despite the continued importance of traditional philanthropic interventions, the SDGs funding gap is likely to remain significant.

More innovative modalities, however, are emerging when it comes to investing in charity, social impact and sustainable development.

The financial services sector has pioneered a number of innovations and best practices in both financing and promoting sustainable development through corporate social responsibility initiatives

The 2030 Agenda—with its ambitious and universal scope-provides an opportunity to engage and form new, multi-stakeholder partnerships.

3. Islamic Finance as a Viable Tool for Financing the UN SDGs

From the 2002 Monterrey Consensus to the 2008 Doha Declaration, and to more recent landmark gatherings such as the Third International Conference on Financing for Development (Addis Ababa Action Agenda) in 2015, a lot of energy has been invested in better understanding how the United Nations' developmental agenda might be financed. Last year alone, the High-level SDG Financing Lab (in April) and the Sustainable Finance Forum in Luxembourg (in May) continued this important conversation.

However, conversations about Islamic Finance and the SDGs have tended to be confined to regional conferences held in OIC countries; for example, in Malaysia (2018), the World Bank Malaysia Hub delivered a conference, in collaboration with the Securities Commission Malaysia and International Organization of Securities Commissions (IOSCO) Asia Pacific Hub Malaysia, to explore the use of Islamic finance to support climate mitigation and adaptation efforts, including the use of Islamic finance instruments to finance climate friendly projects. However, although Islamic

1. CIBAFI Comments on the UNEP FI Principles for Responsible Banking

Finance is contributing significantly to the achievement of the Sustainable Development Goals, it is still considered a niche solution and remains very poorly understood.

In this respect, the United Nations' partnership with CIBAFI and other global partners becomes so crucial to the realization of the 2030 Agenda

With both its values and modalities aligned well with the SDGs, Islamic finance represents one of the key means to help achieving the SDGs. As a system, it helps to stimulate economic activity and entrepreneurship towards addressing poverty and inequality, ensuring financial and social stability, and promoting comprehensive human development and fairness - all of which is relevant to the SDGs. The main principles of Shariah aim to remove hardship for human beings and achieve sustainable and inclusive development, addressing the same purposes as the SDGs in areas such as the elimination of poverty, economic growth, infrastructure development, education, social inclusion, the protection of the natural world and sustainable consumption patterns.

Islamic finance can be instrumental in the successful implementation of policies on ending poverty (SDG-1), achieving food security (SDG-2), ensuring healthy lives (SDG-3), achieving gender equality (SDG-5), and promoting peaceful and inclusive society (SDG-16). It provides an opportunity for filling the existing financing gap of the goals through its values promoting financial inclusion and financing for all. The SDGs also offer the opportunity to Islamic finance to target new segments in their business agenda and be more involved in projects that go with its principles, related to people empowerment, socio-economic development and environment.

Traditional Islamic philanthropy tools and programs, such as zakat, sadaqah and wakf play an important role today in pursuit of many SDGs. However, financing of the SDGs is not only limited to these instruments; there exist a number of real asset-based structures that facilitate long-term investment.

Innovative Islamic financial instruments, especially sukuk, are also a great tool to mobilize resources to finance infrastructure, thus addressing, for example water and sanitation projects (SDG-6), sustainable and affordable energy (SDG-7), resilient infrastructure (SDG-9) and shelter (SDG-11). Examples around the world have shown the effectiveness of Sukuk as a financing method for sectors that are related to SDGs. In Nigeria, US$ 62 million were raised through Sukuk to construct and rehabilitate 24 schools across the country in 2013, and there have been education-related sukuk in other countries including Malaysia and the UAE. In 2018 HSBC Amanah Malaysia Berhad launched the world's first SDG sukuk. The sukuk aims to finance projects that benefit the environment and communities and is the first sukuk issuance by a financial institution that references the SDGs as the beneficiary of the proceeds. Indonesia also issued a sovereign Green Sukuk in 2018 with a nominal value of US$ 1.25 billion in order to finance several environmentally-friendly projects across the country. Sukuk have used novel mechanisms such as pay-for-performance to help ensure that the SDG benefits are delivered.

The growing interest in Green and SRI Sukuk is in line with the expectation that such Sukuk will become one of the key business trends driving success in the near future. It is clear that the Islamic capital market offers promising prospects for opening a new path for engaging the private sector and raising capital for development cooperation.

Green and SRI Sukuk could be an innovative way to finance the 2030 Agenda

Recognizing the unique potential of Islamic finance to contribute to the 2030 Agenda, several major Islamic institutions, such as the Islamic Development Bank and Al Baraka Banking Group, to take but two examples, are pioneering investment in the SDGs. However, more awareness of the pressing global need to support the SDGs is needed. This should pervade the whole Islamic finance industry including banking but also Islamic capital markets and takaful, which can be a tool for financial inclusion and also may have significant sums available for investment.

4. CIBAFI Survey and Results

Given the importance of the 2030 UN agenda as a tool for attaining a better life for humanity and the opportunity that Islamic finance represent in terms of offering financing for achieving the SDGs, CIBAFI focused, in its annual Global Islamic Bankers' Survey (GIBS) for the year 2019, particularly on societal and developmental issues. A part of the GIBS 2019 was allocated to the UN SDGs where Islamic banks were asked to rank, through open and closed questions, the importance of each of the 17 goals as part of their business growth plans and the important elements to achieve the objectives of Shariah as aligned with the SDGs.

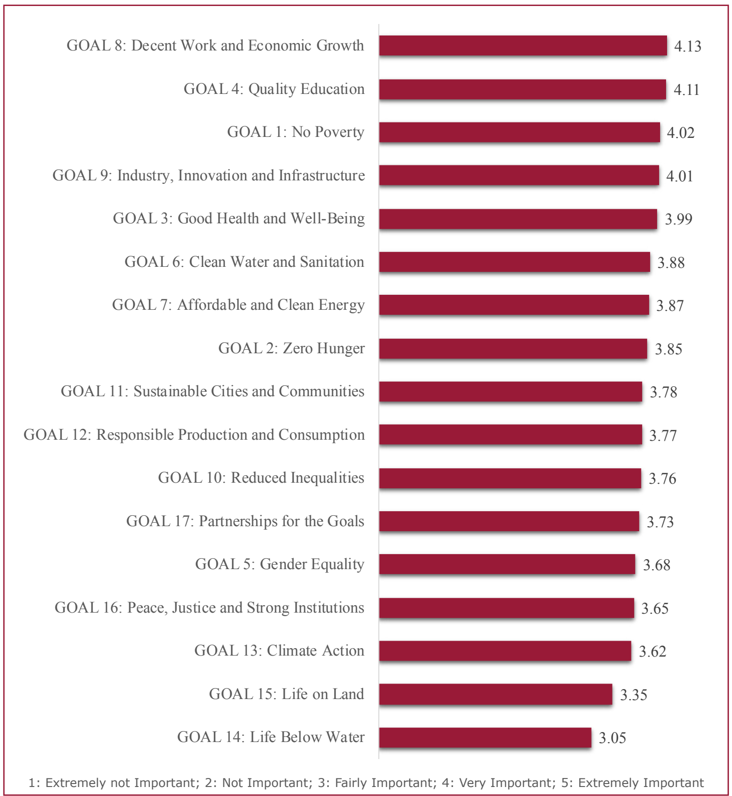
CIBAFI focused, in its annual Global Islamic Bankers' Survey (GIBS) 2019, on the UN SDGs asking Islamic banks to rank the importance of each of the 17 goals as part of their business growth plans

The open-ended questions enabled Islamic banks to express their views on the most effective initiatives undertaken within their business plan for achieving the SDGs as well as the objectives of Shariah. Because this was a banking survey, it does not cover the whole of the Islamic finance industry. In particular, it does not focus on the role of Islamic capital markets, and especially Sukuk, in meeting the SDGs. However, it does give an indication of how an important group of CIBAFI members understand and are working out their role in meeting the SDGs.

4.1 UN SDGS

With 106 CEOs from 33 countries participating in the survey, the global results showed that goals related to economic growth and development are the most important for Islamic banks when it comes to promoting the UN SDGs within their business plans. These are followed by Goal 4: Quality Education, Goal 1: No Poverty and at the bottom of the list are goals linked to climate, natural environment and biodiversity.

Figure 1. UN SDGs institutions plan to promote as part of their Business Growth Plan

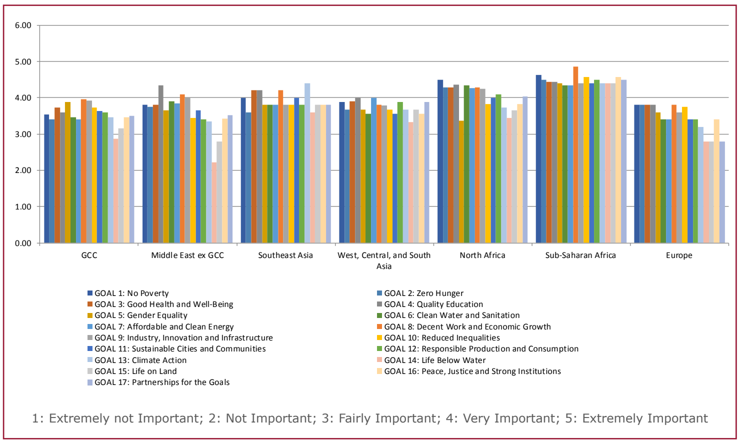


Source: CIBAFI

This ranking does not only indicate the important goals for Islamic banks, it also shows the areas on which Islamic banks believe they have the most impact. Yet the importance that education held was surprising and also encouraging especially that it was ranked particularly highly in the Middle East ex-GCC and West, Central and South Asia, and scored relatively highly in all regions.

Regional priorities were quite diverse and perhaps reflected the preoccupations of each region. Industry, Innovation and Infrastructure appeared to be at the top of the agenda for the GCC and Middle East ex-GCC region; poverty eradication was a preoccupation in Africa, and Europe; while Good Health and Well-Being was more of a priority in Asian regions and Europe. Other SDGs were seen important for almost all regions, these include Decent work and Economic Growth and Quality Education. Others were particularly high-ranked in a certain region, for example, Climate Action scored highest in Southeast Asia, Gender Equality was the third highest priority for Islamic banks in the GCC, and Clean Water and Sanitation scored highly in North Africa.

Figure 2. UN SDGs Institutions plan to promote as part of their Business Growth Plan – Regional Breakdown



Source: CIBAFI

To gain deeper insight into these priorities, Islamic banks were also asked to indicate which SDGs were in their top agendas with the possibility of offering comments of initiatives and actions taken in order to contribute to the achievement of these goals.

The achievement of the SDGs from banks' perspective includes on one hand the use of zakat and social responsibility programmes. In the Middle East ex-GCC, where education was a particularly prominent theme, one bank noted that they provide fully paid scholarships for postgraduate programmes, in addition to signing agreements with various national universities. The bank also distributes free school bags for primary school students at the beginning of each school year.

On the other hand, some banks consider that initiatives under the core business of the bank represent a way to achieve their main sustainable development goals.

For example, one bank referred to providing microfinancing to encourage and support productive families and craftsmen. Another bank mentioned the construction of modern cities and the settlement of nomads. Another bank wrote, "At the top of the Bank's concerns is the contribution to the revitalisation of the economic cycle, the securing of decent work and the elimination of unemployment, as well as the pursuit of innovative solutions to create income resources."

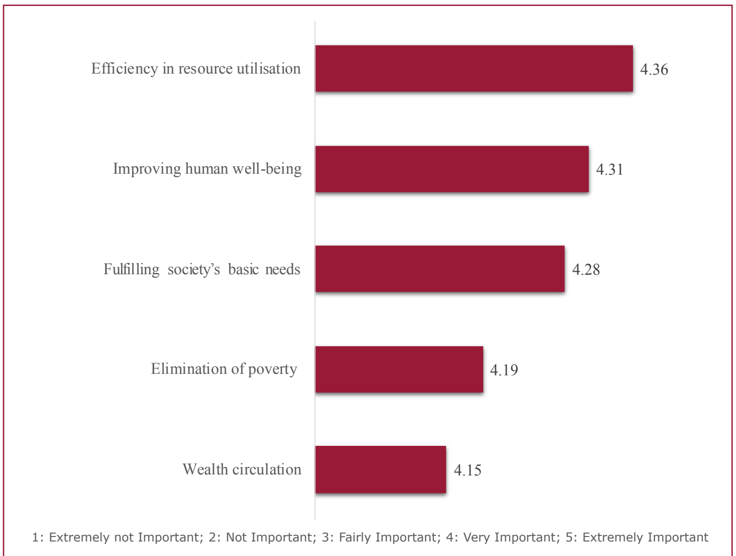
In Southeast Asia, one bank referred specifically to Bank Negara Malaysia's Value Based Intermediation (VBI) strategy, which aims to deliver positive and sustainable impact to the economy, community and environment, and which the respondent bank recognised as connecting well with the SDGs. It also mentioned that it adheres to the standards of the Global Alliance for Banking on Values, a voluntary grouping of banks attempting to pursue sustainable development. Another bank referred to its engagement in climate action and renewable energy, and its work towards the launch of its country's first green sukuk.

A bank from North Africa recognised the significance of both internal communities, through the continuity of providing funding for employees, health insurance, sports activities, recreational and humanitarian assistance, as well as external communities through social and financial contributions to serve the community and charitable work. The bank mentioned their support as coming through: 1) financing of small and medium enterprises to support community reconstruction; 2) donations to charities, scientific and religious centers, and supporting families in need; 3) sponsoring many financial and banking events and conferences.

4.2 Objectives of Shariah

Recognizing the convergence of the UN SDGs with the objectives of Shariah, a survey was conducted regarding the objectives where Islamic banks were asked about the importance of certain elements in order to attain objectives such as economic justice and business growth. On the global scale, Islamic banks considered efficiency in resource utilisation to be the most important element for reaching the objectives, while all five possible answers were fairly closely clustered.

Figure 3. Elements Important for reaching Objectives of Shariah



Source: CIBAFI

A correlation test conducted between the aggregated score given to the SDGs and the aggregated score given to the elements to reach the objectives of Shariah using the mean resulted in showing a significant strong relationship between the two factors, with a correlation coefficient equal to 0.67.

Table 1: Correlation test between the SDGs and Elements to reach Shariah Objectives

		SDGs
Elements to reach the objectives of Shariah	Pearson's Correlation	.670**
	Significance.	.000
	Number of responses	102

The other question of this part focused on the actions taken by the Islamic banks to achieve those elements. Many of the responses again concentrated on initiatives through charitable giving and social responsibility programmes. Many also focused on the structures and programmes they had in place to deliver Shariah compliance within their own activities.

Some, however, gave answers that were broader in scope. One, for example, outlined initiatives to achieve the objectives of Shariah within financial transactions, including:

"[The bank] gives emphasis on diversifying investment portfolio by size, sector, economic purpose and geographical area. The bank instructed its rural branches to finance their investible fund to the concerned locality on [a] priority basis for minimizing [the] urban-rural gap".

"[The bank] has given more importance on the proper utilisation of resource without keeping the same idle. Moreover, the bank, by virtue of its adherence to Shariah and its commitment to ensure welfare, does not invest its fund in socially and environmentally undesirable projects even though the projects seem to be financially viable and profitable".

"[The bank has contributed funds] for performing its Corporate Social Responsibilities adhering to the principle of 3Ps i.e. people, planet and profit. [It has done this] in areas of basic needs such as education and healthcare, humanitarian & disaster relief particularly for the underprivileged section of the population in our society."

5. Conclusion and Recommendations

Islamic Finance is one of the fastest growing industries in the global financial system and one which represents a significant opportunity as an alternative mode of financing for the SDGs, given the convergence of its values and principles with the goals.

CIBAFI's Survey shows that Islamic banks are well-attuned to the objectives of the Shariah and to the SDGs. However, many seem to see these as matters of compliance and their use of funds allocated to charity or corporate social responsibility. They fall short of integration of the SDGs or the objectives of Shariah within the entire business activities of the bank. It is clear, however, that some banks do aim at such integration, and see themselves as businesses with an underpinning social purpose and responsibility.

Real cases of the contribution of banks to SDGs-related projects around the world show concrete examples of the opportunities that the Islamic finance industry beholds for the achievement of sustainable development. However, those initiatives still cannot fill the gap existing in financing the SDGs. There are many reasons for this, including the difficulty that banks may have in making the long-term investments typically required for infrastructure development. In this area, family takaful firms, with their longer investment horizons, may be able to provide some support for the relevant goals. However, one clear issue

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which emerged was the unclear vision of Islamic financial institutions on how to concretize and implement the UN SDGs in their business plans.

As the survey responses made clear, implementation of the SDGs will be done in different ways by different firms. Some banks will naturally focus on financial inclusion or the provision of decent housing, while others focus on economic development or education. Firms with a significant presence in Islamic capital markets may facilitate financing for SRI projects by others; takaful firms may consider how their investments can support sustainability, and also their role in providing risk protection in relevant areas. These will be matters of strategy that each individual firm needs to consider in working out its own business plans.

Members are therefore recommended to:

- Establish a strategy and an agenda for the institution that goes with the purpose of the UN 2030 agenda.
- Identify those SDGs which they are best placed to address, including evaluating areas of need and establishing special schemes for their development.
- Internalize sustainable financing concepts into their internal systems, through integrating ESG values and the SDGs in their policies and procedures.
- Integrate best practices for sustainability into the activities of their institution.
- Identify opportunities for new products or new business models which will help to advance the SDGs.
- Reach out to their United Nations partners in their respective country to discuss how they can collaborate, and support the 2030 Agenda.

Members collectively (e.g. through national associations) and other stakeholders (e.g. through UN agencies) are recommended to:

- Raise awareness on the opportunities to use Islamic finance for long-term investment for promoting sectors such as infrastructures, transportation and environment and other sectors related to SDGs.
- Consolidate cooperation among relevant stakeholders through establishing partnerships between financial institutions to provide wider financing and a stronger dialogue between regulators and financial institutions to address any obstacles to implementation.
- In cooperation with national authorities, spread a better understanding on the financing of SDGs, through the development of guides on SDG financing with country-related/region-related information for investors' easier reference when seeking financing options in these countries/regions.

About CIBAFI

CIBAFI is an international non-profit organisation founded in 2001 by the Islamic Development Bank (IDB) and a number of leading Islamic financial institutions. CIBAFI is affiliated with the Organisation of Islamic Cooperation (OIC).

CIBAFI represents the Islamic financial services industry globally, defending and promoting its role, consolidating co-operation among its members, and with other institutions with similar interests and objectives.

With over 130 members from more than 34 jurisdictions from all around the world, CIBAFI is recognised as a key piece in the international architecture of Islamic finance.

Its mission is to support the Islamic financial services industry as the leading industry voice in advocating regulatory, financial and economic policies that are in the broad interest of its members and that foster the development of the Islamic financial services industry and sound industry practice.

CIBAFI is guided by its Strategic Objectives, which are 1) Advocacy of Islamic Finance Values and related Policies & Regulations; 2) Research and Innovation; and 3) Training and Professional Empowerment.

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