OVERVIEW

THE ROLE OF THE ISLAMIC DEVELOPMENT BANK (ISDB) GROUP IN FINANCING SUSTAINABLE DEVELOPMENT GOALS

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In 2015, the international development community and the governments of 193 countries signed on a new agenda – the 2030 Agenda – for comprehensive and sustainable human development. The new Agenda aspires to achieve 17 high level Sustainable Development Goals (SDGs) and 169 specific targets, encompassing the social, economic and environment dimensions of development. The difference in the SDGs is not only the comprehensiveness of the goals that encompass all dimensions of development, but also the innovative framework for the implementation of SDGs with heavy emphasis on multi-stakeholder partnerships as one of the main ways for successful implementation. Moreover, unlike the Millennium Development Goals (MDGs), the SDGs were consulted over a period of three years with more than seven million consultations from both developing and developed countries.

At the Islamic Development Bank (IsDB) Group, we are fully committed to helping our member achieve the SDGs. Our commitment stems from the fact that all our member countries have signed and committed to achieve the SDGs. Moreover, our motivation to participate in achieving the SDGs not only comes from our dedication to solving the development challenges of our member countries, but is also motivated by our convictions embodied within the principles and objectives of the Islamic Shariah. Such an aspiration for human dignity and leaving no one behind is fully in line with the principles and objectives of development from an Islamic perspective (Maqasid Al-Shariah).

Our commitment to the SDGs is being manifested inside our organization through what we call the "4As" – Awareness, Alignment, Advocacy and Adaptation – within the realm of the SDGs. We are creating professionals' networks and platforms to share experiences and expertise among our staff, both horizontally and vertically, in order to ensure that best practices in achieving the SDGs are quickly and efficiently mainstreamed within the bank's activities and across global practice complex (e.g. environment & climate, energy, youth, etc.). We have established a dedicated Community of Practice (CoP) for the SDGs at the IsDB Group. The CoP was launched in mid-2017 to spread awareness and develop core expertise, generate knowledge and provide an intellectual environment to discuss innovative solutions for MCs to achieve SDGs. The CoP implemented and participated in many internal and external events, and publishes a quarterly newsletter: "The SDGs Digest".

Regarding the role of the IsDB Group in financing the sustainable development goals, we will focus on three strategies/techniques, all of which related to the Islamic Finance.

1- Promoting Islamic finance as a way of reducing the funding gap for the SDGs

It is important to understand the context in which Islamic finance must have special emphasis in order to achieve the SDGs. It is estimated that achieving the SDGs requires USD 2-3 trillion annually until 2030, out of the international GDP of approximately USD 115 Trillion[1]. However, the amount of Official Development Assistance (ODA) is merely around USD 143 Billion annually[2], and total financing by multilateral developments banks (MDBs) is about USD 127 billion annually[3]. Clearly, and regardless of the accuracy and variations in the estimates, there is a huge financing gap that needs to be resolved if the development community is serious about achieving the SDGs. In order to reduce this gap, many creative initiatives will have to come alive and enhanced partnerships that are smarter and more substantial will need to be forged.

There is a great potential for Islamic Finance to help bridge this financing gap. Since 23 percent of the world's population embraces Islam, the deployment of Islamic Finance solutions could attract millions of those who voluntarily have withdrawn from the financial system for religious reasons. According to OIC reports, 11 percent of the population in Organization of Islamic Conference Member Countries (OIC MCs) list religion as a reason not to participate. Moreover, the total assets for Islamic Finance are reaching USD 2.3 trillion, with an annual growth exceeding 15 percent globally. This growth appears to be not only because of religion but because it is proving to be a viable and more stable financial model that brings new dimension to the global financial system. Therefore, the deployment of Islamic Finance solutions,

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which is one of the main IsDB Group's mandates, has the potential to play a very important role in achieving the SDGs.

2- Role of Islamic Capital Markets in Achieving SDGs

In the wake of challenges faced by global financial landscape in today's world, the global financial order could benefit from a new banking and finance paradigm – one that is built on the principles of economic and social justice, risk sharing and direct linkages with real economy and avoidance of excessive speculation. Islamic finance is inherently structured to service this new paradigm, as highlighted by the 2017 Global Report on Islamic Finance co-authored by the IsDB and the World Bank. It could thus help to address the environmental, social and governance (ESG) issues central to sustainable growth and development and support the timely implementation of the Sustainable Development Goals in the IsDB member countries.

The Islamic finance industry has grown at a double-digit rate and grew to around USD 2.3 trillion in 2016 and is expected to reach somewhere between USD 3 and 4.3 trillion by 2020. While the Islamic finance industry continues to be dominated by the banking sector assets, which comprise nearly 75 percent of the overall industry, capital markets, at around 20 percent, remain a critical segment in the industry. Within the Islamic capital market, sukuk, or Islamic bonds, are becoming vital instruments used by both sovereigns and corporates for resource mobilization.

The IsDB itself has been issuing sukuk since 2003, using the market mobilized funding to complement its own equity. To date, we have raised a total of USD 21 billion through sukuk to finance development projects in our member countries. Recent trends in the issuance of sukuk are very optimistic. More specifically, total international sukuk issuances stood at around USD 95 billion by the end of 2017, after more than USD 85 billion in 2016. Of this, more than USD 50 billion worth of sukuk were issued by sovereigns, amounting to 70 percent of the total in 2017, compared to about 45.5 percent in 2016.

Although the sukuk market is still in its formative stages and is only a fraction of global fixed income market, it has developed at a significant pace and holds good potential for further development. IsDB is not the only development institution utilizing sukuk to raise funds for development; other MDBs such as the World Bank and International Finance Corporation (IFC) have tapped Islamic capital markets to mobilize funds. It is worth noting that Global Alliance for Vaccine and Immunization (GAVI) issued a sukuk that raised over USD 700 million to help protect tens of millions of children against preventable diseases. This is truly a social impact investment on a grand scale. There are so many more innovative and creative instruments, from green sukuk to FinTech, Socially Responsible Investments (SRIs) and Ethical Investment funds, which can be utilized to achieve SDGs.

3- From Financing to Empowerment: IsDB Inclusive Economic Empowerment Finance Facility (IEEF)

At the IsDB we believe that throwing money at the poor will not solve their problems, and may make the problem worse by transforming the poor into the indebted poor. In fact, whilst the number of poor has reduced, this is mainly because of two countries: China and India. The absolute number of the poor has risen in Sub-Saharan Africa. The Islamic world therefore needs to shift from financing to empowerment. IsDB emphasizes that access to finance is necessary but not enough, as a shift is needed towards empowering- which ensures moving from finance for development to empowerment for development. This gives empowerment tools to poor people, besides providing the finance.

One way to achieve this empowerment is what we call "IsDB Inclusive Economic Empowerment Finance Facility" (IEEF), which is an innovative Poverty Alleviation and Economic Insertion Program tailored to promote investment partnership, foster development and promote wealth with potentially active poor and economically disadvantaged people and communities. The IEEF strategy is to promote economic empowerment of this group through access to adequate financial and business development services, enabling them to grow from striving for self-subsistence and employment, to self-employment through entrepreneurship in viable and consistent investment opportunities.

An example of IEEF achievements in our member countries is the project of helping microfinance institutions in Sudan. The main beneficiaries of that project were over 80 microfinance institutions and bank branches, as well as 200,000 micro-entrepreneurs in Sudan and more than one million of their family members.

Finally, as part of the ongoing effort to align the bank's delivery capability with its corporate goals, several new measures are currently under consideration to increase its leverage capacity and to crowd in private investment and mobilize resources through smart partnerships. A pertinent illustration of unlocking market resources – through a multilateral financial intermediary – with donor funding is the recently established bank-administered Lives & Livelihoods Fund (LLF). LLF is a USD 2.5billion blending facility launched in late 2016 in partnership with the Bill & Melinda Gates Foundation and with the generous support of the Islamic Solidarity Fund for Development (ISFD), KSA, Qatar and the UAE. It addresses poverty and disease in member countries, not by only access to finance, but also by empowerment for development.

In conclusion, it is through innovative Shariah-compliant financing mechanisms and mobilizing resources through smart partnerships that the IsDB will be able to continue participating in financing sustainable development goals (SDGs), by addressing the impact and root causes of poverty and enhancing the economic and social resilience of member countries and communities.

NOTES:

1. Hendrik du Toit, Aniket Shah and Mark Wilson, Ideas for Action for a Long-Term and Sustainable Financial System, a paper commissioned by the Business and Sustainable Development Commission, January 2017.
2. OECD, Development aid rises again in 2016, OECD – Paris, 11 April 2017
3. Inter-Agency Task Force on Financing for Development, Multilateral Development Banks (MDBs): Issue Brief Series from the World Bank, August 2016.

and later the Busan Declaration on development effectiveness in 2011.

The Paris Declaration encompasses five principles that make aid more effective by tackling issues that have undermined development efforts over the past decades. These principles and their implementation are described in Table 6.

While development partners – both developing countries and donors – acknowledged the adoption of the Paris Declaration principles, their consequent experiences in development cooperation, particularly regarding progress on the MDGs, demonstrated the need to shift the focus from aid effectiveness into the broader concept of development effectiveness, which incorporates all other factors such as policies, measures, the business environment, and governance that have an impact on the achievement of the desired development goals and the well-being of people.

The shift to the development effectiveness paradigm was proclaimed in the Bussan Declaration and the creation of the Global Partnership for Effective Development Cooperation (GPEDC) in 2011. As a multi-stakeholder platform, its mandate was "to advance the effectiveness of development efforts by all actors, to deliver results that are long-lasting and contribute to the achievement of the Sustainable Development Goals (SDGs)" (GPEDC). A steering committee comprising membership of diverse development stakeholders, including the