

**SUMMARY OF THE VIRTUAL SEMINAR 12**
“CHALLENGES OF ISLAMIC SOCIAL FINANCING AND UN MECHANISMS”**Agenda**

Moderator - Dr. Muhammed Jameel Yusha’u, Lead Strategic Coordinator, IsDB

	Speaker
Welcome	<i>Moderator- Dr. Muhammed Jameel Yusha’u, Lead Strategic Coordinator, IsDB</i>
Background	<i>Dr. Ahmed Al Meraikhi, Special Adviser to the UN Secretary-General</i>
Challenges of UN Mechanisms	<i>Dr. Mahmoud Mohieldin, Special Envoy on Financing 2030 Agenda for Sustainable Development</i>
Challenges of ISF Implementation	<i>Dr. Nida Kahn, CEO & Founder, Nash fintechX</i>
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Seminar Summary**Dr. Ahmed Al Meraikhi, Special Adviser to the UN Secretary-General**

During the 12 seminars that we conducted, we saw a sequence of three categories.

The first category talked about the importance of Islamic social finance and how to benefit from Islamic social finance and the role of Islamic social finance. The second category of seminars was about the United Nations system and United Nations Organizations. The third category talked about success stories regarding the United Nations Organizations and how to implement them for Islamic social financing, whether it is zakat, waqf or other tools in Islamic social financing.

Today in the last seminar, I would like to thank the IsDB for its partnership and for its role in making this series of seminars a success. We look forward to the success of the mechanism that will develop.

My thanks go to UNESCWA for hosting the series of seminars.

We are going to come up with a mechanism, and a report which will be the first step in building the mechanism that we are looking for, which aims at the providing the opportunity for all institutions and individuals, whether in Islamic countries or non-Islamic countries, to have a mechanism that they will use in the payment of their Zakat and that this mechanism will be in compliance with the Islamic Sharia



Dr. Mahmoud Mohieldin, UN Special Envoy on Financing 2030 Agenda for Sustainable Development

The SG of the UN issued Our Common Agenda which covered the different dimensions of the 2030 development agenda, placing the SDG's implementation as a top priority for the global community. Due to setbacks stemming from the effects of the pandemic, the implementation of SDG's needs to be accelerated. Humanity has suffered over the course of this pandemic due to the neglect of the third SDG concerning health. Health systems were not adequately prepared to deal with the crisis, even in more developed countries. We need to mobilise public, private, external and domestic sources of finance to achieve the SDGs. Solutions need to be evidence-based and effectively implemented through various sources of finance and 'high quality' actions. In this regard, the Envoy speaks about the role of Islamic finance systems and Islamic social finance in supporting this endeavour. The underlying purpose of Islamic finance could be a substantive fiscal development of building a bridge, school, a hospital, paving a road and can also contribute to the substance of investments in human capital where it matters in health, education, and social solidarity. We need to take a very pragmatic approach when it comes to finance. If a culture is providing good ethical frameworks for needed finance to contribute to crisis alleviation, we should encourage and need to include it in the system. Islamic finance is not merely about transactions, but about utilising a framework of cooperation, solidarity and support. The gap of finance for achieving the SDG's from its inception has been around 2.5 to 3 trillion dollars. This gap was compounded by the pandemic (more than \$4.2 trillion). The minimum of annual Zakat flows is \$200 billion. Established social financing has been proven to be one of the largest forms of wealth transfer and has been executed in a very dynamic way, cultivating the behaviour of altruism. The percentage of Muslims who report engaging with zakat is as high as 70% of them based on sample. The UN system has been working in partnership with many countries with the belief of partnerships. UNDP has worked in coordination with Indonesia to channel some of the country's \$27 billion of assets to the SDG's. In UNDP also worked with the Indonesian ministry of finance to support the issuance of the first \$1.3 billion of sovereign aid. Islamic social finance systems can help stem and ameliorate exacerbating issues reported by the WFP e.g. 250 million people lack access to food, and suffer from malnutrition while 100 million people suffer from extreme poverty.

Dr. Nida Kahn, CEO & Founder, Nash fintechX

Presentation of the Role of Fintech

Focuses on the role FinTech or financial technology plays in alleviating some of the challenges that we see in Islamic social finance. There are two ways if you focus on the figure whereby we can achieve the Islamic social financial goals. One is that of Zakat, Sadaqah and Awqaf and the other is that of Islamic social banks and in parallel if we are able to achieve this, then we will also be achieving the UN SDG goals.

Now, when we look at the challenges of Zakat, and sadaqah we focus on the challenges that donors face. The donors can be individuals, they can be governments, or they can be organisations. So the



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first is that there is a lack of efficient distribution of funds whether it is a path funds or subpar funds to achieve the SDG goals.

Now what we can do here is that we can use artificial intelligence. We can first of course demarcate the areas which are of the highest priority. So, if we may feel that for the people who are below the poverty line we should be focusing on them first. Then we assign a certain priority to them, which is let's say the highest that we can assign. And then whenever a donor comes on the obligation, he can see the recommendations of the projects or the receivers that his funds should be going to. So, the ones with the highest priority would be listed first, and this would help us to achieve a more efficient distribution of the funds. Then another thing as I saw in one of the previous seminars, it was mentioned by Dr. Ali, that the funds should be targeted as per the Sharia.

So, the distribution should be according to the Sharia. So, what we can do here is that we can use smart contracts on the blockchain platform and we can define categories. Let's say there are eight categories as per the Sharia. Then we define the categories and whenever any project comes for, in need of funding or as a cause funds or any receiver comes, we put that individual or the project under the requisite category. So, when you are using smart contracts in the blockchain platform, what you will have is lots of data associated with where the funds are going to. And so you will be able to see whether there has been a targeted distribution or not. Then of course, another challenge is that we have to focus on the eradication of poverty and hunger, to ensure that they're sustainable. Now, what happens in this scenario is that for example, if you were living in the US and you want to give some donation of a couple of dollars, the amount of transaction fee would be so high that you would be prevented from going forward with that donation of a couple of dollars. So, what we need in the market are micro payments solutions, which help us to achieve the donation of a couple of dollars without incurring a huge transaction fee. So, the transaction fee should be in fractions of a cent. We can of course use the blockchain platforms for this not Bitcoin and Ethereum which are not green, but the newer ones that have come into the scenario and where the transaction fees are minimal. We can of course have micro payments solutions not using Blockchain platforms as well and then we should encourage these kinds of solutions to ensure that there is donation of a couple of dollars as well.

Now, another challenge is that whenever we are utilising the car and such funds, we need to ensure whether the funds are being used for the protection of the environment. In this scenario, what happens is even if somebody claims that the funds are going there, it's very difficult to really ascertain whether the funds are really being used to create an impact on achieving the climate goals. So, what we need here is of course, some kind of quantifiable measurement whereby we can say that this impact has been made. This of course can be achieved with or without the blockchain platform. Then of course, we have the need of transparency in operations. Donors really want this and this can be achieved by using the blockchain platform.

Another very important challenge that we face is that of an efficient governance. So for example, you have different offices located in different parts of the world. How do you really ensure what is happening in a certain office associated with the distribution of the zakat and sadaqah funds? So basically, what we can do here is that we can use a database, which records the data according to the



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relationships between different entities. It's called the graph database. You see this database in Facebook.

The primary challenge is that of financial exclusion. The majority of receivers are the recipients of the zakat and sadaqah fund and don't have access to financial services. So how do you go about giving them the zakat or sadaqah unless you give them the cash by hand, so what we can come forward with is a kind of a digital wallet mechanism. And of course, to achieve that we need a kind of identity mechanism as well. So, we should have a digital identity that we assign to each recipient. And then we can assign a digital wallet and in order to ensure that the funds that are being given are being utilised effectively, and it's not that the person is just living on donations or the card or circa what we need to do is that in parallel, we create an e-learning or a remote learning platform whereby the recipient gets to know how to go about using those funds, start a new business, maybe start some other work, and this can really help to create employment in the market and of course, use zakat or sadaqah funds very effectively. Then, when we are talking about a graph database in the governance mechanism, there should be a kind of reporting tool by which the receivers have access to the authorities as well, by which they can complain if something is not okay.

Now, we talked about the challenges in works. I came upon a point in one of the previous seminars where the speaker mentioned that it is important that they have a reservation of rights against smart contracts in the blockchain platform. They are a very useful tool that can be used to achieve this transparency in management again – we can use smart contracts working in synchronisation with the wealth manager. So, you don't have to completely rely on the manager and whatever he does is also visible through the smart contract. So there is support and validation or let's say as it has been put evidence in the form of data. What we also see is that there is an incomplete record associated with and when we use a database, whether it is blockchain or whether it's not a blockchain, but a normal database, what we will have is data associated with utilisation when we have a considerable amount of authentic data, what we can do is we can use machine learning on it and come forward with predictions telling us okay, this asset is being utilised very effectively. And so the new endowments that come into place should be following this strategy. Then this illegal invasion of assets as well. Of course, whatever has happened in the past cannot be undone. But the present and the future approach can be that whatever assets exist, we should have a proof of ownership record on any blockchain platform of that you feel suitable to be used to ensure that there's a permanent record of data of ownership. Now, if in a couple of years from now, somebody comes forward and says that you know that this land doesn't belong to this particular individual, you can counter that telling that the proof of ownership exists on the blockchain platform already, we put it there two years back, and the data they cannot be corrupted and cannot be manipulated, so it's original. Now we also talk about the challenge of idle lands in work. So, what we can basically do here is we can go for initiatives whereby we are trying to do carbon offsets, so we can use the land for planting trees. And in order that the person who is giving the money to plant the trees on that idle land, we can give a kind of a virtual tour to that individual using augmented reality. And in that tour, we can show that this is the tree you have planted and in the future this is the kind of carbon reductions this particular initiative is going to achieve. Then there are idle assets as well. For example, there is a building on the rocks which has not been maintained very well. Now when you have a graph database whereby

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you have the digital identities of all the people in need, and the profile is maintained. What you can do immediately within seconds is get to know how many people around that idle asset, let's say building are in need of employment, and then you can call them and instead of giving them zakat or sadaqah you can give them employment using the funds for that and they can try to redeem that building. So, they have employment, the building is redeemed, and then in future you can of course, utilise the building for other purposes which can generate more income. Also, there is the need of impact assessment so we can use blockchain for that.

Then, the last point that I want to talk about is the need for Islamic social banks, which are first focusing on providing financial services with the social initiative or perspective as well as protecting the environment. So, as mentioned, we should have Sharia compliant green sukuk. And when we are having these kinds of sukuk in the marketplace, a very good way to go about it is to tokenize sukuk on the blockchain platform to ensure that even SMEs have access to capital by using green sukuk and it is not just restricted to big corporations and governments. Then we should encourage digital or new banks to ensure this cost reduction and in parallel we are able to reach a large number of people and even those which are unbanked and underbanked. Then, when we are doing these kinds of mechanisms, because the people are living either at or below the poverty line, they of course cannot have a credit score. For example, if they are applying for a loan, there is no way whereby you can get to know whether they should be given the loan or not. What we can do here is that we can use alternative credit scoring methodology so we can use machine learning to see the digital footprint a particular borrower has and try to come up with a score or a rank telling us that okay, this individual is trustworthy, and we should go forward with giving the money to him.

Dr. Rushdi Siddiqui, Azqa Capital

Presentation on World Waqf Day Attached

Discussion

Dr. Mahmoud Mohieldin, Special Envoy on Financing 2030 Agenda for Sustainable Development

Question: How can the UN implement the Zakat looking at the sensitivities around it? and please share some insights about the issue of Sukuk in Islamic Finance which have been raised.

Regarding Sukuk, or Islamic finance bonds, I've seen the rise and the fast growth of variety of Sukuk instruments. Some are simple and others complex but now with the emphasis on climate change and managing the transition and more important is required not on mitigation but on prevention. Some of them are considered in local currencies which minimizes the exchange rate risk. I am glad to see the UN system including UNDP working in an advisory capacity for many of the potential issuers be them governments or financial institutions or even localities and municipalities. There are a couple of transactions being prepared for social developing based on green sukuk. The issue here is basically about the size that's growing, the principles that are adhering to the ESG principles of issuance. The environmental aspects, social aspect and governance and transparency. We see not just the Muslim



countries or the members of the OIC but other countries as well seeing the opportunities in the market and the good liquidity in this market.

The financial development framework of the UN System is not just about the financial transaction. It has issues to do with trade, matters related to debt management and governance but it's also important to emphasize on Science, Technology and Innovation (STI) and how we can get them in order to make sure that the mobilization of finance, the handling of financial transactions and measurement of the impact is up to the expectations of the general public or the concerned stakeholders.

Two important methods: the summits of climate change will be hosted in 2 countries members of the OIC (COP 27 in Egypt and COP 28 in the UAE). Aspects for consideration: how to finance the mitigation like renewable energy, how to finance adaptation dealing with impact of climate crisis, how to manage the transition, how to deal with the negatives when it comes to rushing towards adhering to the climate change and the social dimensions to it. It is an opportunity to start approaching the organizers of these COPs to provide samples of practical solutions and linking them to the SDGs.

Dr. Nida Kahn, CEO & Founder, Nash fintechX

Question: How can large bureaucratic organizations be able to leverage and utilize blockchain fintech, alongside Islamic social financing mechanisms?

The way to go about this is to go for solutions that have been developed by smaller organizations and startups which are already in the technology space and already providing these services. In that scenario, they just need to choose the right startup and get what they want developed. They'll be saving time and cost.

Dr. Rushdi Siddiqui, Azqa Capital

Question: Regarding the issue of engagement, awareness, outreach. You talk about a platform economy. How do we ensure that it's not elites talking to elites, how do the elites talk to the grassroots?

There is an opportunity for the grassroots to talk to the elite. If you look at engagement and social media, you can find a volume of data. The key issue is basically coupling that data with noise reduction capabilities. The other aspect is behaviour modification. It is a platform economy approach.

Dr. Mahmoud Mohieldin, Special Envoy on Financing 2030 Agenda for Sustainable Development



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Question: How can these discussions and ideas about Islamic finance migrate and flow within the mainstream to become normal, to have a greater spirit of collaboration in addressing the SDGs using Islamic social finance?

When it comes to the demonstration effects, if one constrains Islamic finance to a particular environment and particular culture it is going to be put under unnecessary constraints. People are searching around the world. They are searching around the world for practical solutions regardless of their source. Those small grassroot institutions create a kind of boomerang effect that will spillover around the world to ensure that the required changes are made to embed Islamic finance ethics.

Dr. Nida Kahn, CEO & Founder, Nash fintechX

We must start at the grassroot level, choose a certain region to launch the application, and then gather data and evidence on how it's working. Is it technologically sound? Is it beneficial? Then scale it and increase its outreach instead of launching it in a very big geographical region. This is a safer option to test these kinds of initiatives using the new technology.

Dr. Rushdi Siddiqui, Azqa Capital

Question: How would the engagement be utilized to bring together using communication engagement as a tool of economic policy?

There is a lot of like-minded people with parallel thinking and they are dispersed globally. So, the key issue is intermediation to basically reduce the costs in innovation. There are several Muslims in non-OIC world and there are great ideas and thinkers but there is no platform that is basically engaged and enabled and artificial-intelligence powered.

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

We are looking to create a mechanism so that it is practical and achieves what we want. We expect to produce a comprehensive report from the 12 seminars. These seminars shed light on the practices that must be activated. We benefited during the six months and were expecting the success of these seminars. Everyone feels the need for a mechanism to fill the gap that exists in the various United Nations organizations. A committee under the chairmanship of the UN Deputy Secretary-General and the President of the Islamic Development Bank that includes Dr. Mahmoud Mohieldin, Dr. Rola Dashti and myself has launched this series of seminars and will review all that has been discussed. A report will be produced that will include a roadmap to be discussed in a workshop or advisory group. This mechanism will help in using zakat in closing vaccination gaps or in job creation or social protection. What we want is to reach a mechanism that will serve those who are in dire need and satisfy their needs, from natural disasters as well as manmade disasters.