

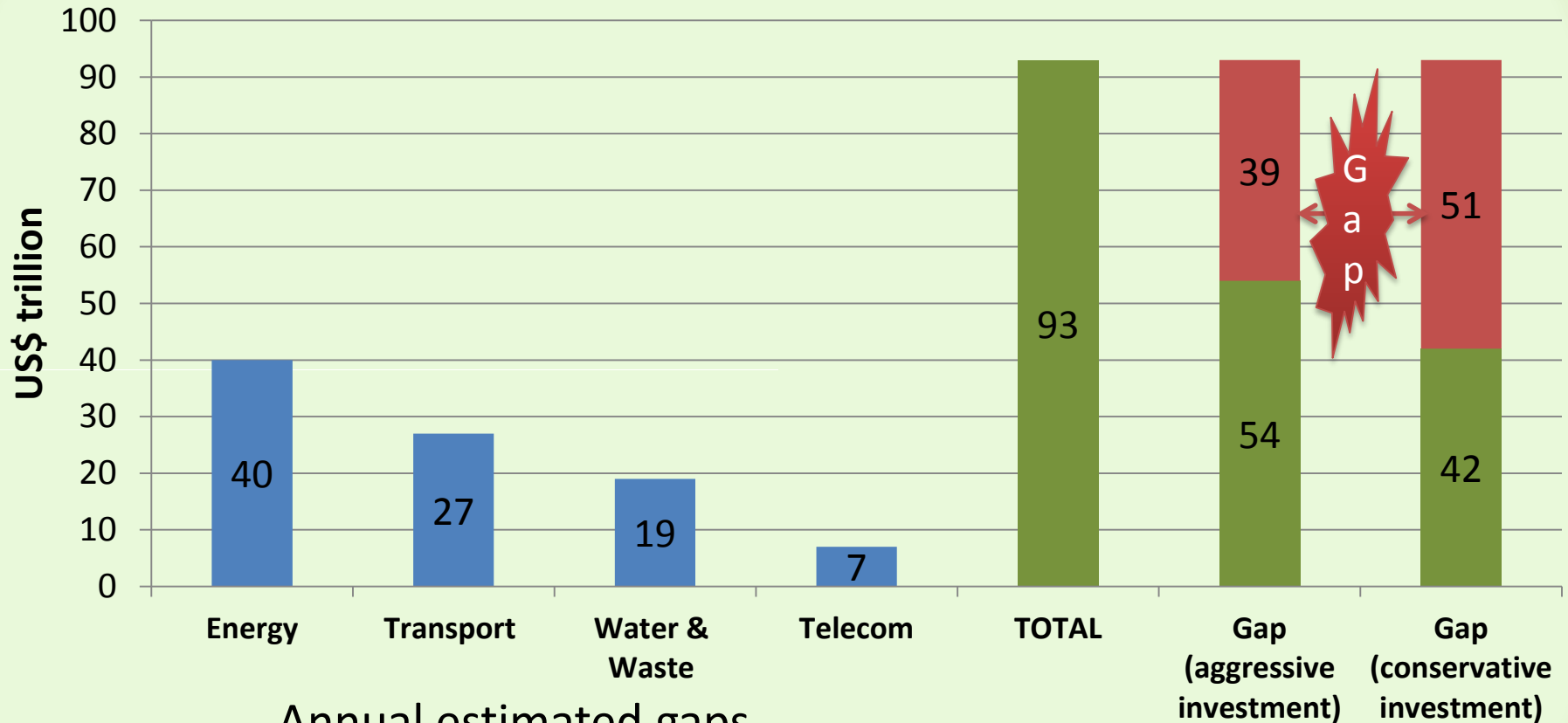
Contribution of Islamic Finance to the 2030 Agenda for Sustainable Development

(with special reference to infrastructure finance)

Habib Ahmed

Durham University Business School, UK

Infrastructure Investment Needs and Gaps 2015-2030



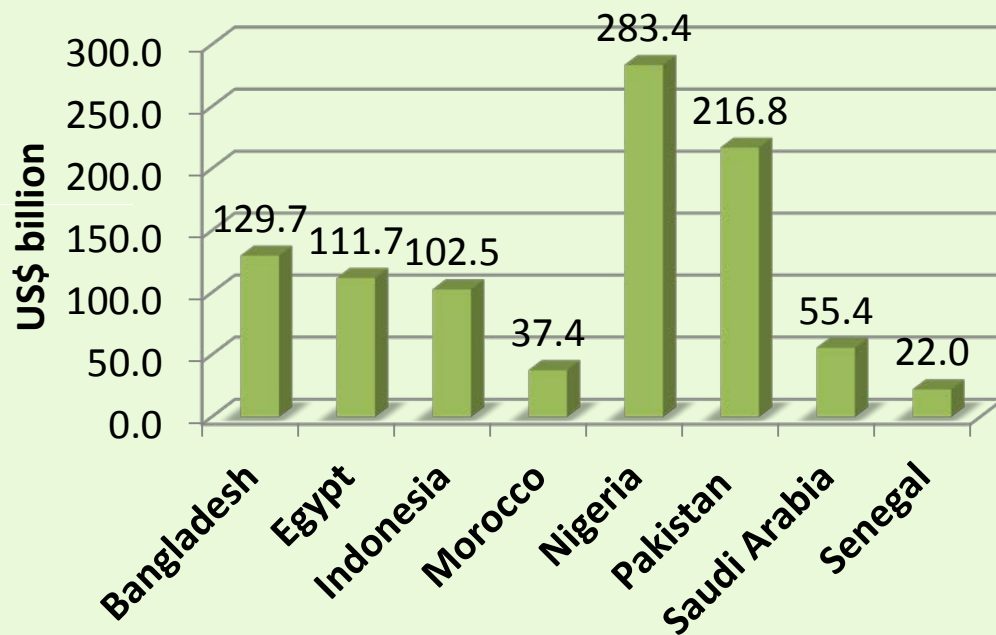
Sources of Financing SDGs

	Public	Private
Domestic	<ul style="list-style-type: none">•Government Revenue (tax/duties)•Natural resource concessions•User fees•Public borrowing	<ul style="list-style-type: none">•Domestic Private investments•Non-governmental organizations•Philanthropy/social responsibility
	Public-private partnership (PPP)	
	Blended Finance	
International	<ul style="list-style-type: none">•Official development assistance (ODA)•Climate Finance•Multilateral development banks (MDBs)•Sovereign wealth funds	<ul style="list-style-type: none">•Foreign direct investment (FDI)•Multilateral infrastructure funds•Remittances•Foreign pension funds•International bank loans

SDG Status & Infrastructure Investment Needs in Selected OIC MCs

Country Groups	Mean SDG Index
10 Highest Scoring Countries	80.8
44 OIC Member Countries	50.1
10 Lowest Scoring Countries	32.9

Projected Investment Gaps in Sustainable Infrastructure (2017-2030)



Why Islamic Finance?

- Voluntary exclusion
 - 20% to 40% of the population avoid conventional microfinance
 - Preference for Islamic finance from 5 countries
 - 45% of 5,071 respondents
 - 32.2% SMEs
- Providing Islamic financial services is
 - **Financial inclusion** issue at the micro level
 - **Development** issue at the macro level



Islamic Finance: Principles

- Moral/ethical overlay: Overall goals of Shariah—enhancing welfare (*maslaha*) and preventing harm (*mafsada*)
- Legal requirements: Certain **prohibitions** apply at operational level
 - Activities and products (exploitation, gambling, alcohol, pork, etc.)
 - *Riba* (includes interest, sale of debt)
 - *Gharar*—legal ambiguity and excessive risk (includes derivatives)



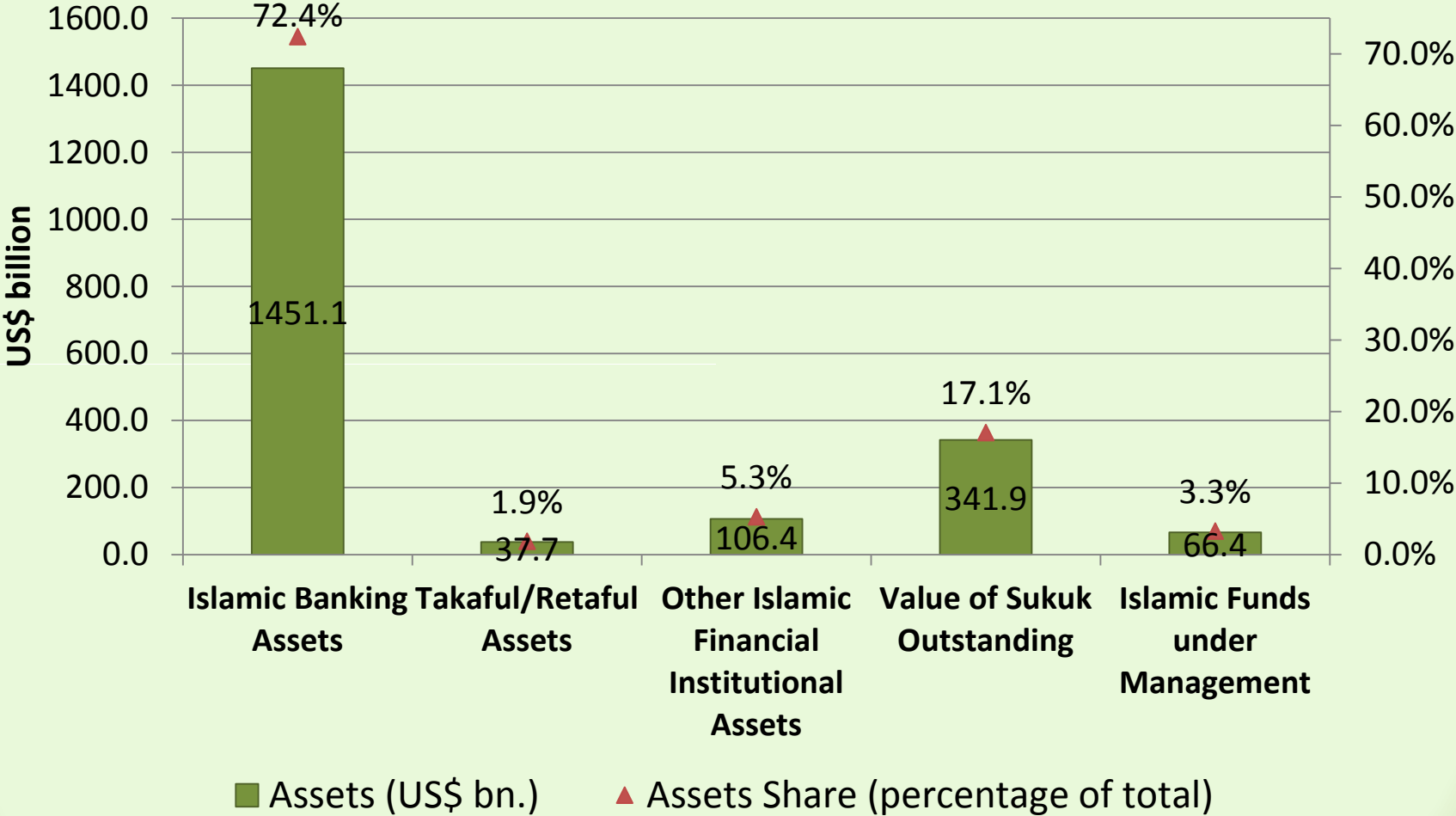
Islamic Finance: Contracts

- Key contracts
 - Sale based—*Murabahah, Istisna, Salam*
 - Asset based—Leasing (*Ijarah*)
 - Equity based—*Mudarabah, Musharakah*
 - Agency based—*Wakala*
 - Interest free loans (*qard hassan*) or loans at service charges



- Supporting contracts
 - Gift (*hiba*), guarantee (*kafala*), mortgage (*rahn*), etc.

Global Islamic Financial Assets 2016



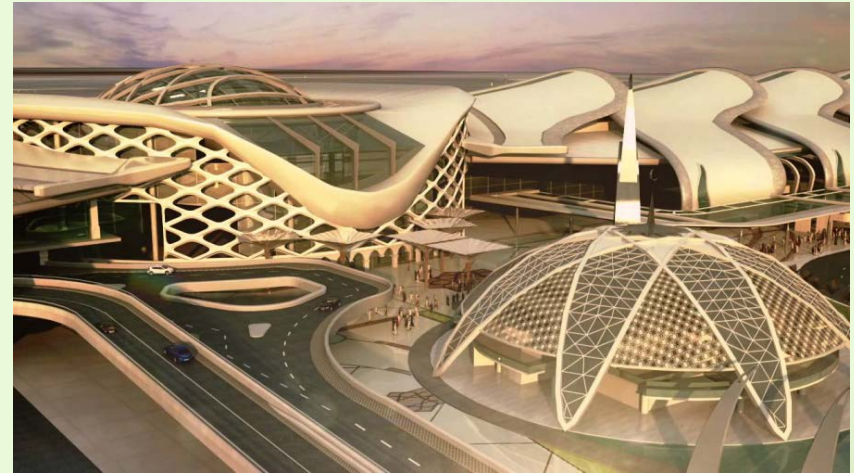
Islamic Finance, SDGs and Infrastructure Investments

- Social and ethical ethos, asset-linked and risk-sharing features of Islamic finance—conducive for financing SDGs and infrastructure projects
- Role of Islamic financial industry
 - Banks
 - Nonbank financial institutions
 - Financial markets

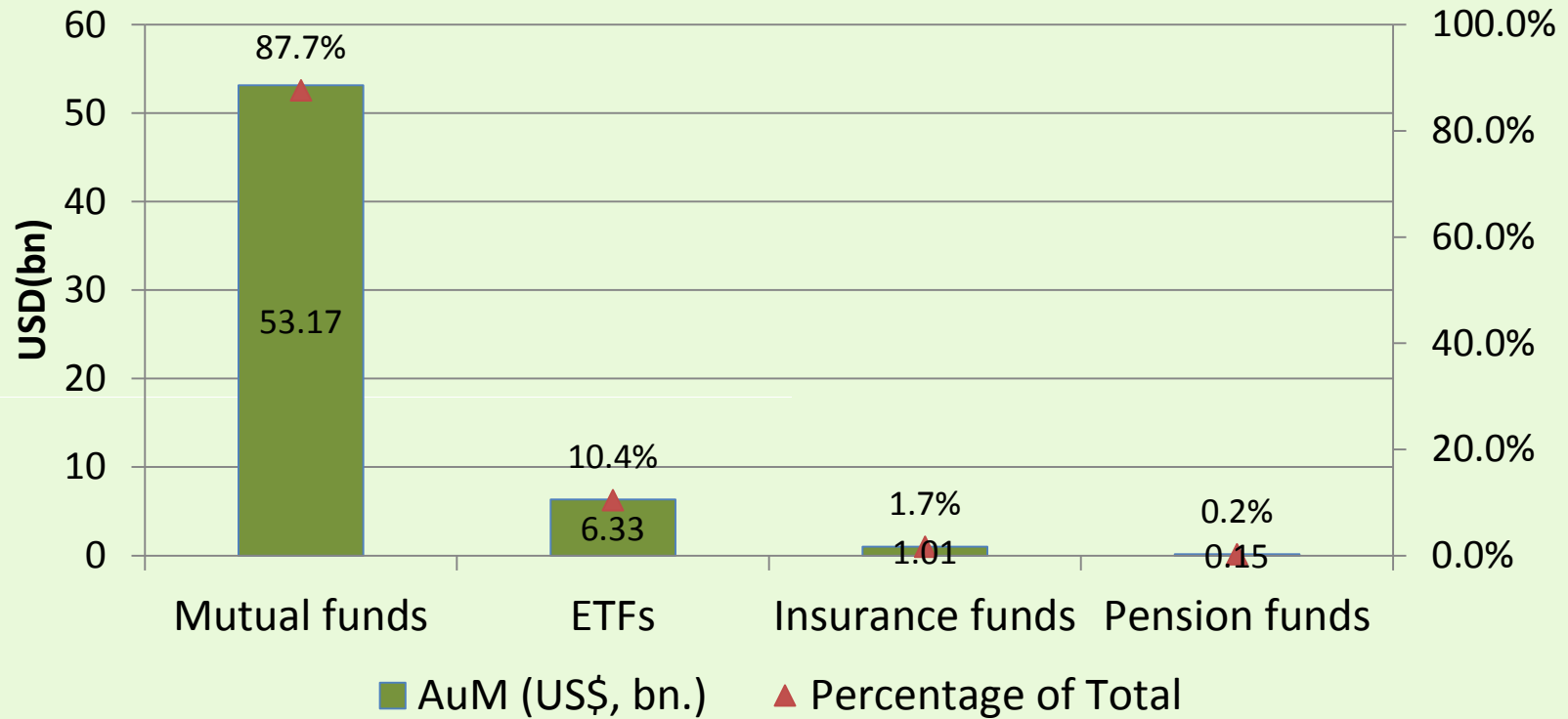


Islamic Banks and Infrastructure Financing

- Islamic banks are small—usually participate in smaller tranches of syndications
- With growth of the sector, infrastructure projects are being fully financed by Islamic syndications
 - Doraleh Container Terminal in Djibouti (US\$ 422 million)
 - Madinah International Airport in Saudi Arabia (US\$ 1.14 billion)

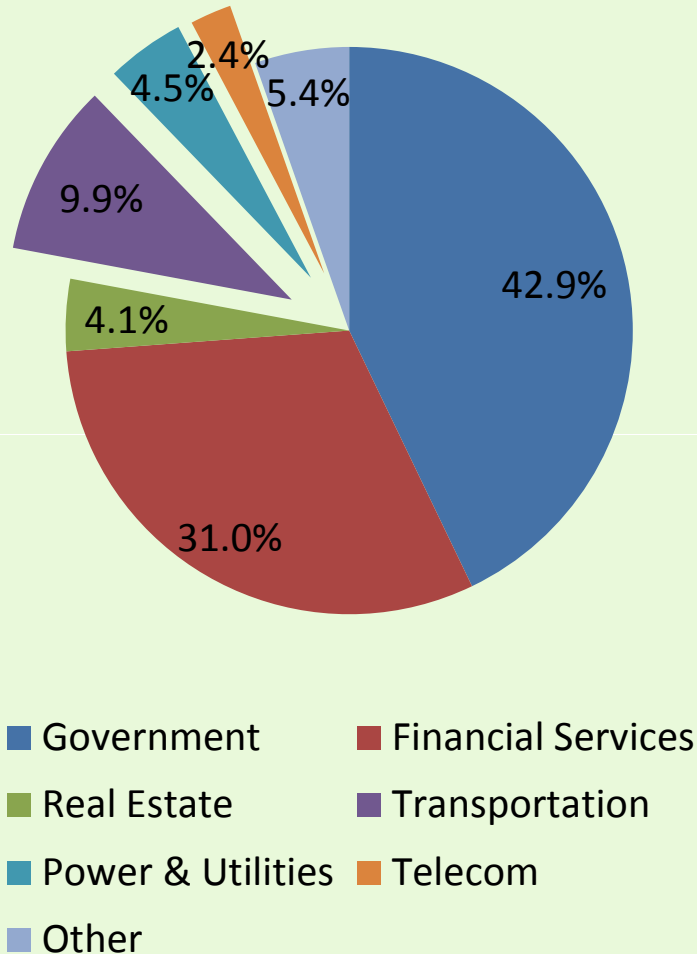


Islamic NBFIs and Infrastructure Financing



Islamic NBFIs and infrastructure investments are very small

Sukuk and Infrastructure Financing



- Sukuk issuances for infrastructure is relatively small
- Some cases in *sukuk* used for infrastructure projects
 - Neelum Jhelum Sukuk, Pakistan: PKR 100 billion for hydropower dam
 - DanaInfra Retail Sukuk, Malaysia: MYR 2.5 billion for MRT project
 - East Klang Valley Expressway Sukuk, Malaysia: MYR 1 billion for expressway

Islamic Finance and Sustainable Infrastructure

- Islamic Banks
 - Syndicate financing of US\$50million for Master Wind Energy Limited, Pakistan for wind farm (wind turbines)
- *Sukuk*
 - Khazanah SRI *Sukuk*—*variable* returns based on whether KPIs are met
- Islamic Social Finance
 - Establishment of 18 *Waqaf an-Noor* clinics and a hospital by Jcorp, Malaysia (1.4 million treatments at minimum fee of MYR 5 only)



Recommendations-Government

1. National SDG Strategy and Infrastructure Policies

- Infrastructure plan—list of pipeline of projects
- Financial plan how to finance sustainable infrastructure projects (role of Islamic finance)



2. Legal and Regulatory Framework

- Islamic financial laws (banking, NBFIs and capital markets)
- Tax laws; Shariah compliant concession law; SRI related laws



3. Public-Private Partnerships

- Raising awareness and developing Shariah compliant contracts
- Standardization of documentations and approaches

Recommendations-Financial Sector

4. Capital Markets

- Islamic capital market infrastructure
- National level Shariah governance regime
- Standardized *sukuk* structures
- Liquid *sukuk* market



5. Financial Institutions

- Increase the share of Islamic NBFIs
- Promote the Islamic social finance sector



6. Products

- Develop products for infrastructure as an asset class
- ESG embedded products
- Risk-sharing investment accounts
- Tradable and liquid *sukuk* structures

Recommendations-Others

7. Multilateral Institutions

- MDBs provide financing for infrastructure
- Islamic infrastructure funds
- Building capacity and human capital
- Standardized Shariah compliant templates and structures for sustainable infrastructure investments



8. Conceptual Outlook & Mind-set

- Integrate ESG criteria in financing decision-making
- Move from short-term to long-term financing
- Islamic finance: move from narrow legalistic compliance to include broader goals of Shariah