



DIALOGUE ON
ISLAMIC SOCIAL
FINANCING
AND THE SDGS



International Dialogue on the Role of Islamic Social Financing
in Achieving the Sustainable Development Goals

SUMMARY OF THE VIRTUAL MEETING

“ISLAMIC SOCIAL FINANCING AS A MEANS TO ACHIEVE THE SDGs”

Agenda

	Speaker
Welcome	<i>Dr. Rami Ahmed</i> , IsDB Special Envoy on the SDGs and Adviser to the IsDB President (moderator)
Welcome on behalf of UN-ESCWA	Mr. AlTayeb AlDajani (ESCWA)
Islamic Social Financing and the SDGs	Dr. Ahmed Al Meraikhi, Special Adviser to the UN Secretary-General
Indonesia	<i>Dr. Irfan Syauqi Beik</i> , Associate Professor of Islamic Economics Head, Division of Zakat, Islamic Development Economics and Public Policy Department of Islamic Economics Faculty of Economics and Management
Turkey	<i>Ms. Fatma Eser Çinar</i> , Manager of International Relations, TKBB (Participation Banks Association of Turkey)
Led by the moderator	
Closing	<i>Dr. Ahmed Al Meraikhi</i> , Special Adviser to the UN Secretary-General

Seminar Summary

Moderator’s Introduction - Dr. Rami Ahmed, IsDB Special Envoy on the SDGs and Adviser to the IsDB President

The idea of these seminars is to entice the intellectual debate about the subjects and to see how we can operationalise many of the noble ideas that come from Islamic Finance. The link is about how to operationalise and make it a reality towards social development and achieving the SDGs. Hopefully this dialogue will end up with a practical and implementable road map by the end of the year to be formally adopted and implemented. The main idea is to demonstrate the diversity of the Muslim World and its contribution to the overall objective of preserving human dignity for all mankind. The objectives of Sharia, known as Maqasid Al Sharia’a, encompasses exactly what we are aiming at with its five fundamental goals: 1. Preserving faith, 2. Preserving life, 3. Preserving progeny, 4. Preserving



intellect, 5. Preserving Wealth. In addition, all these revolve around human dignity and are fully aligned with the SDGs. Islamic Finance is a major tool to help in achieving these objectives. The span of Islamic Finance tools is very wide. First thing that we think about when talking about ISF, is Zakat with all the huge resources estimated at around 300 billion USD of Zakat every year. But in reality, there is Sadaqah, Waqf and other Islamic finance commercial instruments such as Musharaka, Murabaha, Ijara, leasing, instalment sale and other commercial tools to help create and fairly distribute wealth and aiming at prosperity and growth opportunity for all.

Mr. Al Tayeb Al Dajani, ESCWA

I thank you all for joining us today. On behalf of UNESCWA, Dr. Rola Dashti, Dr. Mohanad Al-Musawi, the team, the translators, I would like to welcome you to this third webinar on Islamic Social Financing as a means to achieve the SDGs. This webinar follows the high-level meeting that referred to the persistent \$2.5 trillion annual financing gap which stands in the way of the achieving the Sustainable Development Goals (SDGs 2030).

The ISF Dialogue's first webinar included extremely important elements of the theory and applications of Zakat presented by Dr. Ali Qara Daghi and on Waqf presented by Dr. Al-Ayachi Faddad. In the second seminar, the experience of Malaysia was thoroughly examined by Dr. Qamaruzaman in addition to a significant part of Indonesia's experience in ISF.

During this webinar and throughout the presentations of the experts going forward up to December 2021, we will be examining how Islamic Social Finance as faith-based philanthropy can aid OIC member countries, disadvantaged Muslim-minorities and the various United Nations agencies achieve the SDGs during this decade of action. Today, we will discuss the role of Muslim philanthropy in addressing socio-economic development in two Muslim majority countries that are members of the group of 20 largest economies ("G20").

Dr. Ahmed Al Meraikhi, Special Adviser to the UN Secretary-General

We look forward to benefiting from these experiences to create an international mechanism that helps in achieving Sustainable Development Goals through Islamic Social Finance.

God Almighty created humankind for a purpose; the purpose of creation is to worship God Almighty. Sharia has come with purposes, and these purposes aim to preserve the Five Necessities. The one who looks at the Sustainable Development Goals and the preservation of the Five Necessities will find that there is homogeneity and complementarity between them.

SDGs 1, 2, 10 go along with saving oneself, preserving and saving life. The first objective of sustainable development is the eradication of poverty by 2030, and one of the five necessities is saving life, as zakat and charity are among the means of self-preservation. The second goal of sustainable development is the eradication of hunger: If we look at international reports, we find that according to the Food and Agriculture Organization of the FAO, nearly 800 million people suffer from hunger and food insecurity. However, most poor countries lack the basic resources to start growth, investment and health.



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Redistribution of resources is vital to enhancing the income of the poor and their ability to earn sustainable income. This requires programs to support income distribution and basic health, education, as well as microfinance to build small projects. In addition, here Islamic social financing can come, whether it is waqf, zakat, benevolent loan (without paying interest).

SDGs 3 and 6 are shared with the preservation of the soul and the mind.

Proper nutrition, essential medicines and vaccinations are necessary to avoid ill health for independent and productive living.

SDG 5 corresponds to the preservation of faith. Zakat is gender-neutral in terms of its principles relating to paying Zakat and receiving Zakat. Zakat money can be paid to women and institutions that serve women, for example maternity homes.

SDG 8 Corresponds to saving money. On the one hand, zakat can help families who have money that are able to meet their needs to donate to families who suffer from a lack of providing that support and income. Islamic social finance can be used to finance education and health institutions and thus contribute to the development of human capital that can provide decent work. On the other hand, social finance will ensure the circulation of wealth in productive enterprise. Rather, it directs capital to go into the sector of the economy rather than sitting in the hands of the wealthy.

God, Glory be to Him, the Most High, created and made Man his successor on earth. We find that the five necessities, the purposes of Sharia revolve around the interests of man. As in, we find that the sustainable development goals revolve around the same axis. This international dialogue came to call for an international mechanism that contributes to achieving the goals of sustainable development. It is expected at the end of these seminars that we will come up with the mechanism and its implementation to benefit those who are in dire need of assistance and to ensure socio-economic equality.

Dr. Irfan Syauqi Beik, Director of Zakat Distribution and Utilisation- BAZNAS – National Zakat Board Indonesia

Presentation to be attached

Ms. Fatma Eser Çınar, Manager of International Relations- TKBB (Participation Banks Association of Turkey)

Presentation to be attached

Discussion

Dr. Irfan Syauqi Beik, Director of Zakat Distribution and Utilisation- BAZNAS – National Zakat Board Indonesia

The number mentioned in my presentation, 327 trillion Rupiah (22 billion USD- rate 14/07/2021) equals 2.11% of our GDP, that is the calculated potential of Zakat based on a study. The biggest



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proportion is on the Zakat of corporations. So Corporate Zakat occupies the biggest potential followed by the Zakat on income of the people. However, the collected number of last year, still being audited, is around 12.5 trillion Rupiah (829 million USD- rate 14/07/2021). The potential of Zakat in the Muslim countries, based on old research by Dr. Monzer Kahf, was estimated to have reached 1% to 3.6% of the total GDP. If we use this estimated percentage as a reference, calculating the percentage with the existing GDP, we can have around 300 billion USD in the entire Muslim World.

Moderator Dr. Rami Ahmad, Special Envoy on Sustainable Development Goals (SDGs)- IsDB

Is it always just an estimate of the GDP or is there something more to it?

Dr. Ahmed Al Meraikhi, Special Adviser to the UN Secretary-General

The idea is to create an international mechanism so that we are not talking about Islamic countries only, but we also look to Muslims who pay zakat, whether it is in Arab countries, in America or in Australia. The idea is not only targeting Islamic countries, but the idea has dimensions greater than that because the needs that exist now are very large and we need funding, especially in the United Nations organisations. Reports indicate that there is a great need, as the presence of Islamic social financing will fill many gaps, especially since most natural or man-made disasters occur in Islamic countries. The existence of a mechanism like this will greatly help in satisfying the needs of those who desperately need it.

Moderator Dr. Rami Ahmad, Special Envoy on Sustainable Development Goals (SDGs)- IsDB

Ms. Fatma referred to the SDGs, we now have to deal with the reversal of these gains on the SDG's and it is all at the human level and basically there is no question Dr. Ahmad, on the need but my thinking goes with brother Khalil from the Zakat Foundation of America because it seems like we are always estimating at the end of the day the issue of Zakat no matter how we estimate it there is always a potential more than this and we know that many people might go through informal channels basically to try this but the more we do strategic research as Dr. Irfan has mentioned the more we can get to a better estimate at the end of the day it is an estimate and fundamentally in Islam the giving of Zakat cannot be always enforced as a tax. It has to do with the belief of the person and I think this has to do also with the solidarity of bringing of cultures in many of these countries as you mentioned with the Muslim communities in non-Islamic countries.

Second question for Dr. Irfan: Could you please advise on the proportion of funds allocated to the consumptive based programs versus productive based programs under the Zakat programs.

Dr. Irfan Syauqi Beik- Director of Zakat Distribution and Utilisation- BAZNAS – National Zakat Board Indonesia

The proportion can be increased from time to time. In 2019 it was around 14%, but last year it has exceeded the 20% for the productive based program. However, the biggest proportion is on consumptive base because Zakat is mostly paid to the poor and the needy to directly fulfil their very basic needs and also as a response to various disasters that we have.



Moderator Dr. Rami Ahmad, Special Envoy on Sustainable Development Goals (SDGs)- IsDB

The underpinning of the question, “don’t give me a fish, give me something to fish with”, maybe this is an element to be included in this international dialogue on how we can direct the funds of Zakat into something more productive to enable people to really be empowered and to get out of the need of symbol consumptive. Maybe this is a point for debate.

Ms. Fatma Eser Çinar - Manager of International Relations- TKBB (Participation Banks Association of Turkey)

Last year the total potential of Zakat globally in Muslim countries amounted to 10 trillion dollar it is an official announcement by SESRIC. Regarding the collected Zakat utilised in turkey or in Indonesia or outside of Turkey, regarding distribution, for example in turkey, last year approximately 80 million were collected during Ramadan from al-fitra zakat and donations and 1.2 million people in Turkey benefitted from this and the rest from out of Turkey more than 70 countries. Therefore, there are in Turkey beneficial distribution sites and also to the other countries in need.

Dr. Irfan Syauqi Beik- Director of Zakat Distribution and Utilisation- BAZNAS – National Zakat Board Indonesia

Mostly, the distribution is within the country, but we also have done the approach for the distribution of Zakat externally, but for specific geographical location, particularly in the Palestinian territory and with the neighbouring countries as well as the Rohingya Muslims. Most of the collected funds are utilised domestically but at the same time we have solidarity with global disasters, we have also allocated some portion of the funds to help our brothers and sisters outside Indonesia, but is it only for specific regions.

Moderator Dr. Rami Ahmad, Special Envoy on Sustainable Development Goals (SDGs)- IsDB

There was an issue with the utilisation of Zakat within the locality of where it was collected. There was a debate, even in Sharia, could you really take funds from the geography that you collected to use it somewhere else but I understand that there was some more development in official fatwas... Could you highlight this? Is it still a sovereign issue where collected money in a country cannot be taken to another country? How did you deal with this Sharia wise?

Dr. Ahmed Al Meraikhi, Special Adviser to the UN Secretary-General

The possibility of creating a mechanism that collects zakat and at the same time also allows everyone to participate is important.

When we started this dialogue, I found that there are many challenges and difficulties. We are not only facing legal issues, there are also cultural issues. The Arab culture is different from the Asian and European cultures; there is an exchange between cultures, so this dialogue came to all these different cultures proposing an agreement on the mechanism of convergence and rapprochement from the point of view of compatibility with Sharia. What the Islamic Development Bank is doing and its presence in this initiative gives the opportunity that we really aspire to this mechanism, confirming that these funds and lofty ideals are in line with Sharia and with cultures.



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There are many challenges, but in the end, we will gather all these interventions from the speakers until we arrive at an initial roadmap that is compatible with these principles and cultures and is also compatible with Sharia.

This will be one of the options available to anyone who wants to pay Zakat. Likewise, its presence in the dialogue gives the opportunity for everyone to intervene and give his opinions. We do not leave anyone behind and we take his opinion. We want to diversify: from Asia, from Europe, from the Gulf, to share the mechanisms of those who use them.

Are there success stories, institutions or disputes that have prevented the implementation of such a mechanism?

In the first part, we have to understand and get as much information as possible on how to implement zakat and the Islamic social financing mechanisms within countries. We also launch partnerships with the United Nations organisations. We will have a road map that shall show us what are the best ways and mechanisms.

In the second part, we hear from United Nations organisations, for example, and from the Islamic Development Bank, on their participation in the implementation of such mechanisms.

Moderator Dr. Rami Ahmad, Special Envoy on Sustainable Development Goals (SDGs)- IsDB

There is a question about big corporations and I don't know who would like to take this and to address this question but it is a very important question: In 2020, the American people donated 450 billion to charity and social causes only 80 billion come from large companies, the rest from ordinary people. Is Zakat always focusing on the individuals while we have mega corporations and international corporations that are not really obliged to pay any Zakat only in some of the Muslim counties where they do have Zakat tax on corporations.

Dr. Irfan Syauqi Beik- Director of Zakat Distribution and Utilisation- BAZNAS – National Zakat Board Indonesia

We need to optimise the potential taken from the individual payers as well as the corporations because in our case in Indonesia, the definition of Muzaki (Zakat Payer) includes individuals as well as corporations, so the corporation is a part of the Muzaki definition. But in our case we are still on the voluntary basis although we have our own zakat but it is still voluntary, so I think in this regard we need to increase the literacy. This is because, as you correctly mentioned Dr Rami, that in our case, if we look at the data that the number of Zakat paid directly to the recipients without going to the legal institution of Amil (Zakat Collector) is around five times bigger than the collected fund from the official channel, so this is according to our estimate that's why what we need to do is that we have to convince people that we are a trustable institution and for us trust is not something that is given, trust is something that we have to fight for. Zakat core principles in which there are a lot of aspects regulated through the core principles for example we need to increase our Amil governance and trust and financial transparency and accountability. Even now, in this pandemic, the utilisation of technology becomes more important. In our national board of zakat, we are certified in terms of data

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security to make sure that donations through official channels will be in good and trustable institutions.

Moderator Dr. Rami Ahmad, Special Envoy on Sustainable Development Goals (SDGs)- IDB

Now, another level will be that the Muzaki would like to go to SDG #1. Part of the governance also is to give choice to direct the donations towards a specific SDG and have the assurance that they are serving this particular SDG.

Dr. Irfan Syauqi Beik- Director of Zakat Distribution and Utilisation- BAZNAS – National Zakat Board Indonesia

We have our own Baznas Welfare index to measure the impact of Zakat distribution on the condition of the people from the economic perspective, education, health and self-dependency.

Dr. Saged

most of the discussions have been happening with respect to how do we ensure that we bring more trust from the muzakis to contribute to specific causes including SDGs. As part of the startup we have created, we are developing Islamic fintech solutions and our first product is going to be on Zakat, and this is going to be on blockchain since it has an advantage: the whole idea of starting from the collection until the final disbursement that happens can be easily transparently recorded and Muzakis also have the option to contribute to a specific cause through specific organisations: such as IsDB and UNHCR. Having a technology like this is helpful.

Moderator Dr. Rami Ahmad, Special Envoy on Sustainable Development Goals (SDGs)- IsDB

Utilising fintech and the blockchain and making sure people are safe in giving and receiving the proceeds of Zakat and other means of Islamic finance.

Yoseph Alsawady, IsDB

Question to Dr. Fatma Cinar: historically, cash waqf played a large role in terms of providing finance access to the less advantaged people. Why aren't we seeing more non-profit solutions, like a waqf bank? You mentioned a specific waqf bank (Vakif Bank) but I believe that waqf bank is a commercial bank that in fact distributes its dividend to the waqf directorate.

Ms. Fatma Eser Çinar - Manager of International Relations- TKBB (Participation Banks Association of Turkey)

This is on our very first agenda. It was initially discussed as an idea the participation bank association of turkey.

Mr. Ahmad Farooq

Question about surplus zakat: There is lots of surplus of Zakat available, sometimes it is not all utilised nationally or locally so what are some things that could be done by development institutions? UN agencies are trying to make use of Zakat, to address some of the resilience and fragility issues but what could be done on a larger scale to use surplus zakat for poverty and other areas of SDGs?



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Dr. Irfan Syauqi Beik- Director of Zakat Distribution and Utilisation- BAZNAS – National Zakat Board Indonesia

We have to be careful when using the term zakat surplus. In our understanding, Zakat must be distributed as soon as possible. The time between the collection and distribution should be minimised. At the end of the financial year, we may have a reserve that in our case should not exceed 10%, and this reserve shall be used in the first month of next year. In some countries there are difficulties in finding poor people compared to other countries; we therefore need to do this kind of dialogue to identify the actual needs to address today's challenges. In order to contribute in reducing poverty, synergy is crucial. We can implement a pilot project in this regard as what we had previously done with the UNDP, when we have a common ground and a common understanding of SDGs and we agree to collaborate.

Halil

If we always highlight zakat, we will make a serious mistake. Think of a person who has one million dollars, you are asking for 25,000 which is not enough for solving problems.

Ms. Fatma Eser Çinar - Manager of International Relations- TKBB (Participation Banks Association of Turkey)

I would like to emphasise the scope of Islamic social finance. The way we communicate and address the issue is very important. The scope of Islamic social finance products throughout Muslim countries, we collect information, but to have a concrete idea about each application we need to have one system or source to understand what we are doing. Unity is very important. Suggestions: special sessions for microfinance and other products, to highlight the coverage of Islamic social finance. SDG integration is very important. In turkey, we need to transform Turkish Islamic finance activities to SDG language.

Dr. Irfan Syauqi Beik- Director of Zakat Distribution and Utilisation- BAZNAS – National Zakat Board Indonesia

This kind of platform is important. I would like to emphasise the significance of global cooperation based on mutual synergy, and the achievement of SDGs is not the responsibility of the government and UN agencies alone, but it is our entire mankind's responsibility. One way to contribute is through optimisation of Islamic social finance because it has a very deep impact on increasing the quality spirituality of the people and on the social and economic aspects. It can help us to achieve the SDGs and although I realise the challenge, through the commitment of synergy and collaboration nothing is impossible.

Dr. Ahmed Al Meraikhi, Special Adviser to the UN Secretary-General

The importance of international dialogue on the role of social finance is in the possibility of its implementation. The importance of the dialogue requires the inclusion of everyone and the participation of successful experiences to reach our goal, which is to provide a decent life in all parts of the world.