Funding Sustainable Development Goals[1]

Excellencies, Distinguished guests, Ladies and Gentlemen,

Assalam-o-Alaikum! *Sabahal-khair* and a very good morning.

I am very delighted to be here today. At the outset, I would like to convey my sincere appreciation for the commendable vision and leadership of H.H. Sheikh Mohammed bin Rashid Al Maktoum, Vice President and Prime Minister of the United Arab Emirates and Ruler of Dubai.

I am also thankful to H.E. Minister Mohammad Al-Gergawi for inviting me to speak before this august gathering. And I want to congratulate Dubai Islamic Economy Development Center, Dubai Chamber of Commerce & Industry and Thomson Reuters, for organizing this conference of great significance and for their laudable efforts to promote Islamic economic system.

It is particularly heartening to see the desirable broader context of the conference, ranging from the role of philanthropy to innovations and Islamic finance to halal industry. This all-encompassing nature of the conference reflects the true essence of an Islamic economic system that permeates into all areas of our lives; indeed, restricting it to a few segments would be defying its ubiquity.

This session is centered on the topic of ‘Funding for the Sustainable Development Goals (SDGs) through Blended Finance’. When I first received the invitation for this thought-provoking topic, I asked myself: Is funding a challenge for SDGs, particularly when the world is seemingly awash with liquidity? And if it is, is it the very nature of SDGs which makes availability of funding difficult or is it just the scale of these ambitious goals that poses a challenge? And more critically, how best to address this funding issue? Should we fix the gaps in existing stream of financial flows or promote an economic system that shares the same philosophy underpinned by SDGs. Today, I will try to offer my perspective on these questions.

SDGs and the funding challenge

To recollect, at the start of this millennium, world leaders agreed to fight poverty in its many dimensions. This overarching vision was translated into United Nations’ 8 Millennium Development Goals. Concerted and collaborative efforts on the global level helped lift more than a billion people out of extreme poverty,

[1]Keynote Speech delivered by H.E. Dr. Mohammad Y. Al-Hashel, Governor, Central Bank of Kuwait at the Global Islamic Economy Summit, 11th October, 2016, Dubai, UAE.

along with improving health and education and promoting human development in general. Encouraged by the success of MDGs, a new set of Sustainable Development Goals were launched in September last year, setting the global development priorities and aspirations for 2030. The proposed 17 SDGs are far more ambitious and holistic than their predecessors as they embrace the notion that development needs to be economically, socially and environmentally stable. While truly noble in objectives, these goals would remain unaccomplished unless we secure sufficient funding.

But one might ask: should funding really be a problem when there is ample global liquidity available? After years of ultra-loose monetary policies pursued by major central banks around the world, yields on bonds are at historically low levels, compelling global investors to desperately hunt for yield. Assets of the top 1,000 global banks alone are around $115 trillion, many of them facing a serious squeeze in their profit margins amid virtually zero if not negative interest rates.

Thus looking at the potential amount of funding globally available, one might think that funding is not necessarily a binding constraint to achieve SDGs. However, reality is quite different, as generating sufficient funds for SDGs remains a major challenge. And this issue has both quantitative and qualitative dimensions.

First, let us consider the quantitative side. The sheer scale of required funding is substantial due to the all-encompassing nature of SDGs. By some estimates, around $3.5 to 5 trillion is needed every year to make desirable progress on SDGs. To put this into perspective, global sovereign wealth funds collectively hold around $7.4 trillion of assets. So even if this entire amount is allocated for SDGs, it would barely fulfil the funding needs for two years. Or consider the scope of generating funds through Shariah-compliant modes; Islamic finance industry, despite its impressive growth in recent years, collectively accounts for just over $2 trillion, even after including the *sukuk* market. These numbers highlight a yawning gap between available and required funding for SDGs.

Second and more critical aspect of funding is qualitative in nature. Irrespective of the amount of funding globally available, major part of it cannot be readily channeled for SDGs, given their nature of a ‘public good’. Because most of the SDGs aim to make sustainable progress in social, economic and environmental aspects of our societies, these projects may not be initially profitable enough to lure in private finance. Moreover, societies that need such investments the most may be too poor to pay the market price. And for many of the less developed and low income countries, to tap the global market for raising funds remains a serious challenge due to their poor creditworthiness.

Therefore, the role of governments in helping meet the funding needs, at least at the earlier stages, remains critical to help crowd in private sector investments. Yet the limited fiscal space available to most of the governments, given expenditure rigidities, leaves little room for maneuvering, especially in the absence of accompanying structural reforms.

Achieving SDGs in an Islamic economic system

Under these circumstances, answering the question of how to fund SDGs would probably be too narrow a focus. I believe we need to think about a financial --- rather an economic system that is naturally aligned with the key themes of SDGs.

The role of Islamic economic system deserves serious deliberations, given its genuine concern both for the people and the planet. Let me briefly highlight a few points of relevance here.

First, Islamic economic system promotes allocation of resources for the welfare of the entire society. By establishing an inseparable link between finance and the real economy, it encourages economic risk taking that helps improve growth and create jobs. Under such a system, credit must be channeled for productive investments, not for conspicuous consumption or speculative activities. And it necessitates the sharing of profits and losses, which are critical for ensuring justice and reducing income inequalities.

As we have observed even in recent years, deviation from these principles have resulted in financial meltdowns, with catastrophic social and economic costs. Even amid substantial monetary support, we have seen *too much financial risk-taking* but *too little economic risk-taking*, the kind which the world direly needs to create jobs and lift growth.

Second, the value-driven nature of an Islamic economic system requires individuals to be as considerate about the needs of their fellow human beings as they are for themselves. As Prophet Muhammad (peace be upon him) said: أَحِبَّ لِلنَّاس مَا تُحِبُّ لِنَفْسِكَ '*Wish for mankind that what you wish for yourself*.' This is the 'golden rule' of a good society where individuals' actions are aligned with the collective benefits of the entire humanity. And by extension, it promotes values where anything harmful for the society is prohibited, even if it is beneficial for an individual.

This ethical approach to economic activities is particularly relevant in the case of SDGs where significant progress can be made by limiting, if not completely eliminating, the way our consumption and production patterns seriously damage our environment and pollute our societies. As Quran commands us, كُلُوا وَاشْرَبُوا وَلَا تُسْرِفُوا ۚ إِنَّهُ لَا يُحِبُّ الْمُسْرِفِينَ '*Eat and drink: But waste not by excess, for Allah loves not the wasters*'. In fact, Prophet (peace be upon him) have urged us not to waste water even if we are on the banks of a flowing river.

Unsurprisingly, this concern for nature's precious resources resonates well with the modern world's emphasis on sustainability. For instance, United Nations have viewed sustainable development in a similar fashion by arguing that development is sustainable when it *'meets the needs of the present without compromising the ability of future generations to meet their own needs*'. Likewise, investors around the globe are now adopting sustainable, responsible and impact (SRI) investing strategies.

This discussion, while broader in context, makes it obvious that the Islamic economic system promotes values that are universal, irrespective of our religious beliefs. As Sheikh Mohammed bin Rashid Al Maktoum said in his speech at this conference last year, '*Islamic economy is not merely a tool for producing commodities and growing wealth; it is an incubator of values and ethics that elevate and advance human beings*'.

In addition to the broader similarities, key principles of Islamic economic system are directly related to a number of specific SDGs. For instance, Islamic conjunctions on profit and loss sharing finance can help address injustice and reduce inequalities aimed under SDG 10. Likewise, Islamic prohibition of harmful activities aims to promote peace in societies, a key aspect of SDG 16.

Similarly, Islamic financial instruments such as Sukuk can be used to mobilize resources to finance water and sanitation projects (SDG-6), sustainable and affordable energy (SDG-7), build resilient infrastructure (SDG-9) and provide shelter (SDG-11). And the focus of Islamic finance on real economic activity can help foster growth and generate employment, well in sync with SDG-8.

Last but not least, Islamic philanthropy programs or re-distributive instruments such as *zakat* (alms), *sadaqah* (charity) and *awqaf* (religious endowments) can play a vital role in alleviating poverty (SDG-1), eliminating hunger (SDG-2), improving health (SDG-3) and reducing inequalities (SDG-10). Admittedly, it would require a paradigm shift in our mind set to treat these instruments not merely as part of a ritual but as a strategic tool for sustainable development. Moreover, governments would need to gain public trust and enhance their capacity to efficiently collect and effectively redistribute these funds –not just for short-term consumption support but for long-term capacity building with a lasting impact on our societies.

Conclusion

To conclude, this discussion makes it evident that Islamic economic system, once implemented in its true spirit, could greatly facilitate the achievement of SDGs. Understandably, the challenge is to shift our focus from a *Shariah compliant* to a

Shariah based model of finance where Islamic banks do not merely mimic the conventional system. That would require collective efforts on the part of governments, legislators, regulators, practitioners, and academics to help create a conducive environment where Islamic economic system can flourish -- which in turn would help achieve the broader socio-economic development in a sustainable manner. While it is indeed a daunting task, but as Einstein once put it, 'in the middle of difficulty lies opportunity'. Pursuit of SDGs may offer this opportunity for Islamic economy to realize its ultimate potential.

I look forward to hear the valuable views of our distinguished panelists as only by capitalizing on our collective wisdom can we offer solutions to these pressing issues.

Thank you for your attention.

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