SUMMARY

<u>Presentation of the OECD Islamic Finance Report</u>

<u>*How can Arab and DAC donors collaborate through Islamic finance tools and concepts?*</u>

<u>1 December 2020</u>

On 1 December 2020, the OECD Development Co-operation Directorate organised a webinar to present the OECD Islamic finance report – "*How can Arab, Islamic and DAC donors collaborate through Islamic finance tools and concepts?".* The webinar gathered over 70 participants, including OECD Development Assistance Committee (DAC) and Arab Co-ordination Group (ACG) members, policymakers and experts interested in Islamic finance. The webinar opened with remarks from the Director of the OECD Development Co-operation Directorate (DCD), Jorge Moreira da Silva, underlined that Islamic Finance is more needed than ever, not least because of the current COVID-19 context where many partner countries need stable, countercyclical funding sources. The Chair of the OECD DAC, Susanna Moorehead, highlighted the long-standing collaboration between the DAC and the Arab providers, which needs to build upon dialogue and strengthened technical collaboration to understand how development co-operation is performed. In addition, the President of the Islamic Development Bank (IsDB) Group, Dr Bandar Hajjar, underscored the growing importance of Islamic finance in the quest for development solutions and additional financial resources to achieve the Sustainable Development Goals (SDGs) by 2030. The webinar also featured presentations from:

- Ana Fernandes, Head of the OECD DCD Foresight, Outreach and Policy Reform Unit,
- Blake Goud, CEO of the Responsible Finance and Investment Foundation,
- Sami Al-Suwailem, Director-General of the Islamic Research and Training Institute,
- Tika Arundina, Director of Islamic Economics Programme at the Faculty of Economics and Business Universitas Indonesia, and
- Alessandro Villa, Deputy Head of Unit, International Organisations and development dialogue with other donors, Directorate-General for International Cooperation and Development, European Commission.

The main conclusions of the OECD report on Islamic finance were presented, and panellists considered these to be timely and relevant, particularly due to the COVID-19 crisis, which has made the SDGs more challenging to reach than ever. All sources of finance are welcome to help partner countries through this period, not least to protect the progress achieved towards the SDGs ahead of the Decade of Action. This is the first time that the OECD has taken an in-depth look at the state of Islamic finance tools and concepts for development, and how these can be used by development co-operation providers. In this context, the OECD report identifies three areas where Islamic finance can maximise its contribution to development, namely: *zakat* and *awqaf* (alms-giving and endowments); *sukuk* financing (analogous to a bond); and social microfinancing.

Panellists noted the growing importance of Islamic finance in the quest for development solutions and additional financial resources to implement the 2030 Agenda. Only in 2018, Islamic finance was worth USD 2.5 trillion, which was, for the most part, taking a commercial dimension. A portion of this may also be applied to promote sustainable development, e.g. by promoting low systemic risks and sustainable financing systems, particularly for high-indebted developing countries. Being asset-based and governed by the concept of risk-sharing, Islamic finance lends itself naturally to the business of asset creation that underpins the SDGs. Islamic finance can also play an essential role in achieving greater financial inclusion. Similarly, Islamic social finance through *awqaf*, *zakat* and Muslim philanthropy can contribute to the development of human capital, as well as improve social welfare and greater community cohesion. Furthermore, Islamic finance is a stable type of funding particularly suitable for specific settings, such as those of many Muslim-majority partner countries. On top of that, there are also opportunities to accelerate the delivery of the SDGs, and to ensure that the COVID-19 response and recovery packages promote sustainable development through Islamic finance concepts and tools.

However, there are also challenges in the deployment of Islamic finance for development. For instance, participants highlighted that most Islamic finance concepts and tools are mainly implemented by private actors, although there is growing interest in public activities to look at how these concepts and tools can foster sustainable development, through direct application of such public activities or indirectly through regulatory changes. Indeed, the COVID-19 pandemic has raised awareness on the need to ensure that Islamic financing improves social and environmental outcomes. Moreover, although the efforts for increasing transparency in the use of Islamic tools and concepts, more and better data on Islamic finance remains a crucial component for using these tools and concepts strategically.

The OECD Islamic finance report puts forward some avenues for joint Arab and Muslim-majority donor collaboration with the DAC, namely:

- First, it would be useful to raise awareness on how to use Islamic finance, including that emanating from OECD countries, can be used to promote sustainable development objectives. Doing so could ultimately increase openness towards this mode of financing, as well as encourage the development of expertise in Islamic finance for development.

- Second, it would be important to pursue a research agenda to understand in which contexts it makes more sense to use Islamic finance, in which other contexts it would make more sense to use so-called conventional finance, and when blending approaches could maximise impact. Further information on, e.g., how much is being spent, by whom, and in which countries and sectors, could help improve the efficiency of the overall development co-operation system. To this end, the OECD could –through its ODA system and the Total Official Support for Sustainable Development (TOSSD) framework- help develop this agenda.

- Third, Arab, Muslim-majority donors and DAC members could consider developing partnerships around Islamic finance concepts and tools. The COVID-19 context should further encourage both communities to join up forces for securing the progress achieved towards the SDGs. For instance, Arab, Islamic and DAC providers could work together in, e.g. contexts of fragility, where some Islamic financing tools may be better suited to deliver more significant impact for several social, cultural, economic and financial reasons than the so-called traditional financial tools.

Arab and Muslim-majority countries and institutions and the DAC comprise most of the universe of bilateral providers of development co-operation, yet Islamic finance has not been harnessed fully by all Arab and DAC donors. There are ways forward to ensure that some of the most critical development-related concepts and tools of Islamic finance expand their contribution to the 2030 Agenda for Sustainable Development. Those would include, for instance, working with the Islamic Development Bank to understand these concepts and tools, seeking synergies for collaboration among both communities; convening dialogues on the topic, including with the private sector or at the Arab-DAC Dialogue on Development; supporting Arab and Muslim-majority partner countries to understand the benefits of the SDGs; or exploring how to integrate the Islamic finance agenda in the OECD Global Outlook for Financing Sustainable Development process.