

Article

Sustainable Development Goals and Islamic Social Finance: From Policy Divide to Policy Coherence and Convergence

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Abstract: This study aims to show how Islamic social finance (ISF) instruments can contribute to achieving SDGs and to filling the gaps in pressing humanitarian crises, such as refugee protection. ISF institutions enjoy sufficient financial capacity to bridge the gaps and realize the most relevant and urgent SDGs. However, due to policies and other constraints, their participation in international development aid programs is limited. Accordingly, this study explores the existing policy divide between Western and Islamic countries regarding the use of Faith-Based funds in international humanitarian and development aid programs. Through case studies, this study demonstrates that ISF instruments have the potential at national and international levels to mobilize resources to support marginalized groups in society in various countries. The analysis indicates the need to develop a framework that helps to build cooperation among local and international actors to mobilize ISF funds for cross-country development and humanitarian aid, which accelerates the achievement of the SDGs. This paper studies ongoing dialogues among various stakeholders to create policy convergence and to use ISF instruments towards SDGs. This study suggests that the dialogue should be more inclusive by including all potential stakeholders, including Muslim leaders, policymakers and Shariah Scholars, to narrow policy gaps and to draw policy coherence for using ISF tools in the duality aid programs and for creating synergies towards achieving the SDGs.

Keywords: Islamic social finance; SDGs; policy coherence; refugees



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1. Introduction

In pre-modern history, religion, represented by the church, and the state, represented by rulers, had entrenched all powers over people and public affairs or over politics in general. However, since the birth of the “nation-state” and the European experience of the renaissance, politics and religion have been experiencing different sets of relationships, e.g., mistrust, conflict and even different trajectories of influences. The Muslim world was plagued by the syndrome of equating westernization with modernization, which resulted in the dislocation of Muslims from local development models [1]. Reviving faith-based development models that are underpinned by civil society is key for achieving sustainable development and human dignity.

Politics and states have remained to be influenced by secular order and have pushed religion to private life and peripheries. Such phenomena have shaped many facets of life for quite a long period in Europe and in the rest of the world. The development arena was not an exception. In fact, post-second-world-war development policies and foreign aid assistance have been quite secular.

The global south, particularly the Muslim world, post the colonial era has witnessed attempts to develop and reform policies at the state level. Furthermore, at the society level, political Islam has been an active force for change for almost half a century, offering alternative modes of development, such as Islamic finance, which is based on Islamic principles and values. Islamic charities have also been active in feeding the poor and needy

in many parts of the Muslim world. However, the heavy-handed securitization of Islamic charities, as part of financing the global war on terrorism post the 9/11 attacks on the US, has led to a shrinkage of the space of action for Islamic charities [2]. The 1990s era witnessed a new shift, in which the world bank and many development actors showed interest in faith-based groups activities. It is important to note that many faith-based actors, by the 1990s, changed their missionary work to fit more with humanitarian and development agendas and norms [3].

The link between faith and growth has always been strong, but it has sometimes been unsettling. For a long time, investors and development theorists mainly ignored faith-based organizations (FBOs). They saw religion as if it was something unpleasant and retrograde, something to be avoided and disregarded at all costs [4]. The contribution that faith-based organizations (FBOs) make to service delivery, as well as the effect of religion on people's behavior, is being more recognized by funders. Therefore, many are attempting to determine how they can most effectively connect with such a varied and diverse range of development entities [5]. Additionally, several FBOs are now debating how their religious identities influence who they really are, what they need to do and the way they perform their activities, among other things. This is a difficult and emotionally charged procedure. The connection between religion and progress is still tense, as it is riddled with skepticism and mistrust and it is likely to stay so. It is argued that the state of underdevelopment of Muslim nations (*Ummah*) is attributed to the departure of local traditional development models [6]. To connect with religion in development in a meaningful manner, one must learn to deal with contradiction.

FBOs' modus operandi, particularly their collaborations with other religious groups in different regions of the globe, may be 'striking' because they encourage people to question and be questioned rather than seeming to have all the solutions to many developmental difficulties. The involvement of faith-based organizations increases the knowledge of, as well as the ability to understand, the fact that all developmental activities are ultimately carried out within particular and frequently diverse contexts. As a result, there cannot be a single solution or engagement paradigm that works for everyone. Although many secular organizations are heavily involved in data collection and dissemination, discussions have revealed that this approach is necessary but insufficient for bringing about radical shifts in mindsets, behaviors and consumption patterns that are required not only in policy, but also in everyday life. Faith representatives and faith-based societies have a non-tangible role to play in contributing to broader spiritual areas of development; they are determined to engage in advocacy with a variety of governments and to show solidarity with secular and rights-based equivalents. In addition, they are committed to promoting religious freedom and religious pluralism [7].

Using FBOs, the United Nations may look at new areas that have been overlooked in debates about Millennium Development Goals (MDGs) and Sustainable Development Goals (SDGs), including questions of ethics, possible tipping points for the formation of a culture of taxation and the capacity to mobilize in-kind local resources. Internally displaced people and the number of refugees are both reaching record highs. Humanitarian aid offered by the world community has risen in recent years, but needs have grown even more rapidly. Often, aid organizations are only able to raise a fraction of the funding they need, creating a growing gap between the needs and the resources they have available.

When people find themselves in a refugee situation, it is all too typical for their human rights to be violated. Aside from impeding efforts to alleviate poverty more broadly, forced evictions may also harm the economy, pollute the environment and otherwise jeopardize progress toward the Agenda 2030's Sustainable Development Goals (SDGs). Paradoxically, refugees throughout history have contributed to the progress and development of many nations, since they are likely to take risks and have perseverance, so the social and economic payoffs for investing in refugees are of value in the long term.

Shortfalls in financing have a direct impact on the UNHCR, which serves as the UN's primary agency for refugees and displaced people. In 2018, it needed 8.2 billion USD

in financing, but donor countries only contributed 4.7 billion USD (corresponding to a shortfall of about 43 percent). Thus, the budget deficit remained about the same as in 2017. The United States, during the Trump presidency, decided to slash its aid contributions to the UN and consequently to the UNHCR, and the shortage has further worsened [8]. As a result, new sources of financing that can fill the gaps must be sought for. In this regard, FBOs, including Islamic social finance (ISF), can play a vital role.

Religious organizations can mobilize vast sections of society and have particular morality. Aside from their unique convening abilities, they are the proprietors of the world's longest-running and most persistent systems for generating funds. These qualities cannot be understated at a time when traditional 'secular' development is facing its greatest set of resource problems. This is explained by intellectual hegemony and the setting of standards of who obtains what and why, which can be a wicked problem.

Aside from the OECD, Arab and Muslim-majority nations such as Saudi Arabia, the United Arab Emirates, Qatar, Turkey, Indonesia and Malaysia have been contributing generously to development assistance globally through Islamic finance and other methods. Islamic finance refers to financial activities that are compliant with Islamic law, also known as sharia. This is manifested in the form of various concepts and instruments, the majority of which are directed at the 57 members of the Organization for Islamic Cooperation (OIC). Despite a huge ODA disbursement by Arab donors, only a small portion of this was supplied via Islamic social financing, which is the extension of Islamic financing. *Zakat*, *Waqf* Sadaqat, and Islamic microfinance are some of the most promising Islamic social finance ideas and methods that may help achieve Sustainable Development Goals (SDGs) more quickly [9].

ISF instruments have the potential at national and international levels to mobilize efforts to produce more convergent and coherent policies towards channeling these resources for the needs of refugees. In addition, the policies revolve around the national and international levels.

One of the objectives of this study is, therefore, to show how ISF instruments can contribute to filling existing gaps in SDGs and in pressing humanitarian crises, such as refugee protection. Although more than 82.4 million people worldwide were forcibly displaced by the end of 2020 [10], the issue of refugees is neglected and is not well addressed in SDGs. There is no direct indicator about refugees in SDG targets.

There is a gap in the literature that addresses issues related to narrowing policy gaps to fill existing SDG gaps using ISF instruments in mainstream aid organizations. Therefore, this study attempts to show the existing policy gaps between Western and Muslim countries regarding using FBOs to finance humanitarian aid. This study attempts to show how ISF instruments bridge existing gaps in SDGs regarding refugees who have been neglected or who have not received direct focus in SDGs.

The "SDG refugee gap" is shown by the removal of refugees from the Voluntary National Reviews (VNR) at high-level political forums in the UN. The absence of statistics on refugee well-being, the omission of refugees from SDG monitoring frameworks as well as from national reporting and the inability to incorporate refugees into national media or into long-term development planning are examples of this gap.

SDG objectives, targets and indicators established by UN Member States exclude refugees and other crisis-affected persons from their scope. There are just a handful of mentions of refugees, displaced persons and those impacted by crises in the 17 objectives, 169 targets and 230 specific indicators. In many SDG analyses, household surveys do not include refugees. Since there is no clear guideline or incentive to incorporate these excluded groups in national development planning or SDG progress evaluations, it is difficult for governments to include them [11].

Although some refugee-hosting nations have begun to connect their long-term requirements of refugees with national development plans, refugees are often not included in the actual plans that these countries have in place. OIC member countries such as Turkey, Jordan, Lebanon and Pakistan host more than 9.4 million refugees. Turkey hosts more

than 3.7 million refugees, which is the highest number of refugees residing in a single country [12].

According to a global NGO known as the IRC examination of VNRs, refugees' progress toward SDGs cannot be measured, since none of the VNRs contain socioeconomic data on refugees. Regarding the Leave No One Behind promise, 41 out of 42 nations that filed VNRs in 2019 included it, but only 13 named refugees specifically. More than half of the 15 nations with the highest refugee populations that have filed VNRs since 2016 fail to highlight the needs of refugees [13].

The SDG refugee gap must be closed urgently. As the "last mile" for achieving SDGs, refugees are one of the most disadvantaged communities in both stable and unstable nations. Additionally, these are some of the people whose lives would be improved the most if Sustainable Development Goals were implemented. Today, it is impossible to accurately measure progress toward SDGs if refugees are included.

SDGs and the UN Member States' who pledge to leave no one behind are meant to be universal. If the international community fails to achieve SDGs and this promise for refugees, no one knows how many millions of people would continue suffering.

To the best of our knowledge, there is no study in the literature addressing the issue of policy gaps related to using ISF instruments in mainstream humanitarian and development programs. Therefore, the contribution of this study is two-fold: this study contributes to filling the existing gaps in the literature on using the untapped potential of ISF instruments to fill SDG gaps related to refugees, and this study also demonstrates the practices of using ISF instruments in global humanitarian aid activities and emphasizes the need for policy coherence to establish collaboration between the West and the Muslim world towards achieving SDGs. Thus, the case studies and policy recommendations given in this study may help policymakers, international organizations, Islamic FBOs and other stakeholders to understand the importance of collaboration globally to alleviate the problems of refugees.

2. Policy Divide between Western and Muslim Countries

As was posited above, this paper seeks to understand the historical incompatibility between two development agendas: secular and Islamic. These agendas, in the world of development, are often considered to be mutually exclusive and entirely unable to work together to provide more cost-effective, efficient and beneficial development aims for poor communities throughout the developing world. This section illustrates policy devices from the perspective of Western and Muslim (non-Western) countries, discussing policy divide, policy convergence and policy diffusion. As is described in this paper, policy divide and coherence may not be only at the state level but may be between different actors and organizations as well, most explicitly from the secular approach of the World Bank as a supranational agency.

2.1. Describing Development

Before delving into case studies that analyze the historical incompatibility between secular and Islamic development agendas, the question and utility of *development* itself must be considered. Here, Swiss scholar of development and international studies, Gilbert Rist, presents a controversial and thought-provoking argument: development exists as nothing more than a buzzword. Therefore, global and local missions that seek to utilize the emphatic power of development to improve conditions of the poor around the world are, regardless of their pure intentions, actually achieving the opposite; they are instead widening and deepening the gap between the rich and the poor and are creating rather than alleviating poverty [14]. Rist [14] then suggests that the only way global well-being can truly be improved is by moving beyond the empty notion of 'development' by abandoning the belief that economic growth alone can deliver social justice. Despite the sweeping generalizations that Rist presents, his argument cannot be entirely discarded because there is much truth to what he says. Though the arguments of other scholars discussed in this section do not attempt to dispose of development, many do argue that the contem-

porary conceptualization of development is ineffective, restrictive and outdated for our increasingly globalized world.

In hindsight, Ibn Khaldun, in his theory of development and progress (*Imran*), articulated the concept of cycles of civilizations, which is underpinned by justice, social solidarity (*Asabyyeh*), ethics and institutions.

Globalization and its relationship to secular and religious development has been discussed as both the reason for the rise of faith-based agencies as well as a precedent for the historical distancing of aid from religious traditions. In the book *The Globalization of Ethics: Religious and Secular Perspective*, the authors argue that globalization, particularly in the 9/11 world, can only effectively modernize the world if all globalizing efforts distance themselves from religious and cultural traditions and remain entirely secular [15]. However, this pessimism has proven to be far more damaging than it has been beneficial; however, this is also entirely unavoidable. As is posited by Barnett and Stein [16] in their book *Sacred Aid: Faith and Humanitarianism*, the global humanitarian movement can actually be seen to have developed from within Western religious organizations. Therefore, to remove religious traditions from an understanding of the role of development in globalization is to disregard a large chunk of the history of any globalizing movement. More importantly, it is these very religious organizations and institutions that have managed to gain a very powerful role in world politics concerned with advancing human welfare and human rights.

It is this inevitable impact of religion as a defining force across the world that more academics are trying to draw focus towards. In order to highlight the significant weight that religion has had in shaping historical cultures and contemporary societies, several academics have taken on extensive historical analyses. Perhaps the most thorough investigation into the relationship between faith and secular development is Séverine Deneulin's *Religion in Development: Rewriting the Secular Script* [17], which seeks to map out this relationship across time, space and religious traditions in order to understand how religious activities and development activities interact. Haynes [18] presents many of Deneulin's arguments in a more consumable format, presenting a conceptual and chronological approach to the theoretical perspectives and central themes of religion and development, with a particular focus on the developing world [18]. Additionally, Leah Seliner [19], in her article, discusses the roots of development and its "historical avoidance of religion" that has led to a damaging disregard of religion in structuring cultures and societies. Jenny Lunn [20] provides a methodological analysis of religion in development that critiques its role through a dialectical process and identifies "future potentialities for emancipation and self-determination" of the developing world. Amy Stambach then takes this further, criticizing secularized approaches to modernization through education which have forcibly relegated religion to the private sphere. However, in doing so, secular agencies and nation states have dismissed the pivotal role of religion in shaping our globalizing world [21]. This feeds into Alastair and Joey Ager's argument, which is that contemporary humanitarianism attempts to take a neutral stance towards religion, when in reality it has marginalized religious language, practice and experience, thereby marginalizing communities that function from religious foundations [22]. Such marginalization and antagonization means that radical rethinking of the relationship between religion and world affairs must take place in order to understand why global politics has inadequately addressed religious factors, as well as how and why religions are affecting important global dynamics, in order to develop theories of world affairs that concentrate on the implications of this resurgence of religion and religious bodies [23].

Although the role of faith-based organizations (FBOs) and institutions in advancing human welfare and alleviating poverty seems to be an unarguable fact, there is much that can still be said about values and doctrines within religious traditions around the world that allow them to take an almost unanimous stance against oppression and human suffering. With the exception of perhaps the socioeconomic detriment of the Hindu caste system, most global religions provide moral and ethical grounds on which to build an approach towards development. It is this very moral energy that has been and should continue to be mobilized

in order to support local and international development goals, such as the United Nations Millennium Development Goals, which, in comparison to Sustainable Development Goals, are only targeted at developed countries [24]. Despite this purportedly exclusive utilization of faith-based organizations by and for developed countries, FBOs can and have conducted extensive work within developing countries and among poorer communities. For example, in the book *Development, Civil Society and Faith-Based Organizations: Bridging the Sacred and the Secular* [25,26], the authors discuss how faith has a multifold utility in providing a bridge between the poor and the non-poor and in providing the poor a lens through which to rationalize and challenge their marginalization. Although faith mobilizes the poor, it also mobilizes the privileged, encouraging donors to associate themselves with faith-based institutions that already play an active role in the lives of the poor and in the political contests that affect them [27]. However, aside from addressing poverty and underdevelopment, faith-based initiatives also have a large role to play in the historically unprecedented yet rapid rise in religious environmentalism: “an activist spirituality linked with progressive social causes” [28]. These pieces of the literature prove that what Elizabeth Ferris implicates is the innate relationship between humanitarianism in a variety of religious traditions, looking at the role of service as extracted from within religion [29].

2.2. Ethicality and Morality of Development

Islam as a way of life is viewed as a mercy for humanity (*rahma le alamin*), and caring and protecting human dignity is a moral imperative which was formalized in many institutions, such as Waqf and Zakat. More generally, faith in development plays an increasingly important role in answering the question of ethical and moral practices within secular organizations. Much of this is related to the Ferris’s argument mentioned above: religious traditions are often inherently humanitarian, preaching doctrines of service and the alleviation of human suffering. Scholars such as Hattori argue that foreign aid does have a moral political agenda, leading to *beneficent* service, which clearly has very religious undertones. It is these undertones which allow explicitly faith-based organizations to be very successful in addressing the needs of religious and non-religious communities. An example of the former is particularly visible in under-developed African countries, within which many communities are deeply religious. The claims mentioned above—that globalization has no space for religion—is refuted particularly strongly in the case study of poorer African countries, within which religion takes a front-seat in guiding development work as a strategic step towards serving their communities [27]. This is not only theoretical, but in practice, the leaders of religious communities across the continent are often those who most intimately understand the needs of communities and can advocate for them most successfully [30].

Unfortunately, such tangible efforts of religious organizations and institutions are often barred by secular organizations which envision themselves as economic rather than social organizations. The World Bank, as well as the International Monetary Fund, are prime examples of this. Tyndale [31] explains that there is a significant chasm between development agencies, especially international ones such as the World Bank and IMF, and this needs to be addressed in order to ensure effective cooperation with world religions. However, this chasm is incredibly and increasingly more difficult to bridge because of the very nature of the World Bank as both an economic and political supranational agency which has enough power to supersede faith-based development and to disregard, or rather shape to its liking, the role of religion in development [32]. However, the idea of a global Zakat and Waqf institution has been proposed that merits attention for balancing funding amnesia and ethical deficits.

2.3. Criticisms of Faith-Based Organizations

There have, of course, been critiques of the beneficial role of faith in development, such as the possibility of supporting religious extremist groups that may form parts of civil society. To address these claims, several others have dedicated their literature to discussing

the positive and negative contributions of FBOs to the world of development. The positive contributions of FBOs are extensive, including their abilities to advance education and healthcare, but there are, as was mentioned, very real fears of the complicated links between faith-based work and religiously inspired violence or gender equality [4]. Heist and Cnaan place a particular focus on U.S.-based FBOs, pointing out how these organizations and more informal religious congregations perform valuable work as welfare service providers [33]. They also posit that religious organizations play a significant role in international social and economic development that is mostly beneficial for the recipients. Some scholars such as Rick James address the concerns of faith in development from the perspective of donors, particularly how there is “residual ambivalence” of donors towards FBOs [34]. The role of donors is further elaborated on by Jones and Petersen, who state that major players in development as well as previous scholars do not understand enough about how religion can be used to improve development, and they have too narrow of a focus on the role of FBOs, as the focus should be on understanding religion instrumentally [35]. Additionally, it can perhaps be argued that many of the arguments surrounding the inefficacy of faith-based development practices can be nullified once assumptions of religious and secular frames in development work are removed from a Western context. As Dewi Eshuis shows with his case study, focusing on faith-based work in Cambodia, local approaches to religious-based development have a special role in improving society in ways that secular development agendas cannot [36].

Aside from the above stated case study of faith-based work in Buddhist Cambodia, other authors have also seen the value of illustrating the link between faith and development. This has been performed for several reasons: either to address the above criticisms of the value of faith-based development, or to exhibit that, regardless of the criticisms, religion has played and will continue to play a vital role in development. One such study was conducted by Kristy Berfman Schroeder and was documented in the 2016 article “Religion and Secularism in Development: Trends in the Approaches of Bilateral Donors in Canada and the United Kingdom”, in which Canadian and British bilateral donors’ intersecting and diverging approaches towards religion have shaped their programming in certain communities [37]. There have been both positive and negative consequences of these interactions, showing that cooperation with FBOs has often led to more effective grassroots work and has led to decreased marginalization of local perspectives. A Norwegian case was also analyzed along these same lines, as the author sought to understand how Norwegian FBOs interpret their faith-based identities and to understand their relationship to NORAD (Norwegian Agency for Development Cooperation), their government donor [38].

Other than these cross-national comparisons, John-Michael Davis instead chose to focus internally on the differences in approaches between faith-based and secular development NGOs in Canada. His case study found that FBOs are less reliant on federal funding but do not generally spend less on overhead and indirect costs, therefore exemplifying the effectiveness of mobilizing faith networks to gain financial support [39]. Aside from these more large-scale, national and trans-national case studies, some authors have also illustrated the role of religion in development through more microscale studies. For example, one article focuses on interviews with development workers to understand how their religious worldviews define their concept of development and influence their thinking [40]. Another article analyzes the mission experiences of British Christians who volunteer in Latin America in an effort to understand the relationship between volunteering, faith and subjectivity that shape our understandings of global citizenship and cosmopolitanism [41].

In conclusion, the above section has highlighted only a handful of aspects of the complicated relationship between faith-based and secular development agendas. Though the focus on this section has not explicitly been on Islamic organizations, the overarching argument remains the same; religion has always had and will continue to have an impact on global development, not despite of but most especially within our increasingly globalized world.

3. Historical Evolution of International Aid

The historical origins of the modern international development aid system can be divided into three. The first was relief aid provided by Western churches, starting from the end of the 18th century, with the mission of breaching Christianity. The support was in the form of health and humanitarian medical aid and is regarded as the beginning of international aid. The second type of assistance system was the activities carried out by the Western colonialists, including those from Britain and France, in their colonies, mainly in African countries. The main actors in this system were rich western European countries, which were mainly France, Germany and Britain. The support included launching agricultural technology extensions, corresponding education and medical projects related to social and economic development. By the 1920s and 1930s, wealthy Western colonialists from countries such as Germany, France, and Britain provided regular aid to their colonies in Africa, Latin America and Asia. The third type was providing development and humanitarian aid through international organizations and agencies. These three origins of development assistance provide a significant basis for the framework of contemporary international development aid [42].

3.1. Conventional Development Aid Cooperation Framework and Modalities

The importance of development cooperation was recognized in the late 1940s, after WWII, when the famous Marshall Plan was launched to assist European countries in the reconstruction of their war-devastated economies. Its successful implementation inspired a belief that foreign aid can be effective, which boosted the idea of development cooperation [43].

From the 1940s to the 1960s, development cooperation was almost exclusively bilateral. This means that cooperation was between only two countries: one rich and one developing country. However, from the 1960s to 1970s, multilateral development cooperation was significantly growing. During those periods, aid programs started to take shape and became more definite commitments [44]. They were financed jointly by a large number of wealthy states. They agreed to give 0.7% of their national income in development assistance. During this period, there were four key multilateral institutions responsible for providing development assistance: the World Bank through its International Development Association (IDA), the United Nations Development Program (UNDP), the Fund for Special Operations of the Inter-American Development Bank (IDB) and the cooperation fund of the European Economic Community (EEC) [45].

Since the mid-1990s, the global poverty issue has attracted the attention of all countries globally, and a consensus on poverty reduction has been reached in the field of global development. Wealthy countries gave developing countries free grants and preferential loans through multilateral financing institutions and bilateral aid agencies, the IMF and World Bank. Although donors have invested trillions of dollars in developing countries in the past few decades, it was difficult to fundamentally change the poverty and backwardness of many developing countries [42,46].

Until recently, the aid relationship between the North partner (donor) and the South partner (recipient) was viewed as 'development aid', which implied an unequal partnership between the North and the South [47]. It leads to the growth of the need for developing aid modalities based on mutual interests. Subsequently, different cooperation and development aid modalities emerged in emerging economies, which impacted the traditional donor-recipient cooperation model.

3.1.1. South-South Cooperation (SSC) Framework

SSC is a term historically used by policymakers and academics to describe a broad framework for collaborations among developing countries in economic, political, social, cultural, technological and environmental domains. It is managed by developing countries themselves, with active participation from various stakeholders including governments, public and private sector actors, academia and non-governmental organizations [48].

The SSC aims to ensure more effective participation in global affairs as a complement to the extensive economic relationships between developed and developing countries. Under SSC, they share resources, skills and knowledge to meet their development goals through concerted efforts [49]. Cooperation, in its practice, incorporates the basic principles of relations between sovereign States: respect for sovereignty, non-interference in internal affairs and equality of rights, among others.

3.1.2. North–South Cooperation (NSC) Framework

NSC is a broad framework for development cooperation between the North (developed countries) and the South (represented or developing countries) in the political, economic, social, cultural, environmental and technical domains [47]. NSC in many ways has moved away from the donor–recipient relationship into partnerships with shared ownership and decision making. Non-governmental Organizations play an important role in transforming unequal relationships into authentic partnerships of trust, mutual respect and accountability [43,50].

3.1.3. Triangular Cooperation (TrC) Framework

The TrC framework is also known as the trilateral or North–South–South Cooperation (NSSC). Unlike the other two frameworks, TrC is based on a new development cooperation route aimed towards facilitating South–South initiatives through the provision of materials and knowledge. In this system, aid is channeled through developing countries to support development projects in other developing countries. In TrC, most of the development aid goes through the bilateral route (‘donor–recipient’) with a large amount being channeled through inter-governmental organizations (IGO) [43]. In this form of Cooperation, donor countries can use UN agencies as a support channel, or they can provide their support directly to groups of developing countries or entities serving in these countries.

In general, SSC and TrC have become an important modality of international cooperation for development that contributes to the achievement of the 2030 Agenda for Sustainable Development. TrC plays a significant role in achieving the SDGs in collaborative and innovative ways. It can provide solutions to overcome today’s most pressing environmental, economic and social challenges, ensuring sustainable development in partner countries [51].

3.2. Global Sustainable Development Frameworks: MDGs and SDGs

International policies regarding the development of a nation and its people have undergone various stages of insight during the past decades. For a long period of time, the main objective of development aid remained as poverty reduction. However, the effectiveness of the aid that is provided to tackle poverty and the definition of poverty itself have developed considerably during those periods. Poverty is not seen in purely material terms but has been extended to a more general notion of human well-being [2]. The SDGs are global goals adopted in 2015 at the 3rd International Conference on Financing for Development as a universal call to take action for ending poverty, protecting the environment and ensuring peace and prosperity for all people by 2030 [52,53].

The Action Agenda is considered as an essential part of the roadmap designed for 15 years, starting in January 2016, which called for a revitalized Global Partnership for Sustainable Development. The SDGs were built to replace the Millennium Development Goals (MDGs) by adding new dimensions and widening its scope [45]. The main differences between the SDGs and MDGs are the scopes and focus. The MDGs were designed mainly to reduce poverty and to extend basic services in poor countries. On the other hand, the SDGs, also known as the Global Goals, were adopted as a universal call to action to achieve sustainable development in all countries [54]. They provide a new global framework for financing sustainable development by aligning all financing flows and policies with economic, social and environmental priorities [54,55].

The agenda is also supported by concrete policies and actions to achieve the SDGs in a generation’s time [56]. The UNDP is fully committed to looking for ways to arrange

sustainable investing modalities to encourage development. The UNDP was exclusively placed to support the implementation of the goals through its programs and activities in more than 170 countries and territories [53,55]. Countries have also committed to prioritizing progress for those who are further behind.

To achieve the 17 SDGs, ambitious amounts of financial and technical resources are needed, which are estimated to be between 5 trillion USD and 7 trillion USD every year until 2030 [57]. Despite the global consensus of the goals, the levels of financing for sustainable development were already stagnant and had even witnessed drops in some areas before the world was hit by the COVID-19 crisis. For the past few years, before the COVID-19 pandemic, there was an annual funding gap of 2.5 trillion USD to achieve the SDGs in developing countries [58].

However, due to economic and social crises caused by the pandemic, the world is facing huge financing gaps to finance the SDGs and to deal with basic issues concerning poverty, well-being and inequality. By the end of 2020, the world was facing a 4.2 trillion USD shortfall in annual financing to achieve the 17 SDGs by 2030, which is more than 70% of the average annual investment needed [59]. The situation forced various stakeholders, including local and international SDGs enablers, to look for alternative sources of financing and to optimize the potential of existing sources of funds. One of these sources is Islamic finance, particularly Islamic social finance, which has an untapped source of funds that can be utilized through formal Islamic institutions and global organizations [60].

3.3. Islamic Social Finance and Development Aid in Muslim Countries

Islamic finance refers to financial activities that are compliant with Islamic law, also known as sharia. This is manifested in the form of various concepts and instruments, the majority of which are directed at the 57 members of the Organization for Islamic Cooperation (OIC). Islamic finance was worth 2.5 trillion USD in 2018, with most of its activities taking on a commercial dimension [61]. However, a portion of this amount can be used to promote sustainable development in developing countries. Using Islamic finance in Muslim-majority contexts may be socially, culturally and ethically more reasonable and pertinent than other traditional forms of finance, including finance for development. It has the potential to promote low systemic risks as well as a long-term financing system, which is especially important for developing countries that have already been piling up debt.

Concretely, Islamic finance is rapidly adopting sustainability criteria, putting it in a strong position to maximize social impact and to contribute to the achievement of the Sustainable Development Goals. Some donors are increasingly favoring concessional loans over grant financing, increasing the risk of developing countries accruing unsustainable levels of debt. The International Monetary Fund (IMF) estimates that 40 percent of low-income countries are at an elevated level of danger of being unable to make payments on their public debt. As a result, developing countries require a comprehensive suite of financing instruments to combat these trends, with Islamic financing options having the potential to improve debt sustainability [62].

Despite this, the growth of Islamic finance has slowed in recent years, in part because the economies of many Muslim-majority countries are heavily dependent on commodity exports. Despite this, its volumes are significant, and even a small fraction of these, if better channeled towards development outcomes, can significantly contribute toward closing the current SDG gap. The total exports of OIC countries surpassed 1.9 trillion USD in 2018. The top five countries, i.e., Malaysia, the UAE, Saudi Arabia, Turkey and Indonesia, account for 62.7% of all exports [63]. The paradox of OIC countries is that some countries with high GDPs like the GCC established development funds such as the Kuwait Fund, the UAE (Abu Dhabi) Fund and Qatar Fund, but many poor countries are facing extreme poverty. Although the total population of the OIC Member Countries accounts for nearly one-fourth of the world's total population, their total GDP accounted for only 8.2 percent of the total world GDP in 2019. The top 10 OIC countries, in terms of the volume of GDP, produced 74.2% of the total output of the OIC group [64].

The account of Islamic finance in the global financial system is increasing, particularly in the wake of the global financial crisis, the global financial crisis of 2008 and the ‘Arab Spring’ of 2010 [11]. In comparison to conventional financing, Islamic finance is thought to present lower systemic risks and a more sustainable financing system that can be more robust and resilient in the long run. Non-Muslims may perceive Islamic finance as a form of socially responsible or ethical finance, even though ethical and Islamic finance share both similarities and differences in their approaches. The key divergence between Western and Muslim development paradigms is linked to the perception of money (banking and debt) and human stewardship (pursuit of happiness), and hence it is critical to re-define progress, happiness and development within an Islamic worldview [1].

As the main aim of Western development aid is poverty reduction, little activity is deployed in the Muslim world, particularly in Arab countries. There are many reasons for this, such as poverty manifesting harshly in countries other than the Muslim world. Another reason may be that, as most of Western donor aid originates from missionary activities, it mainly channels to countries in Africa and South America, where missionaries used to be active [2]. Changes in their aid policies to Muslim countries have also changed the nature of the aid itself. When charity is replaced by security, the purpose of aid changes from assisting people in what they need to changing people’s ways in order to make them no longer pose a threat. So far, the majority of aid given to Muslim, particularly Arab, countries has been for political reasons, which usually includes a joint economic-military aid package. The main motivation for this aid was the 9/11 events. Substantial aid was also coming from the United States [3].

Donor fatigue is evident due to the huge need for humanitarian aid, but donors and financial institutions have been going through challenges due to economic crises, over-indebtedness, poverty and environmental challenges [65]. Hence, harnessing new authentic funding tools such as Waqf and Zakat is viewed as cultural innovation, which needs to be institutionalized and operationalized [1].

3.3.1. Islamic Social Finance: A Faith-Based Aid Revolution

Muslim countries have their own traditional system and organizations dedicated to providing humanitarian and development aid. ISF typically contains Islamic charity organizations utilizing *Zakat*, *Sadaqat* (charity), *Waqf* (endowment) and non-profit microfinance institutions, collectively comprising the charitable financial sector [60]. Islamic social finance has been used as an instrument to raise funds and distribute them back to society. Muslims worldwide have been donating generously for more than 14 centuries through Islamic social finance mechanisms to alleviate human suffering. *Zakat*, for example, has been thought of for ages or centuries as an informal safety net for the poor and the needy, especially regarding issues of poverty and inequality. It was so effective in early Muslim societies to the extent that there was a time when the *Zakat* that was collected far exceeded the need, and the authorities looked for people to accept the *Zakat*, but they could find no one.

Islamic social financing (ISF) is an untapped source of funds to finance humanitarian aid globally. ISF institutions, including *Waqf* and *baytu-al-mal*, play a facilitative role in society, ensuring economic development and social justice. They have a vital role in instrumentalizing religious development aid. Among others, *Zakat* and *Waqf* instruments perform an essential role in reducing income inequality in society and channeling funds to meet humanitarian needs. It is evident that debt and high interest cause many financial, social and moral problems. Shariah-based ISF can be an alternative source of financial support for marginalized people in Muslim countries [66]. Ahmed et al. [67] articulates how Islamic finance contributed to reviving the global economy after the global financial crisis. Kassim [68] shows how Islamic finance significantly contributes to achieving the SDGs.

Big ideas for institutionalizing Zakat are key to inform and reform a new discourse for SDGs. The establishment of Zakat, along with proper collection and distribution processes, ensures social security and equality [69–73]. Many countries such as Malaysia

and Indonesia have adopted policies harnessing the Zakat system as a means of sustainable development [74–76] along with other social financial phases, such as *Sadaqat* and *waqf* [75,77,78].

It is illuminating to view how the scope and rationality for Islamic social finance and the SDGs are congruent and aligned. Hence, the attainment of the SDGs requires the reinvigoration and the proper application of Zakat as reflected in the theory and practice of Islamic finance [66]. Figure 1 outlines the key enablers for reviving ISF in a globalized world.



Figure 1. Key enablers for reviving ISF in a globalized world.

The *Zakat*, *Sadaqa* and *Waqf* tools are ideal for rising needs in philanthropy and blended finance. These instruments play an essential role in the economic and religious fabric of all Muslims; however, they need to be better known and understood. Alleviating hunger, poverty and inequality; promoting peace; and protecting the environment are central to Islamic principles and are embodied in the Islamic social financing instruments of *Zakat*, *Waqf*, and *Sadaqa*.

3.3.2. Potential of ISF Instruments

The potential of *Zakat* to support development remains unrealized. There is no exact figure regarding the size of global ISF. Various organizations have reported different estimated figures during many international conferences and workshops, including the recent UN Islamic social finance workshop. Overall reports indicate that the actual amount collected is much less compared to the potential of *Zakat*. For example, the actual amount of *Zakat* collected in Pakistan corresponds to 0.06% of its GDP against a potential of 1.74% of its GDP. In Indonesia, the corresponding figures are 0.025% and 1.59% of its GDP [55]. Similarly, the actual *Zakat* collected in Malaysia is 0.24% of its GDP against a potential of 1.11% of its GDP.

Various researchers, international development aid organizations and research institutions have estimated the potential amount of *Zakat* funds, for example, using different calculation methods based on the different opinions of jurists (*Fiqih* opinions) [79]. The Islamic Development Bank (IsDB), which is one of the leading players in the ISF, estimates the global *Zakat* fund to be worth over 1 trillion USD per annum [80]. This amount is more than 28 times the total amount of global humanitarian funding of 35.1 billion USD that was required to assist 160 million people who were most in need across 56 countries in 2021 [81].

Similarly, the process of estimating potential resources from *Waqf*, Islamic endowments, is more challenging due to the nature of their assets and absence of data in most countries. Since *Waqf institutions* receive donations from individuals, organizations and even from governments around the world to operate social projects, they have amassed huge holdings of assets in the forms of cash, real estate, equities, commercial enterprises and other assets. According to DinarStandard, a research and advisory firm, the assets of *Waqf* institutions was estimated to be 410 billion USD in 2016 [82]. On the other hand, an estimate by the Dubai government indicated that the total values of assets held by *Waqf* globally may exceed 1 trillion USD [83]. Recently, Finterra, a technology-based company providing blockchain-based Islamic applications that address global issues, estimates the value of

global *Waqf* assets to be 3 trillion USD, with an estimated return of 5% or 150 billion USD annually, which can be used for socio-economic goals [51].

ISF has various hybrid instruments that link philanthropic and commercial activities, such as microfinance, Micro-Takaful and SRI Sukuk, used as means to support development activities. The redistributive and social equality elements of Islamic social finance have an important role to play in supporting refugees residing in various countries and for realizing SDGs [51]. They address financial constraints, funding shortfalls and financing inequalities [60]. Therefore, through innovative hybrid approaches, it is possible to utilize the potential of Islamic social financing to stimulate economic activities, promote social welfare, enhance financial inclusion and boost shared prosperity.

4. Case Studies

The case studies presented in Table 1 are some of the initiatives made in recent years to utilize the untapped potential of ISF instruments in international humanitarian aid programs for all humanity. The study includes three cases based on their relevancy to the topic. It is also based on the availability of cases that show the usage of ISF funds in mainstream global aid programs. The case studies demonstrate the possibility of cooperation between faith-based and mainstream organizations to use the ISF instruments in international humanitarian and development aid programs. As shown in the table, funds raised through the ISF tools of *Zakat*, *Waqf* and *Sadaqah* can make real and sustainable changes for people of all faiths and backgrounds. In the first case, the Malaysian *Zakat* council confirmed the possibility of using *Zakat* funds to support anyone in need in their local environment. Once the local community's needs are met, the fund can be extended to other parts of the world to provide charitable disaster relief and a sustainable livelihood for all humanity in need without any discrimination [84].

Table 1. Case studies (using ISF tools in global development and humanitarian aid programs).

Cases	Modes of Financing	Actors and Roles	Targets	Interventions	Beneficiaries	Contribution to SDGs
IFRC's Drought Relief Assistance Program: The Case of Kenya	Partnership: <i>Zakat</i> fund collected from Malaysia	<ul style="list-style-type: none"> – Kenya Red Cross (Facilitate) – IFRC (Initiate and Manage) – <i>Zakat</i> Council of Malaysia (Financing the project) – Regional Government of Kitui (Facilitate) 	<ul style="list-style-type: none"> – Provide relief aid (food and water) – Create sustainable livelihoods – Organize marketing chain to sell their crops in local and international Markets 	<ul style="list-style-type: none"> – Distributed high-quality seeds – Build 30 borewells and pumping stations – Arranged pooled market to sell products without brokerage fees 	<ul style="list-style-type: none"> – 175,000 households – 1.2 million people and their livestock 	SDG-1 (<i>No Poverty</i>); SDG-2 (<i>Zero Hunger</i>); SDG-6 (<i>Clean Water and Sanitation</i>); SDG-8 (<i>Decent work and Economic Growth</i>); SDG-13 (<i>Climate Action</i>); SDG-15 (<i>Life on Land</i>)
The Global Muslim Philanthropy Fund for Children (GMPFC)	Partnership: Philanthropic donor financing (<i>Zakat and Sadaqat funds</i>)	<ul style="list-style-type: none"> – IsDB and UNICEF (Initiators) – Anyone who can contribute 10,000 USD or more can be an active member – King Salman Humanitarian Aid and Relief Centre (KSrelief) from Saudi Arabia [Donor] – Abdul Aziz Al Ghurair Refugee Education Fund from the UAE [Donor] 	<ul style="list-style-type: none"> – Ensure the well-being of children in OIC member countries – Catalyze massive and long-term change benefiting all children in supported countries (refugees and residents) 	<ul style="list-style-type: none"> – Supporting children in early childhood development, education and protection – Work on water and sanitation, health and nutrition and youth empowerment – Humanitarian assistant 	<ul style="list-style-type: none"> – <i>Pakistan</i>: Helps to reduce the death of children under the age of 1 year by 250,000 each year – <i>Bangladesh</i>: Humanitarian assistance for 1.2 million refugees and members of the host population – <i>Jordan</i>: Improve the learning and well-being of Syrian child refugees in Jordan 	SDG-2 (<i>Zero Hunger</i>); SDG-3 (<i>Good health and Well-being</i>); SDG-4 (<i>Quality Education</i>); SDG-5 (<i>Gender Equality</i>); SDG-6 (<i>Clean water and Sanitation</i>)
Combat cholera and other diarrheal diseases: The Case of The One WASH (Water, Sanitation and Hygiene) Fund	Partnership: Philanthropic donor financing (<i>Zakat and Sadaqat funds</i>) Sukuk Issuance (a <i>Shari'ah-compliant</i> bond)	<ul style="list-style-type: none"> – International Federation of Red Cross and Red Crescent Societies (IFRC) [Initiating and Managing] – Islamic Development Bank (IsDB) [Initiating and Managing] 	<ul style="list-style-type: none"> – Cut cholera deaths by 90 percent by 2030 – Improve the lives of 5 million people in 29 OIC member countries 	<ul style="list-style-type: none"> – Finance water, sanitation and hygiene (WASH) programs to fight cholera and other diarrheal diseases in the target countries 	<ul style="list-style-type: none"> – 2019: Projects have started in the countries of Ghana, Uganda, Rwanda, Malawi and Yemen – 2020: Startups in 8 more countries have started 	SDG-3 (Good Health and Well-being); SDG-6 (Clean Water and Sanitation); SDG-5 (Gender Equality); SDG-13 (Climate Action); SDG-17 (Partnership)

Source: Authors' Summary based on information from IFRC [84], UNICEF [85] and IFRC [86].

5. Discussion and Conclusions

It was noted in the previous sections that one of the objectives of this paper is to understand the historical incompatibility between the two development agendas: secular and Islamic, and to explore how ISF instruments align with secular development organizations and support in achieving SDGs. This paper seeks to explore the progress made to narrow the gap between the two sides and use ISF to finance development and humanitarian aid globally. ISF has multiple mechanisms and tools based on the values of cooperation, compassion and care for the weak and fragile segments of society [60]. Islamic social finance instruments such as *Zakat*, *Waqf* and *Sadaqah* are multi-dimensional and responsible tools by nature. They redistribute a portion of the income achieved by successful market players to support marginalized groups in society. However, the mechanisms and capabilities that ISF possesses have not yet been explored thoroughly [60]. Figure 2 below outlines the emerging themes on policy divergence.

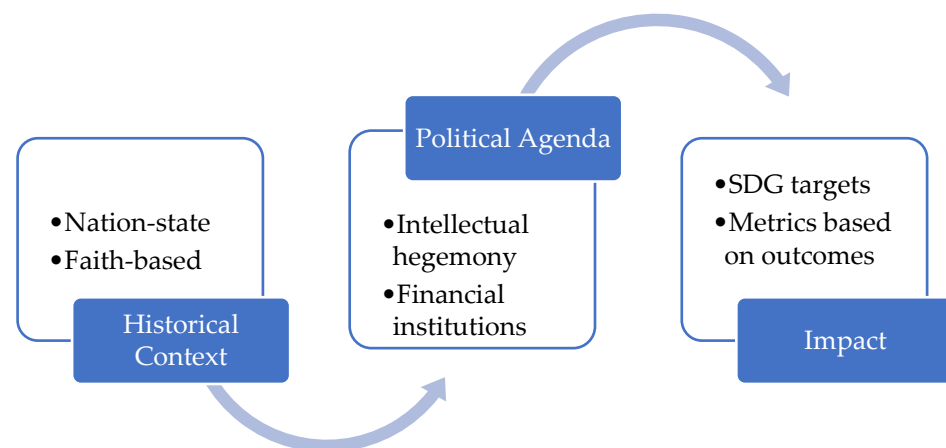


Figure 2. The emerging themes on policy divergence.

As discussed in section two, there are policy divides between Western and Muslim countries regarding development aid, especially concerning faith-based development aid. Policy divisions may not be only at the state level, and they could be among various actors, including development organizations. Global development agendas, such as SDGs, are often considered mutually inclusive, and achieving these shared goals needs cooperation and partnership among all parties [53]. Reducing policy constraints, in this regard, helps to provide a more efficient and cost-effective system to achieve the objectives of global development aid and to tackle humanitarian crises throughout the developing world [18]. The importance of developing a framework for policy convergence among entities to channel funds for cross-country development and humanitarian aid, which accelerates the achievement of the SDGs, has been the main agenda during the past few years [60].

5.1. Aligning the ISF Instrument with the SDGs

The SDG action agenda provides a new global framework for financing sustainable development by aligning all financing flows and policies with economic, social and environmental priorities. When the SDG framework was adopted as a universal call to action in 2015, the ‘partnership’ among all parties was one of the 17 SDGs [53]. Partnership on the 17 SDGs refers to the need for cross-sector and cross-country collaboration to pursue all the goals. Therefore, it is essential to believe that partnership and cooperation among various stakeholders are the only effective ways to realize the ambitions of the *Addis Ababa* Action Agenda by 2030. The SDGs can only be realized with strong global partnerships and cooperation [54]. In this regard, Islamic social finance institutions, particularly *Zakat* and *Waqf*, should be an integral part of the solution, as they play a pivotal role in achieving basic SDGs by addressing the challenges of ending extreme poverty, boosting shared prosperity, responding to the pandemic and achieving the SDGs. Alleviating hunger, poverty,

and inequality; promoting peace; and protecting the environment are central to Islamic principles and are embodied in the culture of these institutions. These principles can be embedded and aligned with the SDGs, which can complement each other to utilize their instruments in the principles of shared responsibility and societal solidarity [53,72].

Zakat, *Sadaqat* and *Waqf* share in essence with SDGs a considerable portion of profound commonalities. The first and foremost commonality is that *Zakat* recipients are poor and needy/vulnerable, which aligns with SDG-1 (end poverty in all forms) and SDG-2 (achieve food security and zero hunger in the world). Moreover, *Zakat* reflects the spirit of SDGs, such as by reducing inequality (SDGs-10) and by supporting economic growth by transferring idle wealth to the less fortunate to empower them as well as to provide them with socio-economic opportunities to grow (SDG-8) [87]. In general, *Zakat*, *Waqf* and *Sadaqat* have long been used to help the poor, at-risk and destitute in a variety of ways, for instance, by providing access to affordable housing (SDG-11), by improving the quality of living standards and implementing better avenues to good healthcare (SDG-3) and education (SDG-4) and by providing access to clean water and sanitation (SDG-6) [60].

For the last few decades, Islamic financing instruments, in general, and Islamic social instruments, in particular, have been growing and are expected to play a substantial role in the economic sustenance and social justice of society. However, their impact has not yet been recognized, as the majority of humanitarian crises, mainly refugee crises, have been happening in the Muslim world, and they are still dependent on mainstream development aid agents. Therefore, mechanisms need to be explored to unlock the potential of ISF instruments to utilize them efficiently to overcome existing humanitarian crises, thus boosting prosperity, achieving intended development goals by reducing poverty and improving access to quality of health, education and other social goods [60].

This ISF sector has the potential to contribute strongly to financing the SDGs. *Zakat*, *Sadaqat* and *Waqf* institutions enjoy sufficient financial capacity to help Muslim countries at least to realize the most relevant and urgent SDGs, including poverty, health, education and water and sanitation [72]. Their financing tools can be a sustainable source of finance to help global humanitarian and development aid. Mobilizing *Zakat* from donors to poor and Muslim minority countries through international development aid and charitable organizations can fill existing development gaps in financing global humanitarian crises. Multilateral development organizations, including the Islamic Development Bank, suggest filling existing resource gaps to achieve SDGs in some Muslim countries through effective resource mobilization of charitable giving, such as *Zakat* and *Sadaqat*.

However, mobilizing resources collected using ISF instruments to international development programs has many obstacles, including policy constraints and donor psychology. An enabling policy framework needs to be built to channel ISF towards SDG-related activities and to fill existing gaps. A holistic approach is also required to change donor behavior and to adapt reporting and regulatory frameworks to collect, for example, *Zakat*-related information and capture funds [51].

5.2. Initiatives to Use ISF Instruments in Global Development Aid

ISF instruments, especially *Sadaqat* and *Zakat* funds, have been mainly distributed through informal channels only to poor Muslims in Muslim countries. A few countries, such as Sudan, Malaysia, Indonesia, the UAE and Qatar, have established government-linked organizations that take responsibility for collecting and distributing *Zakat* funds [51]. In countries such as Malaysia and Sudan, the *Zakat* fund is mainly used to meet domestic needs.

Donating *Zakat* funds to international development and humanitarian aid has not been commonplace for centuries. However, recently, a few countries, including Malaysia and Indonesia, have started donating ISF funds from local needs to international priorities. These countries spend part of their *Zakat* funds to support needy people living outside their territories through their national *Zakat* agencies, through international organization platforms that capture *Zakat* or through non-profit organizations [51]. These agencies do not always operate internationally but can do so through an international window, integrated

within the country's development cooperation activities. For example, the Indonesian National Amil *Zakat* Agency delivers scholarships, humanitarian aid, refugee support, food aid and cooperation related to peace and security to other countries using *Zakat* funds. Another example is the United Arab Emirates *Zakat* Fund, which disburses funds for domestic donors to implement projects abroad [88].

In addition, international organizations have been showing high interest in collecting *Zakat* through their transparent and accessible platforms aimed towards using their funds in global aid activities. Different UN entities have already introduced platforms, mainly in the region of *Zakat* trust funds and global equity philanthropy funds, aiming to assist almost 90 million children in need of basic humanitarian support [60]. One of these organizations with the highest profile is the UNHCR, which has internationally accessible *Zakat* collection platforms [89]. However, the practice of giving *Zakat* funds to UN agencies and other international organizations that have well-organized platforms to capture *Zakat* is very uncommon. Despite the increased transparency and profile that the UNHCR can offer, its platforms are still not the preferred method to the Muslim community for giving their *Zakat* [51]. The main reasons may be lack of trust from *Zakat* payers and the inability to obtain enough support from Shariah scholars regarding the giving of favorable *fatawa* (Islamic verdicts) that motivate *Zakat* payers to use these organizations platforms. The UNHCR has been seeking *fatawa* from religious institutions, including from the OIC *Fiqh* academy and Al-Azhar, to collect *Zakat* and to raise funds using other ISF tools to support refugees residing in Egypt, Iraq, Jordan, Bangladesh, Yemen, Lebanon, Mauritania and Myanmar [60,90].

The UNHCR *Zakat* refugee fund implements several humanitarian programs which are directly related to core SDGs, such as shelter, healthcare, education, economic inclusion and cash assistance. Although the platform helps Islamic institutions and individuals to fulfill their social responsibility duties by transferring their *Zakat* funds into a global fund to aid the most vulnerable displaced populations, the response from the Muslim world is not satisfactory [89].

5.3. Using ISF Instruments in Global Priorities: From Policy Divide to Convergence

The argument of using ISF instruments, especially *Zakat*, in global development and humanitarian aid programs to accelerate the achievements of SDGs has been the concern of scholars and stakeholders for a long time. This issue has been raised and debated in high-level seminars organized by international organizations, such as the UNDP, ECOWAS, IsDB, UNICEF, UNCHR and others [91]. However, the world humanitarian summit held in 2016 was the first international high-level forum to discuss Islamic social finance and its financing tools [92]. The aim was to come up with a mechanism that helps everyone to benefit from *Zakat* funds all over the world, not only in donor countries such as the Gulf countries. Since then, many high-level roundtable discussions, seminars and workshops have been held to discuss the possibility of using ISF instruments in global priorities, primarily providing support for refugees and providing humanitarian aid when needed [60,91].

In 2021 alone, the UN conducted 12 seminars to better understand the existing mechanisms that leverage Islamic social financing for the SDGs. Ongoing debates are essential to better understand Islamic social finance instruments and to explore the best mechanism to move them from local needs to international priorities. Despite their vast potential, the issue of some sacred instruments, such as *Zakat*, is very sensitive in Islam. If a Muslim obtained this kind of sensitivity for *Zakat*, that person may not give responsibility to any organization to send his *Zakat* to needy people [89]. As *Zakat* is one of the five pillars of Islam, *Zakat* payers must be sure that their *Zakat* is going to the right people according to the categories described in the Shariah law. In this regard, dialogues among scholars are essential for addressing these kinds of issues and for recommending a Shariah-compliant mechanism to use *Zakat* funds and other ISF instruments beyond domestic consumption.

Ongoing discussions have started receiving positive responses, as religious organizations in some countries, such as Malaysia, issued *fatawas* to use *Zakat* funds to provide

humanitarian aid to those who need it regardless of their religions (IFRC, 2018). A few organizations, including UNICEF and UNHCR, have also received positive responses from some scholars for collecting *Zakat* through their platforms, and they use it in mainstream development aid activities. For example, the UN, particularly ESCWA, is playing an initiative role in unlocking the potential of Islamic social finance for the benefit of the southeast Asia region, perhaps globally as well. The UNHCR also launched its Refugee *Zakat* Fund in 2019 to transform its existing *Zakat* fund program into a global fund to aid the most vulnerable displaced populations [89].

There are global initiatives of cooperation to use ISF tools of *Zakat*, *Waqf* and *Sadaqat* as social interventions in mainstream development aid programs. Islamic multilateral organizations and national *Zakat* fund organizations have started to work together with UN entities and international organizations to deliver humanitarian aid and sustainable livelihood to poor people worldwide. One of these initiatives is cooperation among the International Federation of Red Cross and Red Crescent Societies (IFRC), Malaysian National *Zakat* Council and Kenya Red Cross to support people living in the Keitu region in Kenya. The Malaysian *Zakat* organization donated nearly 1.2 million USD through the International Federation of Red Cross and Red Crescent Societies (IFRC) to support poor society groups in Kenya affected by drought in 2016 [84]. They use cash-based interventions to help communities from drought.

The IFRC, together with the *Zakat* Council of Malaysia, uses *Zakat* funding from Malaysia to make untapped contributions that Islamic social financing can make in the area of global priorities and development cooperation. The justification for delivering the *Zakat* fund to a non-Muslim society is supporting or saving humanity. The people in that area show a clear need for humanitarian assistance, qualifying them under the categories (*Asnaf*) of people eligible for *Zakat* distribution. Helping all of humankind is a part of Islamic Shariah, as the Quran mentions that the purpose of sending the final messenger is a mercy to all humankind [84]. Cash-based interventions target providing relief aid and creating sustainable livelihoods for 175,000 households, which is around 1.2 million people and their livestock (Table 1).

The other rising profile of Islamic social finance is the Global Muslim Philanthropy Fund for Children, which was jointly launched by the IsDB and UNICEF, and it is mainly based on *Zakat and Sadaqat contributions* [85]. The fund catalyzes massive and long-term change benefiting refugees and residents in OIC member countries (see Table 1). The fund is expected to address inequality among vulnerable populations in some of the poorest parts of the world. It enables Muslim philanthropists to work collectively as a global coalition to strategically maximize impact. Accordingly, the fund helps achieve the child-related United Nations Sustainable Development Goals and supports children and families in need [60].

Similarly, IFRC, in collaboration with IsDB, launched a new fund using Islamic social finance instruments. The fund, known as The One WASH (Water, Sanitation and Hygiene) Fund, aims to combat cholera and other diarrheal diseases in 29 OIC member countries (IFRC, 2021). By the end of 2030, the project is expected to cut cholera deaths by 90 percent and to improve the lives of 5 million people in 29 OIC member countries. The project is financed using partnership modalities: philanthropic donor financing (*Zakat and Sadaqat funds*) and proceeds from the issuance of impact Sukuk (*Shariah-compliant bonds*). The IFRC's global One WASH program supports UN Sustainable Development Goals 3, 5, 6 and 17 (see Table 1).

However, to maximize the effective utilization of ISF instruments towards achieving SDGs and filling gaps in SDGs concerning refugees, the ongoing dialogue should be more inclusive and attract all stakeholders, including Muslim leaders, policymakers and Shariah scholars, which helps to narrow policy gaps and draw policy coherence. The process of mainstreaming Islamic social finance is not straightforward. Many Arab and Muslim policymakers have not started engaging in this debate. Similarly, Islamic charitable organizations find UN programs as new competitors in their backyard and threats to their

particular advantages. Thus, experts and scholars need to take part in this new initiative to bridge sacred sources of finance with secular development aid based on *Maqasid al-Shariah* (Figure 3).



Figure 3. Maqasid Al Shariah and SDGs. Source: ESCWA [60].

Therefore, it is necessary to launch a series of more global dialogues by bringing all stakeholders from both sides, from Muslim countries and the West. This study recommends that Muslim leaders, policymakers and international organizations should come together to narrow policy gaps and to draw policy coherence for using ISF tools in duality aid programs and to create synergies towards achieving SDGs. International cooperation enables Islamic organizations to emerge as international humanitarian and development aid actors. It also enlarges the scope of humanitarian aid instead of dividing it as secular and Islamic. Islamic organizations can come to the front to work hand in hand with mainstream organizations to solve issues of humanity, such as those of refugees, poverty and achieving SDGs. Accordingly, ongoing debates should bring a new tradition of using ISF instruments as international development aid for all humans rather than only for Muslims in Muslim regions.

Given the increasing dialogue and interaction between the UN and Islamic actors, institutions and stakeholders, more policy space should be opened up and initiated by both realms. Emerging policy spaces should by default avoid binary distinctions, e.g., Islam vs. the West, etc. Instead, new languages informing policy makers should be gradually designed by a new language, referring to a more South–South cooperation style, with cooperative, intersectoral and interagency networks rather than hierarchical arrangements.

The debate should also include the importance of localizing SDGs, the management of ISF (government or non-government level) and the way to re-link *Maqasid al-Shariah* with sustainability through ISF [See Figure 3]. It is important to go beyond duality and make ISF tools part of global development aid. It should identify ways in which Muslim countries and international organizations can harness opportunities presented by Islamic social finance to contribute towards the SDGs.

However, the present financial context has created several challenges that need to be taken into consideration for impactful ISF. There are also some other challenges that are considered limitations for the possibility for the implementation of effective ISF. These include higher interest rates, as outlined by [93,94], in which the nominal interest rate of MFIs varies from 20% up to 80%.

Moreover, restoring social trust is critical for nurturing a sustainable ISF system. There may remain cognitive, demographic or economic factors for establishing social trust among people in a particular setup. The magnitude of social trust is reflected by the

financial transactional attitudes of the people. Financial technology is also shaping new platforms and business models to foster innovation in the business and finance sector. People are becoming self-centered and do not engage themselves in complex financial affairs. However, ISF establishes social trust and social coherence through supporting refugees and marginalized people.

It is crucial to re-think the fragmentation discourse of humanitarian funding which separates social, economic and environmental agendas, and the Islamic worldview is founded on the notion of unity and wholeness (tawheed) since the human and environmental domains are interdependent and inseparable [1]. In summary, sound faith-based institutions and good governance, supervisory boards, and audit systems underpinned by Maqasid Shariah are key to formalize ISF programs. Shariah-based ISF can be an alternative source of financial support for poor people in many Muslim-majority countries across the world. Therefore, ISF can greatly contribute to poverty alleviation, financial development and financial inclusion in a more efficient and just manner, since it contains unique characteristics and high moral values.

Finally, it is also important to note that this study was carried out based on a limited number of case studies due to the unavailability of cases directly related to the topic at hand. It was also carried out based on secondary data collected from various sources. Therefore, forthcoming studies on this topic should be based on more cases and a larger sample size selected from diverse geographical areas. It should also implement primary data collection tools to collect data directly from stakeholders, including Zakat payers, facilitators and recipients.

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