**Draft Concept Paper**

**Islamic finance and humanitarian action: building the links**

Background

The number of people affected by humanitarian crises has almost doubled in the past decade, during which time the overall cost of humanitarian assistance rose three-fold. This trend is set to rise, as a result of climate change, environmental degradation, food and energy price spikes, rapid population growth, and rapid, unplanned urbanization. The gulf between needs and resources has the potential to widen ever further, particularly if economic pressures result in donors having to flat line or even curb their contributions.

This will place ever greater demands on a system under ever greater strain. The last year demonstrates the challenges faced, as a result of conflict (notably the Central African Republic, Iraq, occupied Palestinian territory, Syria and South Sudan), natural disasters (notably Typhoon Haiyan in the Philippines) and pandemics (the Ebola crisis in West Africa). This is on top of protracted crises, such as in the Horn of Africa and Sahel, where substantial resources are required every year.

As a result, there is a need for a radical re-look at how humanitarian needs are addressed for the challenges of the future. This is one of the core issues that needs to be addressed at the World Humanitarian Summit, which will be held in May 2016 in Istanbul. Another issue is localising the response - placing much greater emphasis on helping countries and communities to manage disaster risk and response by themselves.

From a financing side, there are three different components to this. The first is generating efficiencies and introducing measures, such as scaling up cash transfers and providing early response, which reduce the costs of the response. The second is reducing the humanitarian caseload by, for example, investing more in preparedness, reaching durable solutions to protracted displacement and getting development partners to take on greater responsibility for supporting those recurrently affected by shocks. The third is diversifying the humanitarian finance base. There will need to be progress on all three fronts.

In the case of the third issue, one issue that has been explored is the potential to increase the level of finance generated from within the Muslim world, notably Gulf States, to provide support for the international humanitarian system. This has had mixed results. Global contributions from the Muslim world to humanitarian systems have represented between 5-7% in the past two years. In the case of the Central Emergency Response Fund, the primary contingency reserve of the UN, the contribution from the Muslim world has since 2006 to date been below 0.05%.

However, it is expected that there has also been significant contribution from private individuals, Islamic social finance and other sources to address humanitarian needs, though these are not well reported.

It has been estimated that every year, somewhere between US$200 billion and US$1 trillion are spent in “mandatory” alms and voluntary charity across the Muslim world[[1]](#footnote-1). In the case of zakat, it is estimated that potential levels range from 0.26 to 4.18% of GDP, depending on the country and under different scenarios[[2]](#footnote-2). In the case of waqf, it is estimated that the potential increase in market value and return from assets could be dramatically increased. For example, it is estimated that the market value of waqf property in India could be as much as $24bn, and generate $2.4bn per year[[3]](#footnote-3). There has been considerable research in addressing the role of zakat and waqf for poverty alleviation but very little, if any, has been done to address the gaps in humanitarian financing from these sources of funds[[4]](#footnote-4).

A number of initiatives are now underway to try to realise this potential, for example by generating greater investment in these assets, such as through sukuk. However, given the diverse number and governance of both zakat and waqf systems in operation and the different legal and regulatory regimes in different countries, it is not clear what the potential opportunity for increasing their contribution to humanitarian assistance is. Additional issues to be considered include having appropriate ways to channel this finance, especially for local and regional humanitarian agencies, and restrictions on when these finances need to be spent.

There is also an interest to explore potential opportunities for scaling up takaful, as a way of enhancing risk management at household, enterprise, local government and sovereign levels.

Potential issues to explore

* What are the potential opportunities for increasing the contribution of Islamic social finance, such as from zakat and waqf to humanitarian action, in particular for local and regional level humanitarian organisations?
* What are the potential of other Islamic finance practices, such as zukuk and hajj funds, including through corporate social responsibility?
* What is the potential for stimulating the take up of takaful?
* What could be the potential scale and impact of these contributions?
* What would be the steps required in order to take forward these contributions?
* What is the potential of launching a new initiative or mechanism at the time of the World Humanitarian Summit?

Next step

In order to start this process of exploration, it is proposed that a meeting be held of leading Islamic Finance experts to assess what are most appropriate avenues to explore and, based on this, determine what would be specific strands of work that would need to be undertaken in order to practically build these linkages.

The first meeting will be held on 29-30 January 2015 in partnership with the Oxford Centre for Islamic Studies. This will be followed by a series of workshops and roundtables leading to the World Islamic Economic Forum in October 2015 and the World Humanitarian Summit in May 2016. Expertise would be drawn from commercial Islamic banks, the Islamic Development Bank, the World Bank, non-governmental organisations and academia. The final output aimed for is a robust financing mechanism to meet humanitarian demands in national and regional contexts using Islamic Social Finance mechanisms.

Three concern which are related to human.

**Ideological ground - Philosophical**

Creating very strong linkage between real economy and financial economy

Objection is that is based on this philosophy

Real dlink has created financial crisis

Delinking of

The conventional economy system is much bigger than real economy

Support the sector which creates more profit and prefer creating the wealth t

**IF has not lived up to its expectation?**

**Why it has not lived? How to make it Islamic if it is worth in ideology and scope then make sure let’s work**

**Two reasons:**

1. Not human capital available to practice Islamic finance
2. IF working under the regulatory environment which is biased to the conventional finance
3. The entire IF infrastructure is conventional finance

**Afrad and mahool – we need to put concerted efforts**

**Financing Working level** –

As it ground that they make sure that there is not sector

Avoiding the harmful means of business and harm sector

Filtering socially hamful sector

**After creating the Wealth the** Emphasis- re distribution of wealth among the poor

Sadaqa, Zaka, Waqf, Qard Hassan, Inheritance

Philanthropic issue – are encourage

Waqf and sadaqa

1. IRIN (June 2012). Analysis: A faith-based aid revolution in the Muslim world? [↑](#footnote-ref-1)
2. IRTI and Thomson Reuters (2013) Islamic Social Finance Report 2014. [↑](#footnote-ref-2)
3. *Ibid* [↑](#footnote-ref-3)
4. ‘Role of zakat and Awqaf in poverty alleviation’ http://www.irtipms.org/pubtext/201.pdf [↑](#footnote-ref-4)