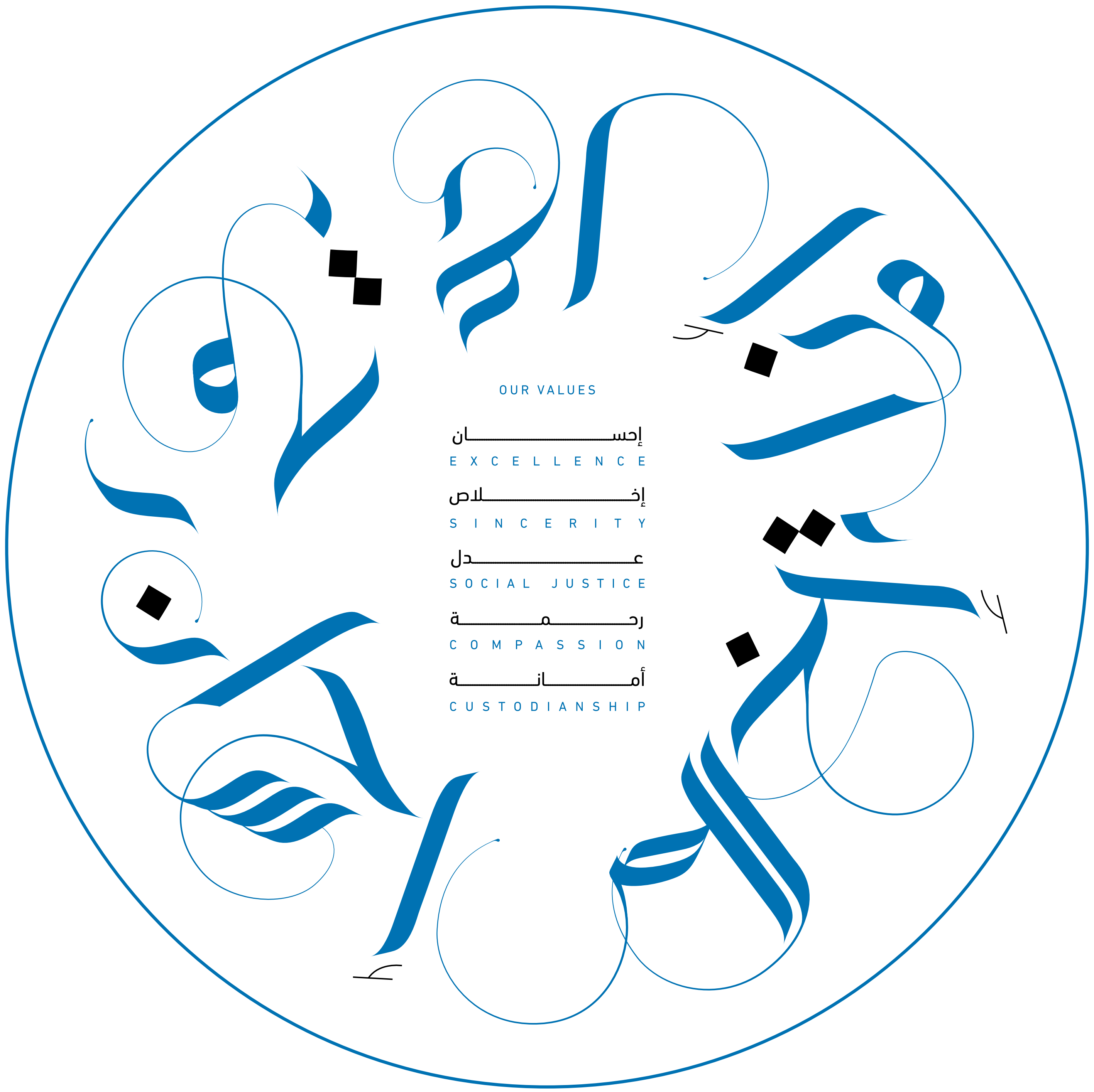
Lessons from Islamic finance for socially, economically, and environmentally just outcomes in the Financing for Sustainable Development process



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Why Islamic Finance and economics in Post 2015?

From its earliest beginnings in the Rio +20 conference, the Post 2015 Process has emphasised the importance of addressing rising inequality within and between nations. However, proposals for reform of the global economic system – the weaknesses of which were laid bare following the 2008 financial and economic crisis – have not advocated strongly enough for the transformative changes that are necessary for a more inclusive, socially just economic system that places human well-being rather than resource exploitation at its core. Investing in people is imperative for a more just future.

Joining a global, civil society-led push for systemic financial reforms, Islamic Relief feels that high level policy discussions need to do more to address the root causes of inequalities and socioeconomic injustices. Indeed, policy makers need to understand that there is an ethical imperative to act when policies favour a small group of countries to the disadvantage of others as well as an even smaller group of financial elites to the detriment of the poor, working, and middle classes. Alarming data have shown that just 85 people control more global wealth than the poorest 3.5 billion people on earth[1] and despite the economic rise of emerging and middle income countries like India and Brazil, wealth remains concentrated in North America and Europe, which together control nearly 50% of the global economy but only reflect a seventh of the world's population.[2]

In addition to entrenched inequalities between countries, the past decades have seen a sharp rise in inequalities within most countries. For instance, in the United States the wealthiest .1% of the population holds nearly the equivalent amount of wealth as the bottom 90% of Americans – a gap which has not been so large since the Great Depression era.[3] Similarly, inequality today in South Africa is greater than it was at the end of Apartheid[4] and outrage at extreme inequalities, reinforced through poor political choices, was a triggering factor of social revolutions in countries like Tunisia and Egypt, while also fuelling unrest in countries as diverse as Greece and Pakistan.

While the economic cost to people of poorly distributed post-Cold War wealth has been demonstratably high, the dependence of the global economy on resource exploitation without regard to planetary limitations has also wrought havoc on the environment – a burden disproportionally shouldered by those already facing economic marginalisation. The imperative for a climate proof economy is beyond the scope of this document, but Islamic Relief firmly stands behind the need for protecting people as well as planet – seeing these efforts as mutually reinforcing.[5] Without intervention and given its disproportionate impact on those who are already poor, the worsening impact of climate change is likely to exacerbate socioeconomic disparities even further.

The fundamental injustice of inequality is evident in many aspects of the economic and financial architecture today. For instance, the continued prevalence of agricultural subsidies in economically developed countries severely undermines global food security and the livelihoods of small holder farmers[6]: a socioeconomic group that Islamic Relief consistently aims to support with its programming. Similarly, the most vulnerable and marginalised are more likely to feel the full weight of rises in predatory lending practices and financial deregulation – policies that have contributed to increasing inequalities and disproportionately enriched private businesses and financial institutions. In the absence of binding accountability mechanisms particularly for multinational corporations and financial institutions, voluntary initiatives have been poorly enforced, leaving large swaths of the world's population vulnerable to profit maximising policies that give little regard to social, economic and environmental sustainability and disempower communities by depriving them of mechanisms through which to access justice. Likewise, overseas development assistance (ODA) commitments by developed economy governments often go unmet, and the discussions which decide ODA policies are unreasonably exclusionary.

Business as usual has consistently fallen short of building an economically just world order, pushing global civil society, international institutions, academics, policy makers, and other concerned parties to wonder, 'what might work better?'. For Islamic Relief, that answer includes moving towards a low carbon economy that incentivises social solidarity and places ethical values at its core.

Arguably one of the greatest failings of the economic *status quo* is the contemporary system's divorce from a system of ethics and near complete reliance on the doctrine of profit maximisation, meaning that the basic principles of sustainable development – including its social, economic, and environmental dimensions – are often ignored to the advantage of a small cross section of the global population. Most problematically, this absence of ethics has tended to view human value and dignity as directly proportional to an individual's economic output rather than as innate.

In contrast, Islamic financial principles, grounded in a faith tradition that prizes the protection of human dignity, emphasise that all people should have access to the opportunities and services necessary to lead a dignified life; a person's value as a human being – as a creation of God – is uncontested regardless of capacity for economic productivity.

While the increasing financial resources of the Gulf region have driven many conventional financial centres and institutions to take interest in Islamic finance and opportunities for *Shari'ah* compliant investment,[7] this interest has not engaged with the principles and objectives underlying Islamic finance and economics. Instead, Islamic financing is seen as a source of money: an alternative source of finance that fuels rather than reforms the status quo.[8]

While financial inclusivity depends on greater awareness of and provisions for Islamic financial standards, the limited engagement of policy makers with the ethical system at its core has remained a missed opportunity.

Islamic finance includes a series of instruments that were originally derived from Islamic theological texts and designed to govern the role and use of wealth in society as a means of ensuring the overall well-being of communities. While much of the ethics of this system has been lost in contemporary incarnations of Islamic financial mechanisms, academics and policy makers as well as community workers and civil society working in Muslim communities have laid the ground work to revive the ethical system at the core of Islamic teachings on economics – an 'Islamic moral economy.'[9] This framework prominently emphasises the mutually reinforcing rights and responsibilities of individual community members, suggesting an ethical imperative to ensure a minimum standard of societal well-being. Notably, *zakat,* a form of mandatory financial giving incumbent on all Muslims explored in section III, institutionalises the rights of the poor over the wealthy.

This document then seeks to explore the ethics of the Islamic moral economy, discerning aspects of these principles that might benefit from greater emphasis within the Islamic financial sector as well as provide inspiration for greater integration of social solidarity into the on-going discussions on financial and global governance reforms, particularly as these discussions relate to the financing of the Sustainable Development Goals (SDGs) that will come into effect in September 2015.

Core Principles of the 'Islamic Moral Economy'

SOCIAL JUSTICE

The promotion of social justice is a common thread of many faiths, and Islamic Relief operates on the understanding that "Islam views social justice as setting out the balance of rights and obligations, and freedoms and responsibilities within a framework of equality and solidarity".[10] The Qur'an places a particularly strong and consistent emphasis on working for justice.

> *You who believe, uphold justice and bear witness to God, even if it is against yourselves, your parents, or your close relatives. Whether the person is rich or poor, God can best take care of both. Refrain from following your own desire, so that you can act justly– if you distort or neglect justice, God is fully aware of what you do.*[11]

This message is reinforced in the *hadith*, or saying of the Prophet Mohammed (PBUH)[12] , that urges "Whosoever of you sees an evil, let him change it with his hand; and if he is not able to do so, then [let him change it] with his tongue; and if he is not able to do so, then with his heart — and that is the weakest of faith."[13]

Accepting the importance accorded to social justice throughout Islamic theological texts, Islamic Relief, as an Islamically inspired humanitarian and development organisation, feels itself compelled to speak out for a more just economic system that recognises that reforms are needed at all levels of the financial architecture to promote greater equality between and within nations. As an organisation based in the United Kingdom, Islamic Relief is particularly conscious of the need to reform the policies of economically developed countries to ensure that they do not actively promote social injustices at home or abroad.

At the local, national, and global levels, for instance, the command to 'uphold justice' is particularly relevant to contemporary issues around fair wages and safe work environments. Given the structure of contemporary value chains in a globalised economy, there is a clear need to address labour force inequities, especially where they stem from unethical business practices and/or national legal loopholes. Recognising both the danger of exploitation and the potential for personal and societal benefits, the world of work is the subject of numerous verses in the Quran as well as the target of a number of sayings of the Prophet Muhammed (PBUH) that emphasise fairness in business transactions[14] as well as oppose all forms of oppression[15].

Today, the economic and labour policies in many countries have led to wage regimes that concentrate global wealth in the hands of a small minority and fail to prevent worker exploitation. Despite decades of high economic growth, inequalities have grown. Indeed, average real wages in many countries have decreased over the past decade, whereas executive pay has dramatically increased during this same period.[16] In the same vein, the exploitation of migrant workers in countries across the globe is linked not only with harmful working conditions but also inadequate remuneration.

Such occurrences are explicitly condemned in a series of *hadith*, including that an employer should "give the labourer his wage before his sweat dries"[17] and also establishing the imperative for employers to treat workers with dignity[18], providing concrete examples of how combining ethics with economics can support more socially just outcomes for all.

Too often, and despite posturing to the contrary, high level policy discussions do not effectively reflect the basic ethical tenet of the 'golden rule,' which has echoes in the *hadith* that "None of you will believe until you love for your brother what you love for yourself." This concept underpins other Islamic imperatives such as the prohibition against hoarding wealth[19] and the responsibility of Muslims to spend their wealth on the well-being of others and society as a whole.[20] Islam goes further still, telling the wealthy that while "There is nothing wrong in wealth for those who are God-conscious,"[21] wealth is also a responsibility that requires the wealthy to uphold social justice[22] – particularly economic justice.

Sadaqah

To that end, giving voluntary charity, or *sadaqah*, is highly encouraged in Islam as a tool of upholding social justice. Indeed, the Quran proclaims that "Those who give, out of their own possessions, by night and by day, in private and in public, will have their reward"[23] – this injunction to give is in addition to the obligatory form of financial giving prescribed to all Muslims of sufficient financial means known as *zakat*, which is presented in section III. *Sadaqah* does not necessarily require financial giving but could also include in-kind donations, time or other good deeds designed to foster community cohesion.[24]

Nonetheless, the Islamic tradition gives significant weight to sharing one's wealth and fully recognises the importance of fulfilling one's material needs, emphasising the importance of giving to charity and the redistribution of wealth, the Quran states "Those who spend their wealth in God's cause are like grains of corn that produce seven ears, each bearing a hundred grains."[25]

In this illustrative verse, Muslims are told that the impact and potential reward of their charitable actions will be far reaching both for recipients and for themselves in this life and the next.

Further guidance is given on the quality of donations, emphasising that Muslims should "give charitably from the good things you have acquired and that We have produced for you from the earth. Do not give away the bad things that you yourself would only accept with your eyes closed:[26] Those who give should view the dignity of those who receive as equal to their own, ensuring that all are applying the message of the hadith and giving what they themselves would wish to receive.

Not only is *sadqah* repeatedly praised in Islamic theological texts, but those who give are also encouraged to do so discretely[27] and most importantly without making the recipient of assistance feel beholden to the giver in order to preserve the dignity of the economically disadvantaged. Highlighting the prominent position accorded to the protection of human dignity, the Quran states, "Those who spend their wealth in God's cause, and do not follow their spending with reminders of their benevolence or hurtful words, will have their rewards with their Lord..."[28]

In addition to these recommendations about the conditions of giving, Islam, through the obligatory form of *sadaqah*, known as *zakat* (see section III.i), institutionalises the rights of the poor and needy on the wealthy through the provision of a wealth redistribution mechanism. Emphasising the need for social solidarity to achieve socioeconomic justice, the tool of *zakat* as well as the social justice principles outlined above highlight the need for each individual and policy maker to reflect on what role they can and have a responsibility to play in promoting more equitable socioeconomic realities. This lesson is sorely needed in high-level decision-making forums where many wealthier countries are attempting to avoid a Sustainable Development Goal agenda and financing for sustainable development commitments that genuinely apply to all countries while adhering to the principle of common but differentiated responsibility.[29]

AN ETHICAL FRAMING OF THE MARKET SYSTEM

While Islamic economic ethics are firmly established in theological texts, even the world's contemporary Muslim majority countries have not fully applied this system. Yet, its re-emergence in academic, scholarly, and policy circles dates to the 1970s when many of those states first obtained political independence, following colonial rule, and sought to establish authentic economic systems that reflected their faith values.[30] Many early initiatives did strive to reflect the social justice values of an Islamic moral economy but met with numerous obstacles to continued economic viability, including unfriendly global and national policy environments as well as poor governance in the countries where such institutions were based.[31]

Nonetheless, the tools of Islamic finance – notably, *zakat, waqf*, Islamic lending, *sukuk*, and *takaful* – that are discussed in the following section, present realistic ways of translating this system of ethics into practice. Innovation in the Islamic moral economy comes from a diverse cross-section of community organisations, INGOs, and businesses, cutting across the private and public sectors, and while the Islamic financial sector is rapidly expanding, its value as an alternative to orthodox economic practices hinges on the preservation and promotion of its ethical foundation.

Providing a unique spiritual link and convincing moral argument to the world's more than 1.6 billion Muslims, Islamic financial ethics – particularly their emphasis on social solidarity, personal responsibility, and upholding dignity – share parallels with innovations in the social solidarity economy, including the economic empowerment of small scale producers through cooperatives, as well as progressive economic policy analysis such as those advanced by the likes of Joseph Stiglitz and Thomas Piketty.

These two prominent economists, despite approaching the question of inequality and its solution from different perspectives, have both concluded that the economic rewards in the contemporary global economy are not proportional to productivity, meaning that the system is institutionally unjust and requires corrective measures to promote more equitable distribution of income and wealth.[32] As a thought experiment, implementing a progressive wealth tax between 1 to 2% on the wealthiest American households, those with more $500,000 in assets, would generate more revenue than the US government currently generates from all other forms of taxation combined.[33] Given the level of inequality that continues to prevail across the globe, **wealth redistribution**, whatever form it might take, must be a part of the solution for more equitable economic outcomes – a concept that should be reflected in debates over domestic resource mobilisation within the financing for sustainable development process.

Harnessing the tools of Islamic finance

ZAKAT

Within the Islamic moral economy, *zakat* is a mechanism that institutionalises wealth redistribution. As a central pillar of Islam, *zakat* is a duty mandated by God upon any Muslim in possession of wealth over a certain threshold (known as the *nisab*). It requires eligible Muslims to give 2.5% of their wealth to categories of people or social causes prescribed by God as being in need. Given the often informal nature of the networks through which *zakat* is collected and disbursed, global estimates for *zakat* flows are difficult to calculate with precision. However, even conservative estimates place annual *zakat* contributions above $200 billion[34] : a sum with the potential to make a substantial contribution to the achievement of sustainable development. For instance, estimates suggest that efficient collection and use of *zakat* in Pakistan would generate the equivalent of at least 1.72% of that country's annual GDP, providing enough financial power to end extreme poverty (calculated in income terms of those living on less than $1.25 a day) domestically.[35]

Despite these encouraging figures, extreme poverty touches nearly a quarter of Muslims globally. While *zakat* funds are regularly used in poverty alleviation and the institutional capacity for *zakat* management of many Muslim communities is increasing,[36] this disparity speaks to a number of problems with the way *zakat* is collected, administered, and dispersed, including a (perceived or real) good governance deficit in many Muslim majority countries and a lack of strategic planning that could more efficiently leverage *zakat* for sustained poverty eradication. Given the magnitude of *zakat* flows, this often overlooked form of domestic resource mobilisation demands greater attention in financing for sustainable development debates – particularly in regional and national dialogues centred on Muslim majority countries.

When contemporary discussions of *zakat* do occur in high-level decision-making forums, they tend to focus exclusively on its financial impact; in contrast, Islamic traditions emphasise that the obligation of *zakat* holds more holistic benefits: on a spiritual, social and economic level.

The centrality of *zakat* to these three dimensions of the life of any Muslim (or Muslim community) is perhaps best illustrated by the teaching of the Prophet Muhammed (PBUH):

Ibn 'Umar reported that the Messenger of Allah, may Allah bless him and grant him peace said, 'Islam is based on five: testifying that there is no god except Allah and that Muhammad is the Messenger of Allah (shahada); establishing the prayer (salat); paying the zakat; the Hajj; and the fast (sawm) of Ramadan' [37]

Spiritual

Throughout the Islamic tradition, *zakat* is often closely linked to prayer, such as in the statement above, where *zakat* is mentioned directly after faith and prayer – the third of Islam's five central pillars. In the Qur'an, God describes the believers as "those who keep up the prayer and pay *zakat*" (Qur'an 27: 2-3) – in fact, *zakat* and prayer are mentioned so frequently together throughout Islamic sources that *zakat* is often known as 'the sister of prayer,'[38] emphasising the sacred and essential nature of *zakat* as an act of worship[39].

Similarly, the institution of *zakat* is also closely linked with spiritual purification and growth. In the Qur'an, God commands the Prophet Muhammad to collect *zakat* from Muslims "in order to cleanse and purify them" (Qur'an 9:103). The regular payment of *zakat* cultivates the virtues of generosity, humility, gratitude and remembrance of God, and seeks to liberate the payer of *zakat* from a love of wealth and worldly things[40], thus enabling Muslims to attain closeness to God.

Social

The role of *zakat* as the third pillar of Islam, following prayer, emphasises the dual responsibilities held by every Muslim; **prayer seeks to develop their relationship with God, while *zakat* aims to develop their relationship with society**. Indeed, *zakat* is the only one of the five pillars which explicitly relates to social obligations. The mandatory nature of *zakat* indicates that far from being a matter of voluntary charity or goodwill, *zakat* is deeply concerned with social justice and protecting the rights of those in need. Fundamentally, this rights-based approach ensures that the recipient of *zakat* is provided a means by which to lift themselves out of poverty in a manner that protects their dignity, since God has ordained their entitlement to this wealth. It is a mechanism by which wealthy members of a community must assume responsibility for the welfare and provision of fellow citizens who are contending with deprivation, utilising their wealth to address broader social protection issues.

When the Prophet Muhammed (PBUH) sent his companion Mu'adh as an envoy to Yemen, Mu'adh was asked to "tell them (the people of Yemen) that Allah has enjoined on them *zakat* of their properties and it is to be taken from the rich among them and given to their poor."[41] As such, the original intention of *Zakat* was for it to be circulated amongst the same community, to build and strengthen ties of love and kinship between all levels of a society.

Economic

The institution of *zakat* also seeks to highlight a number of key principles underpinning Islamic teachings on economics. Wealth is not inherently negative within Islamic frameworks – indeed, when properly employed wealth can be a key means by which to attain closeness to God. Nonetheless, *zakat* is a unique mechanism requiring the compulsory redistribution of wealth from the rich to the poorest or most vulnerable members of society. This is to guard against the hoarding of wealth (which is gravely censured in the Qur'an[42]), but also to ensure the ethical employment of surplus wealth in society, which is deeply linked to spirituality and purification as outlined above.

The Qur'an plainly states which individuals or causes are entitled to receive *zakat*: *"Alms are meant only for the poor, the needy, those who administer them, those whose hearts need winning over, to free slaves and help those in debt, for God's cause, and for travellers in need. This is ordained by God; God is all knowing and wise."*[43]

While the boundaries of these broad categories are fixed, meaning it is not permissible to give *zakat* to anything or anyone outside of these categories, their definition and interpretation are subject to scholarly debate and discussion. Scholarly opinion about contemporary criteria for *zakat* recipients can be summarised as follows:

Poor *(fuqara)* and needy *(masakin)*
Many scholars regard these as two subsets of one category (those in poverty)[44], but there is consensus that the mentioning of both ensures recognition of both the poor and the ultra poor[45]. The Qur'an does not offer a specific definition of 'poverty', giving Muslims the freedom to define and measure poverty in a contextually appropriate manner.

Zakat can be utilised to assist the poor and needy in a number of ways. While *zakat* can and should be used for relief efforts following disasters or calamities (e.g. the provision of food, shelter, medication, etc.), Islamic Relief also sees *zakat* as a means of permanently lifting people out of poverty by providing them the training, skills and tools needed to develop their own livelihoods and sustainable sources of income[46] and in line with the Islamic imperative to support economic empowerment[47]. For those incapable of working, *zakat* funds should be given annually to cover their essential needs.

A critical condition to this category is that recipients must enjoy *ownership* over the *zakat* which they receive – meaning that the funding of communal welfare assets, which may be owned by the state or organisation, cannot be funded under this category *unless* the explicit permission of the poor and needy beneficiary community has been sought (as they have primary rights over the *zakat* funds and how they are spent), and ownership of the asset is transferred to them upon completion (e.g. through a community cooperative)[48].

Administrators of *zakat (amileen)*
Ensuring the financial sustainability of *zakat* collection and distribution, scholars have agreed that a small percentage – at maximum 12.5% - of *zakat* funds can be used to cover the administrative costs of *zakat*, including salaries of *zakat* administrators.[49]

Those whose hearts need winning over *(mu'allafati quloobuhum)*
Traditionally *zakat* was often utilised to provide social support to new Muslims who were struggling with poverty, or to bring hearts closer to Islam through educational activities. Some scholars have also stated that under this category, *zakat* may be used to support peacebuilding activities between communities in conflict.[50]

Freeing slaves *(riqaab)*
For some scholars, the institutionalisation of 'freeing slaves' through *zakat* suggests that the Islamic legal system has always worked towards the gradual and systematic abolition of slavery. While today states and international law formally prohibit slavery, *zakat* may still be used to assist individuals suffering from modern forms of slavery such as bonded labour or human trafficking.[51]

Those in debt *(gharimeen)*
Zakat may be used to assist those who are suffering from debt. For example, if an individual does not have the resources to pay a debt that is immediately due.[52]

For God's cause *(fi sabeelillah)*
In *zakat* distribution, *fi sabeelillah* has historically been understood as funding the physical defence of a community[53]. Contemporary scholars have suggested a much broader interpretation that looks at 'protecting' human life and society against other vulnerabilities and deprivations, which could include funding for communal welfare projects like health and education services or irrigation facilities.[54]

Travellers in need *(ibn as-sabeel)*
Travellers who find themselves in need, like those who have been cut off from their wealth or are unable to reach their destination, are eligible recipients of *zakat*. In the modern context, this category can include refugees as well as the internally displaced and homeless[55].

Islamic Relief USA and domestic zakat distribution

IRUSA collects *zakat* donations and distributes them according to Islamic principles, prioritising support for the fuqara and masakin[56]. In its domestic distribution, IRUSA works with active mosques and community organizations around the United States to identify people who qualify for help and to distribute that assistance. Recipients include low-income families, refugees, and survivors of domestic violence. *Zakat* donations cover expenses such as rent assistance, emergency medical costs, employment training, food vouchers, utilities, and other emergency needs.

Mariam's story

Mariam[57] is a 28-year-old single mother of 5. When her husband abandoned her and her children in 2012, she turned to Arab American Family Services for help. AAFS was able to give her a share of Islamic Relief USA's *Zakat* funds to help her through that difficult time, covering basic necessities to survive as she applied for additional benefits, recovered from a violent assault, and learned how to start her new life. Two years later, Mariam is now an independent, self-sufficient, and full-time working mother. Her children are well cared-for and attending school. IRUSA *Zakat* funds helped Mariam through a traumatic and extremely difficult time, giving her the means to provide herself and her children with a better future, free from poverty.

Obstacles to success

Despite the promise of *zakat* flows for sustainable poverty alleviation, this funding mechanism remains underutilised and has not been fully developed in many Muslim communities. While working towards broader scholarly consensus on the definition of zakatable assets and its potential recipients is essential, the effective management of *zakat* funds also requires strong literacy of the formal financial sector as well as a community imbededness that contemporary financial institutions often find difficult to emulate. Evidence has shown that an obligatory, state controlled *zakat* mechanism is not necessarily the most effective approach for mobilising the potential of this form of giving.[58] Where as in Malaysia and Singapore, *zakat* management is state led and payment is compulsory on all Muslim citizens, Bangladesh has adopted a non-compulsory blended approach that offers opportunities to pay *zakat* through government as well as private instruments.[59]

Countries without national *zakat* management systems do not necessarily need to adhere either of these approaches. Where relevant, institutional support and an enabling policy environment could empower local zakat groups to work more efficiently as well as allow for better financial accounting of *zakat* flows in national poverty reduction planning.[60] Thus, maximising the potential of *zakat* fund collection requires *zakat* distributing organisations to bridge the gap between finance and community as well as a commitment to transparency, good governance, and an enabling policy environment at all levels of decision- making.

WAQF

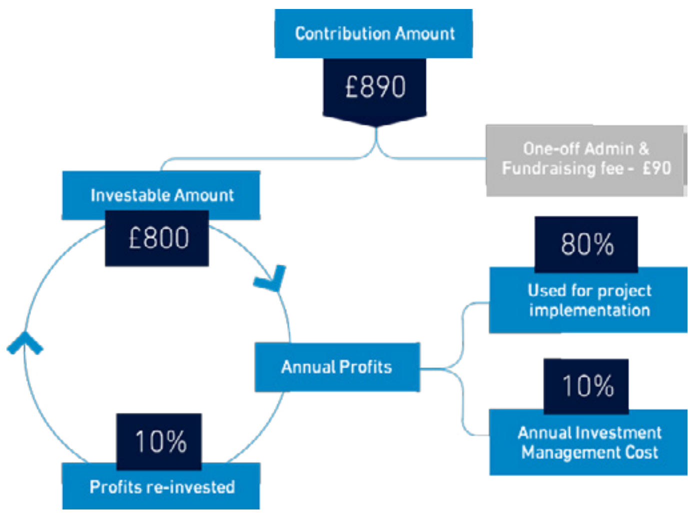
The principle

In traditional Islamic *fiqh*, or jurisprudence, the core characteristics of *Waqf* are irrevocability, inalienability, and perpetuity[61] – translated to more contemporary language, this would suggest a need for stability, independence, and sustainability.[62] This system is a type of philanthropic financing similar to an endowment, which most commonly uses a cash fund or tangible investments, such as in real estate or land, to generate a non-interest based profit that can then finance a variety of ethically compliant projects depending on the plans of the *waqf* manager. [63] As we will see, the capacity of *awqaf* (plural of *waqf*) to sustainably finance development projects and public service provision should be of particular interest to on-going discussions on financing for sustainable development.

Islamic texts categorise donation to or creation of *awqaf* as a type of *sadaqah* that gives continuously known as *sadaqah jariyah*. As with other forms of giving in Islam, *sadaqah jariyah* is thought to bring spiritual benefit to the donor in this life and the next; when directed toward sustainable development projects, *awqaf* can also help the economically disadvantaged through wealth distribution.

In a hadith, the Prophet Muhammed (PBUH) was known to have said "When a person dies, their actions come to an end but three, ongoing charity [*sadaqah jariyah*], knowledge from which people continue to benefit and righteous offspring who pray for them."[64]

In practice, the exact structure as well as percentages and amounts of profit and reinvestment will vary from one *waqf* to another. For instance, Islamic Relief uses a cash *waqf* model in which 'shares' in a *waqf* fund are sold to donors who wish to make a charitable donation. A fixed portion of the initial donation then covers a onetime administrative and fundraising fee – with the bulk of the remaining (85% - 90%) of the fund invested. From the annual return on investment (80%) is used for project implementation and the remaining 20% divided equally between reinvestment to perpetuate the fund and annual investment fee costs. This is perhaps most concisely summarised in the diagram below:



Looking at the *Waqf* system more globally, the fact that profits cannot rely on interest has meant that investments have typically been heavily concentrated in tangible assets, especially real estate; however, other accepted destinations for *waqf* investment include professional and vocational projects, basic service provision, securities like stocks and Islamic bonds, Islamic investment funds, and Islamic financial institutions offering investment accounts.[65]

Traditionally, *awqaf* have been used as a decentralised funding mechanism for public goods such as education and healthcare that might be more frequently overseen by central governments today.[66] This legacy remains visible in many parts of the world, with prominent institutions of Islamic learning such as Cairo's Al Azhar University or Tunis' Al Zaytouna University continuing to depend on the *awqaf* that led to their foundation many centuries ago. Further suggesting the dominance of *awqaf* in Islamic history, estimates indicate that nearly one third of cultivable land in the Ottoman

Empire was under *waqf* ownership – including significant territory in the contemporary Middle East and Balkans; the outputs of such land could have been used to promote food security, while profits from the sale of agricultural products likely supported education and health services.[67] Other community services and facilities that were commonly funded through *waqf* included places of worship, hospitals, soup kitchens, social welfare organisations and cultural institutions.[68]

Funding Sustainable Development with Waqf: Islamic Relief Bosnia

Including a broad range of areas of intervention, one of the priority programme funding areas of Islamic Relief's *waqf* fund is sustainable livelihoods, often including a focus on those negatively impacted by conflict situations.

Kadric's story

Kadric and his wife live 20 kilometres from Srebrenica and their two sons died during the war, leaving both Kadric and his wife despondent and facing economic hardship in the bleak post-war economy. As part of its commitment to sustainable livelihoods programming, Islamic Relief's *waqf* fund supports Islamic microfinance in Bosnia and Herzegovina. Through this fund, Kadric was able to access a small scale loan to invest in livestock that now provides a steady income, supplementing his wife's existing agrarian work and allowing the couple to improve their financial independence. More than 1,300 people have already benefited from this type of access to financing in Bosnia, and *waqf* funds ensure the long-term viability of this programme, suggesting that this number will continue to grow.

Practical potential

In cash strapped countries, this model should be of particular interest to governments seeking alternative means of financing basic services for their citizens. Islamic Relief's own *waqf* has, on a smaller scale, funded initiatives ranging from education and sustainable livelihoods to healthcare, WASH and emergency response. The implication being that states seeking to fund sustainable development initiatives at home should fully investigate the potential of *waqf* as a tool for eradicating poverty and alleviating suffering, including as a means of funding Islamic microfinance to improve access to credit and formal financial markets. The governments of Malaysia, Singapore, and Indonesia have tended to be the most innovative in this regard.[69]

An enabling business environment in Malaysia, for instance, has allowed the state investment corporation Johor Corporation (JCORP) to develop a subsidiary as part of its commitment to corporate social responsibility (CSR) that is *waqf* based. Turning corporate *waqf* into a reality, JCORP created a limited company An-Nur Corporation Berhad (WANCorp), to monitor and ensure proper management of the $55.5 million in shares and investments that it used to launch the *waqf*. The fund's flagship projects target Muslims and non-Muslims alike and include the provision of healthcare services and start-up capital for microenterprises as well as funds for disaster relief.[70] While this success story illustrates the potential of *waqf*, in many Muslim communities legal and policy restrictions have often disincentivised *waqf* rather than facilitated its development.[71]

As the above example would suggest, the *waqf* model also holds promise for the non-governmental sector. While humanitarian and development organisations are rewarded for keeping margins tight, transforming funding to improve the stability of financial flows for implementing organisations would be a game changer not only for those organisations but for the communities where they work. Financial stability is essential to long-term planning and sustainable community projects, yet current aid models are overwhelmingly project based, making long run interventions difficult to fund.

Challenges and Opportunities

Despite a rich history of *waqf* use for sustainable social projects, much of the Muslim world has allowed this system to fall into disuse. In many communities *awqaf* are underutilised due to the lack of a centralised planning and oversight institution that could provide the strategic and technical capacity to manage *awqaf* efficiently, performing a similar advisory function to that of the European Central Bank within the Eurozone. Currently, the poverty alleviation and development strategies of most Muslim majority countries usually do not even make reference to *waqf* as a possible source of funding and knowledge about the practicalities of *waqf* systems is often poor even in Muslim communities.

In order to make more consistent and efficient use of this financial instrument, Muslim communities must first work to raise awareness and then face the same battle as their non-Muslim peers: the quest for more robust, accountable, and transparent institutions, including good governance at the local, national, regional, and global levels. The implementation of *waqf* is dependent not only on efficient delivery of financial support but also a strong community reputation that encourages wealthier individuals to donate, trusting that their wealth will be appropriately used for sustainable poverty alleviation initiatives.

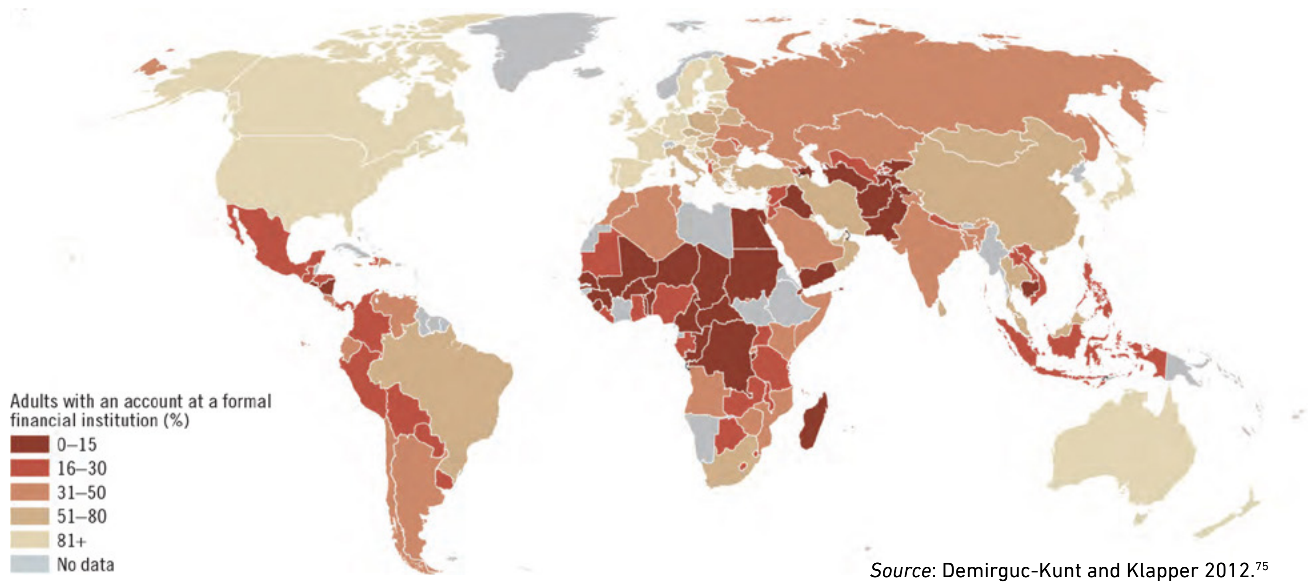
As with many other forms of alternative financing, greater care should be taken to create an enabling environment. For instance, "incentivizing *waqf* in a manner similar to secular trusts and other forms of not-for-profit organizations, e.g. tax rebate on contributions for the donor/ endower would make the system both efficient and fair"[72] as well as supporting the development of global and transparent accounting procedures for *waqf* management that would open up this mechanism to non-Muslim communities as well. Facilitating the creation and functioning of *waqf* combined with efficient *zakat* collection and distribution mechanisms has the potential to significantly reduce poverty – feasibly filling the resource gaps needed to completely eradicate extreme poverty (those living on less than $1.25 a day) in countries like India and Indonesia[73].

SHARI'AH COMPLIANT FINANCING FOR MICRO AND SMALL ENTERPRISES

The challenge

The Islamic finance industry now manages an estimated $1.35 trillion in assets[74], but the world's poorest are predominantly excluded from this new economy, which is centred on financial deepening in hubs such as Dubai, Kuala Lumpur and London. The impact on the real economy is therefore still limited.

Moreover, particularly in Sub-Saharan Africa and South Asia – home to many Muslim majority countries deeply affected by structural poverty – poor people are unable to meet their basic needs and have no access to basic services, including financial services that could ease their suffering. Strikingly, bankability and account penetration is lowest in the Muslim majority countries in Sub-Saharan Africa, Central, South and South-East Asia (see diagram below).



Source: Demirguc-Kunt and Klapper 2012.[75]

Formal savings or loans are virtually inaccessible with just 10-15 per cent of the adult population having bank accounts. There is therefore a clear and compelling opportunity for Islamic finance to tackle widespread financial exclusion in the Muslim world and beyond in order to enable the economically disadvantaged to save and borrow money for education, health, consumption smoothing, and emergency spending as well as, importantly, investing in their own future.

The principle

Responsible lending, shared risk and partnership, avoidance of speculation, and the avoidance of unreasonable exploitation as well as a strict prohibition on interest should be reflected in the operational guidelines of all Islamic financial institutions. In contrast to conventional, interest-based economic principles, which focus on fixed rates of return without regard for business success or failure, Islamic financial institutions operate according to the abovementioned principles, which are designed to address the root causes of economic injustice and financial exclusion. Thus, the salient feature of Islamic modes of finance is the ability to provide capital for the poor without putting an inequitable burden upon them, leveraging multiple forms of risk shared lending and financing.

An Islamic Microfinance Institution is not only a financier but also a partner in business. This approach essentially involves the sharing of risk between the owner of capital and the entrepreneurs, as well as sharing the result of the collective efforts. In practice this means working at the Micro, Small, and Medium Enterprise (MSME) level with poor farmers, craftspeople, or traders, many of them women in order to advise them as well as share the risks and rewards of their (or a joint) business activity.

The main Islamic financing arrangements are sales contracts with deferred payment *(Murabaha)*, leasing *(Ijarah)*, profit sharing investments *(Mudaraba)* or business partnerships *(Musharaka)*. These are driven by the underlying ethical principle behind Islamic finance, which is the elimination of exploitation within the socio-economic sphere. In particular, this means not guaranteeing a fixed return (i.e. interest) on finance without regard to whether the capital has actually yielded a monetary benefit for the entrepreneur.

Diverging from arguments in interest-based economics that *'interest is the price or rental of the use of money,'* Islamic economic theory holds that money has no 'time value' but is rather a medium of exchange. A number of verses in the Qur'an deal with the issue of interest, or usury (in Arabic riba) but also with the Islamic concept of value creation:

> *"But those who take usury will rise up on the Day of Resurrection like someone tormented by Satan's touch. That is because they say, 'Trade and usury are the same,' but God has allowed trade and forbidden usury. Whoever, on receiving God's warning, stops taking usury may keep his past gains – God will be his judge – but whoever goes back to usury will be an inhabitant of the Fire, there to remain. God blights usury, but blesses charitable deeds with multiple increase: He does not love the ungrateful sinner."*[76]

In financing terms, this does not suggest that capital is free of charge nor that profit should not be made; rather, the only requirement is that both the financer and the entrepreneur should share the risks involved equitably, using one of the lending practices described above - *Murabaha, Ijarah, Mudaraba, Musharaka*, or other arrangements that comply with the theory and spirit of Islamic ethics.

While the four abovementioned Islamic financing techniques are perhaps the most frequently employed, the Qur'an also clearly encourages people to provide *qard hasan* or benevolent loans[77]. Some Islamic lenders only provide *qard hasan* loans to existing clients, while others restrict such loans to destitute or needy persons. Lending institutions might choose to extend this service to include small producers, farmers, or small entrepreneurs (the usual target groups of most microfinance programmes), who are unable to receive finance from other formal financial intermediaries. With such loans, the borrower only repays the principal, although certain scholars allow the lender to cover the administrative costs incurred in disbursing the loan as well. The service charges are not profit. Islamic law allows a lender to recover the costs of lending– actual costs incurred by office rent and salaries, for example – from the borrower in addition to the amount borrowed. However, to prevent such charges from becoming equivalent to interest, the commission or fee cannot be made proportional to the amount or to the term of the loan.[78]

Although more challenging than interest based programmes in terms of their design and implementation, successful *Shari'ah* compliant microfinance programmes are not only feasible but may also offer several advantages. Such programmes may engender higher rates of economic growth and anecdotal evidence from Islamic Relief's extensive Islamic microfinance field operations suggests that micro-entrepreneurs are willing to undertake more profitable (and riskier) ventures if that risk is shared. The deeper relationships built through partnership, rather than a service provider-client relationship, may build greater levels of trust and understanding between microfinance provider and micro-entrepreneur. This dynamic is invaluable when the objective is holistic socio-economic development. Furthermore, Islamic microfinance may promote ethical investment and business practices among micro-entrepreneurs: likely as the result of the restrictions on financing *haram*, or forbidden, activities such as gambling, intoxication, or pornography that can cause social harm as well as an emphasis on honesty, transparency, and fairness in financing contracts and practices.[79]

The way forward: The Islamic finance industry and impact investment

The World Bank's Consultative Group to Assist the Poor reports[80] that Islamic microfinance accounts for less than 1% of total global microfinance outreach – this is despite the fact that many predominantly Muslim countries such as Bangladesh and Indonesia possess vibrant microfinance sectors. Even within largely Muslim countries, Islamic microfinance has only a limited outreach – for example, in 2006 it accounted for only 2% of the market in Indonesia[81]. Enabling policy environments at the global level, which recognise the potential of Islamic finance, could significantly improve the scope of such financial markets.

Indeed, Islamic finance shares many of the features of socially responsible finance. However, in order to maximise the positive impact on those underserved and financially excluded by the existing market, policy makers should focus on creating enabling environments for intermediary investment vehicles that promote inclusive and participatory finance. *Waqf*, for instance, can provide working capital for poor micro-entrepreneurs (see III.ii *Waqf*) whereas the wealth distribution tool of *zakat* has the potential to finance asset building programmes (see III.i *Zakat*).

Case study: Private sector engagement

Islamic Relief has been playing an important role in unlocking the potential of the private sector by working with one of the few Shari'ah compliant financial institutions in Kenya, The First Community Bank (FCB). The FCB has a Shari'ah board, including both eminent scholars and practitioners, that works to ensure the bank's compliance with Islamic ethical principles across the FCB's capital mobilisation and financial practices in accordance with the standards of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

By creating a guarantee fund that underwrites potentially non-performing loans, IR has facilitated the FCB's provision of micro venture capital to hundreds of pastoralists in the North-East of the country that have not benefited from the many recent gains Kenya has made in financial inclusion. In promoting financial literacy and pre-identifying community members that will have access to subsidized financial services from the Bank, IR provides an added layer of consumer protection. As the programme continues to expand its service offerings, IR will work with the community to identify the most vulnerable who might benefit from *qard hassan* and a risk sharing lending model such as *mudharaba* as well as work with the FCB to provide commercial, but subsidised, Shari'ah compliant financings tools. The ultimate objective of this increase in the community's financial inclusion is support for long-run financial independence and sustainable livelihoods.

Conventional social investors seeking to achieve higher returns by diversifying their portfolios have already ventured into non-traditional markets, such as microfinance. According to MicroRate's *Annual Survey and Analysis of Microfinance Investment Vehicles 2013*, the total assets of microfinance institutions managed by these Microfinance Investment Vehicles (MIVs) reached more than $6.2 billion by 2012 – recording an annual growth rate of about 18 per cent.

To ensure such investments achieve the social objective of equitable development central in the Islamic economy as well as the Sustainable Development Goal agenda, commercial investors must shift their focus from an over concentration on long-term investments in real estate toward newer asset classes in emerging markets such as *sukuk* (Islamic bonds) as well as *takaful* (mutual insurance), which can provide profits while also promoting social solidarity.

Sukuk

Islamic bonds, or *sukuk*, are similar to traditional bonds but introduce modifications to ensure compliance with Islamic imperatives to avoid interest through emphasis on asset ownership as well as to minimise risk. For instance, a *sukuk* investor is not given ownership of the issuer's debt, but rather the share of a real asset, including a share in the cash flow and risk associated with that asset.[82] Then, when the *sukuk* reaches the end of its term, the issuer returns the principal to the investor by purchasing his or her share in the asset.[83] Importantly, if the asset purchased through a *sukuk* investment represents a third party's debt, then it cannot be traded on a secondary market as one might with a conventional bond. *Sukuk* are free to take many different forms, but are usually designed in tandem between financial and Islamic legal experts in order to ensure both high economic productivity and compliance with Islamic law.

The Islamic Development Bank (IDB), for instance, has issued extensive *sukuk* offerings totaling $10 billion USD as of December 2013 and designed to complement the equity of IDB shareholders,[84] meeting previously unmet demand for financing for development in those countries. Credit ratings agencies have consistently rated these investments as AAA, and they have attracted investors from within as well as outside Muslim majority countries. Indeed, the global *sukuk* market is rapidly expanding, moving from a $70 billion sector in 2008[85] to over $116 billion in 2014.[86] However, in order to ensure that *sukuk* continue to develop in a way that promotes sustainable development in its economic, social, and environmental dimensions, global regulatory frameworks should create sufficient policy space to accommodate mechanisms for monitoring the impact and effectiveness of *sukuk* funds, ensuring that they do not fall into the same negative patterns often exhibited by traditional bond markets and that they adhere to a shared, global criteria for ethical investments.

Takaful

Adopting a solidarity model, Islamic mutual insurance, or *takaful*, aims to provide insurance options that comply with Islamic rulings against interest and excessive risk – both of which are highly prevalent in conventional insurance institutions and mechanisms. In this cooperative system, individual policy owners of the insurance fund are also shareholders among which investment profits[87] are distributed in proportion to their financial contributions. In contrast, an orthodox insurance model would normally take investments or fees from policy holders and distribute profits from the investment to shareholders, meaning that the risk is disproportionately placed on policy holders to the advantage of shareholders.[88]

In addition to its potential as a poverty reduction tool, this service is increasingly offered through formal Islamic banking systems, including through conventional banks with Islamic financing interests like HSBC, in countries across the Arab Gulf, Indonesia, Pakistan, Malaysia and many others. In all communities, innovative steps should be taken to ensure that this form of social protection is made available to the most vulnerable members of society who often face difficulty accessing formal financial institutions, including through the promotion of micro-*takaful*.

Policy implications of a moral economy

You who believe, uphold justice and bear witness to God, even if it is against yourselves, your parents, or your close relatives. Whether the person is rich or poor, God can best take care of both. Refrain from following your own desire, so that you can act justly– if you distort or neglect justice, God is fully aware of what you do.[89]

In an effort to uphold the principles outlined in the Quranic verse above, which underpins Islamic social justice teachings, Islamic Relief feels compelled to work for change in the global financial architecture. While the achievement of the SDGs requires the mobilisation of unprecedented sums for sustainable development, discussions on financing for sustainable development should not limit themselves to seeking alternative sources of finance but should also embrace formulating an alternative means of doing finance. Islamic financial mechanisms and principles provide important lessons for how to achieve both of these aims.
Reflecting the principles and tools outlined above, Islamic Relief makes the following recommendations for Financing for Sustainable Development in order to fully uphold the transformative aspects of the Sustainable Development Goals.

Partnership

Islamic Relief's faith values orient the organisation's work toward the protection of human dignity. On a global level, upholding this ethical imperative requires the organisation to encourage high level policy discussions to recognise that decisions should be inclusive of all stakeholders – not limited to a few wealthy states like G20 conferences or Organisation of Economic Cooperation and Development (OECD) initiatives. Decision-making processes within international financial institutions (IFIs) like the World Bank, International Monetary Fund and Financial Stability Board (FSB) remain exclusionary by design and fail to practically reflect a worldview that sees all nations as decision-makers.

Solutions to systemic problems like tax evasion and illicit financial flows as well as unjust trade and lending regimes must balance the needs of all countries and peoples, reflecting the right of all to lead dignified lives: an equilibrium that can only be achieved when seats at the decision making table are evenly distributed and hold equal importance. Global governance should demonstrate financial inclusion from the top while supporting its development at the grassroots level.
Islamic Relief's experience and understanding of the complex nature of the challenges facing the world are rooted in its outreach to the most socioeconomically marginalised as well as those most vulnerable to the devastating effects of climate change. From this vantage point, the organisation is convinced that we can no longer rely on the often uncoordinated efforts of the public, private, and civil society sectors. Financing the Sustainable Development Goals presents an enormous test to the global community, and its success or failure hinges on a genuine partnership between UN member states, international institutions, civil society, and local communities.

Private financial flows

While acknowledging the possible benefits that increased access to private sector financial resources might play in the economic development of countries – especially for micro, small and medium enterprises – Islamic Relief urges that expanded partnerships with the private sector, particularly when it comes to multinational corporations, be pursued with accountability in mind. Islamic principles find no fault with wealth or business, as such, but contemporary financial and business models often pose significant risks to the most vulnerable strata of society.
For instance, the 2013 Rana Plaza factory collapse in Dhaka, Bangladesh saw the push for ever-tighter margins in the textile and clothing industry lead to the neglect of employee safety, resulting in the deaths of more than 1,130 garment workers. Such examples abound across sectors including prominent companies in the extractives and technology industries. While the events at Rana Plaza were the result of poor accountability on multiple levels ranging from the local to the global, stronger accountability criteria for multinationals that holds them responsible for their supply chains could, for example, have far reaching, positive impacts, encouraging improved work place standards in manufacturing hubs.

If public-private partnerships (PPP) are to take a prominent position in the Post 2015 development scene, then UN member states must work to establish clear ethical criteria against which potential partnerships can be evaluated, stressing not only financial transparency but also presenting unambiguous measures for the successful promotion of the social, economic and environmental dimensions of sustainable development. Financing for Sustainable Development must first and foremost fulfil its core purpose.

Yet, PPPs must be approached with caution precisely because private sector investors prioritise profit and not sustainable development. In their present form, PPPs represent a costly means of financing often associated with high interest rates and user fees[90] that can exacerbate market volatility as well as tend to exclude LDCs from the potential benefits of private capital flows.[91] A recent study suggests that even where foreign direct investment (FDI) is high, the bulk of the profits that it generates – as much as 90%[92] - are repatriated to the investor's country of origin.

Islamic Relief welcomes civil society and UN agency initiatives designed to address this issue, including the recent emphasis of the UN Human Rights Council on the creation of an international and legally binding, rights-based accountability mechanism for transnational corporations and other businesses through the creation of a working group on this topic. However, without finite deadlines, this process does not seem to have fully acknowledged the urgency of establishing clear and agreed criteria against which to measure the ethics of business practices, ensuring that the private sector's involvement in the SDG process is a driver not only of increased revenue but also of positive social, economic, and environmental changes.

Overseas Development Assistance (ODA)

While the importance of resource mobilisation from diverse sources of financing in order to fund the achievement of the SDGs is unquestioned, this shift in the discussion of financing for development must not be allowed to overshadow the importance of holding economically developed countries to account for their existing (and largely unmet) commitments to dedicate 0.7% of their GDP to ODA annually. Furthermore, recent years have seen a disturbing shift in ODA funding from grants to loans, which has the potential to significantly undermine development efforts as it places an unnecessary debt burden on developing and middle income economies. Grants should form the majority of ODA support and this financial assistance should, at a minimum, be delivered in accordance with the aid effectiveness principles agreed at the Busan Conference. Financing for climate initiatives should be in addition to existing ODA commitments.

Reflecting the need for improved partnerships, ODA policy-making remains exclusionary to countries not included on the OECD's Development Assistance Committee (DAC). Crucially, non-DAC countries include important donor countries from emerging markets like Brazil and China as well as high income countries like Saudi Arabia and the UAE. Inclusive partnerships could also improve the efficiency and standards with which this assistance is distributed, while focusing on learning from Muslim majority donors could also provide insights to existing DAC members about how best to meet the needs of Muslim majority countries, including through policies that accommodate Islamic financial principles.

Mutual Accountability and Transparency

In the context of the SDGs, in addition to the global indicators that will be formulated at the UN level, Member States must commit to formulating nationally adapted and relevant indicators through multi-stakeholder consultations that can act as benchmarks of success. These indicators should be paired with national action plans and commitments to improved data collection, including measures for national capacity building where appropriate. Finally, citizens and civil society should play a prominent role in all SDG accountability mechanisms, participating in the evaluation of national level progress and strengthening community engagement in the process.
The drive for mutual accountability and transparency should not be limited to governments, but should also include non-governmental organisations, international institutions, international financial institutions, and the private sector.

Addressing the linkage between economic growth and resource exploitation

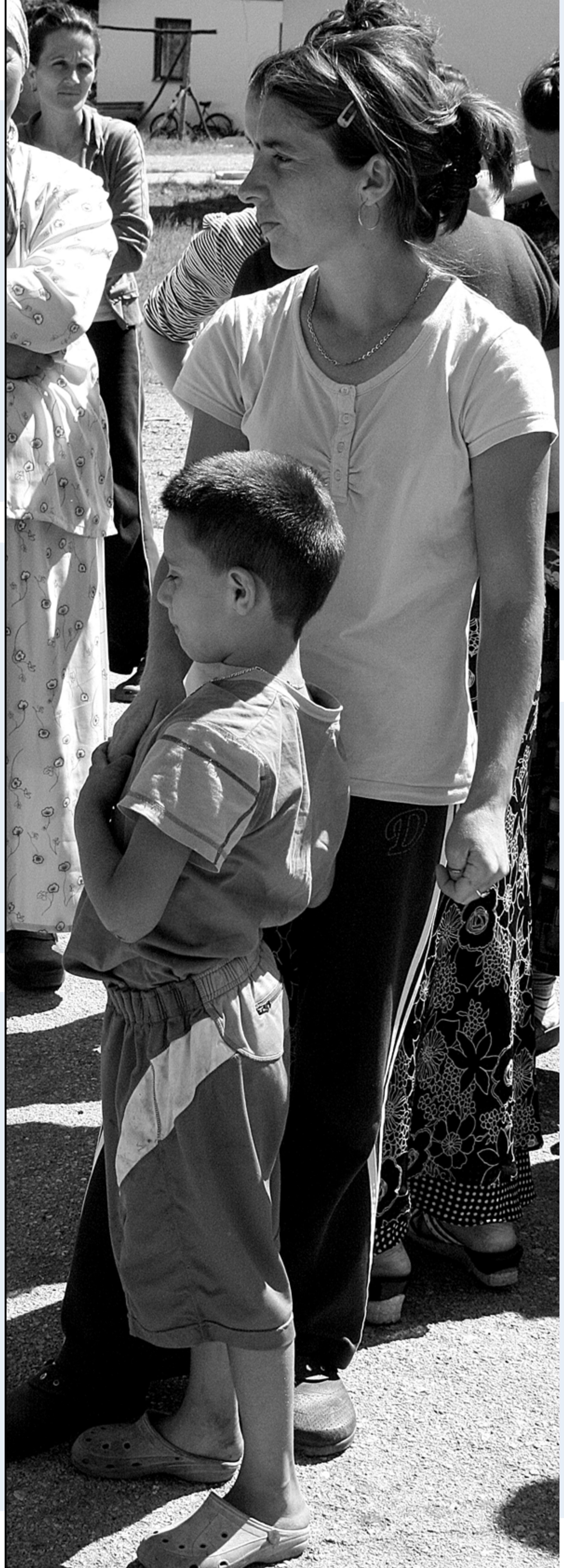
Genuinely sustainable development must work to decouple economic growth from resource exploitation. Islam conceptualises humans as *khilafa*, or custodians of the earth, meaning that each and every human is responsible for the health and well-being of the planet – a concept that is incompatible with over exploitation of resources as well as the socioeconomic inequalities such exploitation reinforces.
Generating a structural shift in the economy requires an enabling financial and political environment as well as recognition of the role that highly industrialised nations must play in reducing their consumption of natural resources, supporting sustainable production and technologies, and facilitating technology transfers. Financing transformative change requires clear commitments to climate financing in addition to existing ODA funding.

Debt

Responsible lending

The emphasis in Islamic financial principles on the shared responsibilities of lenders and borrowers aligns with the Monterrey Consensus position that creditors must acknowledge and uphold their duty to prevent and resolve debt crises, which can include providing debt relief, but also to implementing appropriate policies to minimise risk. Islamic Relief welcomes the passage of UN Resolution A/68/L.57/Rev2 to establish a multilateral legal framework for sovereign debt restructuring processes – including its emphasis on curtailing the activities of vulture funds – as an important step toward introducing greater accountability and mutual responsibility into global lending practices. This resolution marks an important moment in the UN policy space to push for concrete action on debt relief that will discourage irresponsible lending practices.

Greater policy accommodation should be given to the provision of Shari'ah compliant lending and borrowing options in Muslim communities and the emphasis of this system on interest free, risk sharing lending should be widely assessed for its application to all economically deprived communities.



Public debt audits for just debt relief

The Quran instructs Muslims that "If the debtor is in difficulty, then delay things until the matter becomes easier for him; still, if you were to write it off as an act of charity, that would be better for you if only you knew."[93] In addition to the need for an enabling global financial environment, countries facing large or disproportionate debt burdens should be encouraged to conduct national level public audits of existing debts to facilitate just debt relief – particularly to address the issue of odious debts. Many states are hesitant to take this step because of the potential for negative consequences on their credit rating and amid worries that debt relief, while both justified and necessary, would lead to decline in foreign direct investment in their respective countries. This is particularly a concern in middle income countries that tend to have a higher rate of access to and reliance on private financial flows than least developed countries.

More work is needed to ensure that countries are not forced to dedicate resources unnecessarily to debt repayment at the expense of basic service infrastructure. This trend remains particularly entrenched in middle income countries, with nations like Pakistan and Indonesia paying the equivalent of 15% or more of GDP in debt servicing annually.

Promoting an enabling environment for alternative finance

Mobilising the resources needed to finance the SDG agenda requires decision-makers to think beyond the *status quo* and even beyond the standard proposals for economic reform. In the quest for improved domestic resource mobilisation, policy-makers at the global, national, and local levels should work to incentivise innovative and alternative modes of finance, including the full range of Islamic financial tools. Similarly, addressing inequalities between and within nations requires an honest reflection about global wealth distribution; this evaluation could benefit from the principles underlying the system of *zakat*, which mandate **wealth redistribution**.

Striving for financial inclusion should include allowing people to enjoy access to financial markets while remaining in compliance with their faith; however, policy makers should not limit the implementation of Islamic financial principles and tools to Muslim communities as these alternative ethical guidelines and mechanisms present an opportunity to re-evaluate the effectiveness of the conventional, interest-based economy. The potential positive outcomes of an enabling policy environment for Islamic finance, including support for institutional capacity and facilitating the exchange of best practices between governments and other key actors in the Islamic financial sector, could be far reaching – particularly for the world's most economically marginalised.

Parallels between the Islamic moral economy and the social solidarity economy emphasise the importance of exploring and facilitating all forms of innovation in the pursuit of more socially just global economic outcomes. Customary or traditional financial mechanisms commonly used in nomadic societies should also be researched for the capacity to contribute to a more ethical economy.

Discriminatory trade policies

In crafting contemporary trade policies, decision-makers must remember that free and unrestrained trade was not the formula that led to the development of today's strongest economies. Countries like the United States, Canada, and the United Kingdom as well as Eurozone members – which are today prominent proponents of free trade, have historically benefitted from protectionist policies[94] and continue to reap the economic rewards of agricultural subsidies that increase global food prices, threatening food security and agricultural livelihoods in economically developing nations. Even the OECD has found that such subsidies remain too high in its member states and that consumers bear the brunt of the economic burden.[95]

While the High Level Panel's report on the Post 2015 Agenda called for 'free and fair' trade there is a significant body of evidence indicating that given the inequalities between countries, 'free' trade is rarely 'fair' or sustainable. Trade negotiations remain dominated by the world's largest economies and work to enable the profit-making of the large companies based in those countries, often to the detriment of even the most basic environmental, social, and economic criteria for sustainable development.

Reflecting the value of social justice, Islamic Relief firmly opposes a continuation of business as usual in trade relations. Negotiations must become more equitable both for developing economy countries and smaller businesses, prioritising the economic, environmental, and social dimensions of sustainable development as well as promoting socially just and nationally differentiated criteria for genuinely fair trade relations.

Capital flight: Tax and Illicit financial flows

Capital flight – when companies or individuals seek to illicitly export capital, usually to a tax haven country and in large quantities – deprives the country of origin of significant financial resources that could otherwise stimulate the national economy. The US Center for International Policy estimates that $1 to 1.6 trillion of illicit money is moved every year, and Christian Aid has found that such capital flight leads to tax revenue losses in developing countries totalling $160 billion dollars annually[96] – nearly 4 times the amount the UN has estimated would be needed in those countries to meet unmet Millennium Development Goal (MDG) targets.[97] While the OECD has made recent efforts to tackle this issue through its Base Erosion and Profit Shifting (BEPS) initiative, Islamic Relief joins its voice with those of numerous other members of civil society calling for a global tax mechanism at the United Nations which would be more inclusive in its decision-making, ensuring that tax reforms find an equilibrium between the needs of all countries and facilitates more equitable distribution of income.

Similarly, greater global regulation and cooperation is also needed to tackle another form of capital flight: illicit financial flows, which includes funds moved for tax evasion purposes as well as bribery, illegal trade, and money laundering. In all its forms, illicit finance has a disastrous impact on developing economies – estimates suggest that Africa loses $50 billion annually, which is similar to the amount it receives in FDI[98]. Collective UN member state action is needed to ensure developing economies are not actively de-developed. As with global tax reform, the governments presiding over high income economies must recognize the role they play in facilitating illicit flows with administrative and legal loopholes as well as support of tax havens, including those in British Overseas Territories[99] and within Europe.

RECOMMENDATIONS

Inclusive policy-making

- Promote inclusive global partnerships and participation in high level decision-making processes as the only way to ensure that the economic, social, and environmental dimensions of sustainable development are upheld for all. No policy sphere with global implications should be exclusionary by design.
- Greater inclusivity in ODA policymaking discussions is an imperative for improved efficiency in aid delivery as well as for ensuring the SDG agenda is upheld in all its dimensions.
- Promote inclusive, global regulatory mechanisms at the UN level to reduce the harmful impacts of capital flight, taking particular aim at strengthening tax collection systems and restricting illicit financial flows.

Supporting economic justice mechanisms

- Public Private Partnerships (PPPs) should be undertaken within a strong accountability framework, including clear ethical criteria against which to measure the promotion of sustainable development in all its dimensions.
- Islamic Relief supports the UN Human Rights Council's creation of a working group designed to establish a legally binding, rights-based accountability mechanism for transnational corporations and other businesses and feels that the creation of such a mechanism is increasingly urgent in the context of rising PPPs.
- Islamic Relief supports mutual accountability at the global, regional, national, and local levels in a way that promotes citizen participation as well as provides mechanisms to hold institutions, governments, non-governmental organisations, international financial institutions, and the private sector accountable for the promotion of sustainable development.

Upholding global commitments

- Developed economy countries should prioritise meeting their existing commitments to dedicated .7% of their GDPs to overseas development assistance (ODA).
- Governments should provide ODA primarily in grant form and in accordance with the Busan Conference Principles.
- For development that is genuinely sustainable, economic growth and well-being must be decoupled from resource exploitation. This transition requires an enabling financial environment that supports sustainable technological innovation as well as technology transfer from developed economies to developing ones. Climate financing should be in addition to ODA commitments.

Enabling just implementation of the SDGs

- Islamic Relief supports a multilateral debt restructuring mechanism within the UN system as well as increased attention to the debt burdens of low and middle income countries, especially the continued presence of odious debts.
- Ensure that global financial governance and policies create an enabling environment for the development of Islamic financial infrastructure.
- Interest free lending models, which reduce debt burdens on the most vulnerable, should be investigated for their potential use in poverty reduction in all communities.
- Inequalities between nations mean that free trade is rarely fair. Trade negotiations give sole priority to profit maximisation and should place greater emphasis on promoting the economic, social, and environmental dimensions of sustainable development. This must include changes to developed economy approaches to agricultural subsidies.

Conclusion

At this critical policymaking moment, the feasibility of the Sustainable Development Goals (SDGs) lies in the details of the outcomes of the Financing for Sustainable Development (FfSD) process as well as the intergovernmental negotiations on SDG 17 on the Means of Implementation. While both the FfSD process and SDG 17 should complementarily promote transformative change, the synergies between these processes have not been fully addressed in intergovernmental discussions. However, there is a consensus that change is needed.

Beginning with Rio +20, civil society voices from across the globe as well as a majority of Member States at the United Nations have repeatedly emphasised that 'business as usual' was no longer good enough. Yet despite the creation of an ambitious, cross-cutting – albeit imperfect – SDG agenda, precise and concrete recommendations for FfSD at the global, regional, national, and local levels have failed to materialise. For this reason, Islamic Relief joins its voice to those of civil society movements small and large, far and wide, calling for an ambitious, transformative, and clearly defined FfSD outcome at the Third International Conference on Financing for Development in Addis Ababa, Ethiopia in July 2015.

Within the context of the Intergovernmental Committee of Experts on Sustainable Development Finance (ICESDF) report, Islamic Relief welcomes the references to Islamic finance but hopes that the ethical principles of the 'Islamic moral economy' receive greater consideration in decision-making discussions – evaluated not merely as an alternative source of finance but rather an alternative means of doing finance. Seeking to facilitate a dialogue across a sizable gap in the policymaking space, Islamic Relief also recognises that while development, humanitarian, and financing actors would all benefit from greater sensitisation to and accommodation for Islamic financial principles, Muslim communities across the globe should reciprocally strive to better inform themselves about global financial policy making in order to improve their capacity to lobby for their own financial inclusion.

In order to thrive, the Islamic financial principles of the 'Islamic moral economy' do not require state-led interventions or officially mandated proscriptions but rather an enabling policy environment at all levels, including within the national policy-making spaces of Muslim majority countries where such values have not always been fully explored as pathways to poverty eradication. Deriving from Islamic theological texts, many of the concepts and principles of Islamic finance are uniquely defined, but they are not without parallels in contemporary economies. Indeed, the emergence of diverse initiatives in the social and solidarity economy holds many important lessons for the practical implementation of Islamic finance; these synergies merit further exploration and highlight the need for continued and expanded dialogue.

The consultative process that led to the draft SDGs has already repeatedly declared that future we all want is inclusive and enables the economic, social, and environmental dimensions of sustainable development. Understanding the lessons of Islamic finance and financial ethics for the FfSD process is part of ensuring that the SDGs work to eradicate poverty and reduce inequalities, leaving no one behind.

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7. Investments that follow Islamic legal principles, which ban the use of interest as well as oppose speculation and promote risk-sharing
8. "Report of the Intergovernmental Committee of Experts on Sustainable Development Financing" United Nations, New York, August 2014
9. Asutay, 2012. "Conceptualising and Locating the Social Failure of Islamic Finance: Aspirations of Islamic Moral Economy vs the Realities of Islamic Finance," Asian and African Area Studies, 11 (2): 93-113, 2012.
10. Aminu-Kano and FitzGibbon, 2014 "Human Development in Islam" Islamic
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12. Muslims traditionally follow the name of Prophet Mohammed with PBUH, signifying 'peace be upon him'.
13. Hadith collected by Muslim
14. Such as in Quran 17:35 and 83:1-3 as well as Hadith 35 of Forty Hadith by An-Nawawi
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16. "Real wages fall back to 2003 levels" Office of National Statistics: United Kingdom. <http://www.ons.gov.uk/ons/rel/mro/news-release/real-wages-fall-back-to-2003-levels/realearn0213.html>
17. Ibn-e-majah Vol. 3, Book 16, Hadith 2443
18. "Those are your brothers [workers under you] who are around you; Allah has placed them under you. So, if anyone of you has someone under him, he should feed him out what he himself eats, clothe him like what he himself puts on, and let him not put so much burden on him that he is not able to bear, [and if that be the case], then lend your help to him" (Bukhari 2359)
19. The Hadith "Wretched is the slave of the dinar, dirham, and velvet" (Bukhari 2887), for instance, condemns attachment to money and material goods.
20. Aminu-Kano and FitzGibbon 2014
21. Ibn Majah 2132
22. Repeated mentions throughout the Quran, including verses 2:177 and notably 17:26: "Give relatives their due, and the needy, and travellers – do not squander your wealth wastefully".
23. Quran 2:274; other important mentions of justice are made in Quran 5:8 "adhere to justice, for that is closer to awareness of God."; Quran 57:25 "We sent Our messengers with clear signs, the Scripture and the Balance, so that people could uphold justice";
24. Fiqh-us-Sunnah, Volume 3, Number 98: "Charity [*sadaqah*] is prescribed for each descendant of Adam every day the sun rises." He was then asked: "From what do we give charity every day?" The Prophet answered: "The doors of goodness are many...enjoining good, forbidding evil, removing harm from the road, listening to the deaf, leading the blind, guiding one to the object of his need, hurrying with the strength of one's legs to one in sorrow who is asking for help, and supporting the feeble with the strength of one's arms--all of these are charity prescribed for you." He also said: "Your smile for your brother is charity."
25. Quran 2:261
26. Quran 2:267
27. Quran 2:271 "If you give charity openly, it is good, but if you keep it secret and give to the needy in private, that is better for you,..."; Quran 2:264: "do not cancel out your charitable deeds with reminders and hurtful words, like someone who spends his wealth only to be seen by people..."
28. Quran 2:262
29. For more on how this principle holds particular relevance to Climate Change negotiations, see the Islamic Relief briefing "Creation and Climate: Taking action to protect the planet and its people"
30. Asutay 2012, 97.
31. Ibid; Tripp, C, 2006, Islam and the Moral Economy: The Challenge of Capitalism. Cambridge University Press: Cambridge, UK.
32. Piketty, T. 2014 Capital in the Twenty-First Century. Trans Arthur Goldhammer. The Belknap Press of Harvard University Press: Cambridge, MA.; Stiglitz, J. 2014 The Price of Inequality: How today's Divided Society Endangers Our Future. W.W Norton and Company: New York.
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35. Obaidullah M et al. « Islamic Social Finance Report 2014 » Islamic Research and Training Institute (IRTI) and Thomson Reuters, 2014, p 34-35.
36. Ibid, 43-44 indicates that zakat mobilisation has increased by 40% in 3 years in Pakistan and is 32 times greater in Indonesia than it was 10 years ago.
37. Narrated by Bukhari and Muslim
38. Al-Qardawi, Dr Yusuf, Fiqh az-Zakat: A Comparative Study, p. 536
39. Of the 30 times that Zakat is mentioned in the Qur'an, it is mentioned directly alongside prayer in 27 of these instances (Al-Qardawi, Dr Yusuf, Fiqh az-Zakat: A Comparative Study, p. xlvii)
40. Al-Qardawi, Dr Yusuf, Fiqh az-Zakat: A Comparative Study, p. 538-542
41. Hadith Bukhari – emphasis added
42. For example, Qur'an 9:34-35 or 59:7
43. Qur'an 9:60
44. Abu Yusuf and Ibn al-Qasim (Al-Qardawi, Dr Yusuf, Fiqh az-Zakat: A Comparative Study, p. 344) and Islamic Scholars' Zakat Consultation, Islamic Relief Worldwide, 5th May 2014
45. Al-Qardawi, Dr Yusuf, Fiqh az-Zakat: A Comparative Study, p. 344
46. Islamic Scholars' Zakat Consultation, Islamic Relief Worldwide, 5th May 2014
47. As outlined Abu Dawud, Book 003, Hadith No. 1637 as well as the sunnah of the Prophet Muhammed (PBUH), working or supporting others to find a means to work in order to support themselves is preferable to providing income subsidies.
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55. Al-Qardawi, Dr Yusuf, Fiqh az-Zakat: A Comparative Study (English translation), pp. 436 - 437
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