FINANCING SOLUTIONS FOR SDGs

EXAMINING THE ROLE OF PPP AND ISLAMIC FINANCE

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Agenda

- PPP arrangements as some of the most efficient financial structures that could deliver the SDGs;
- The role of Islamic Finance in achieving the SDGs;
- How to further accelerate PPP and Islamic Finance to become a more important contributor to achieve the SDGs.

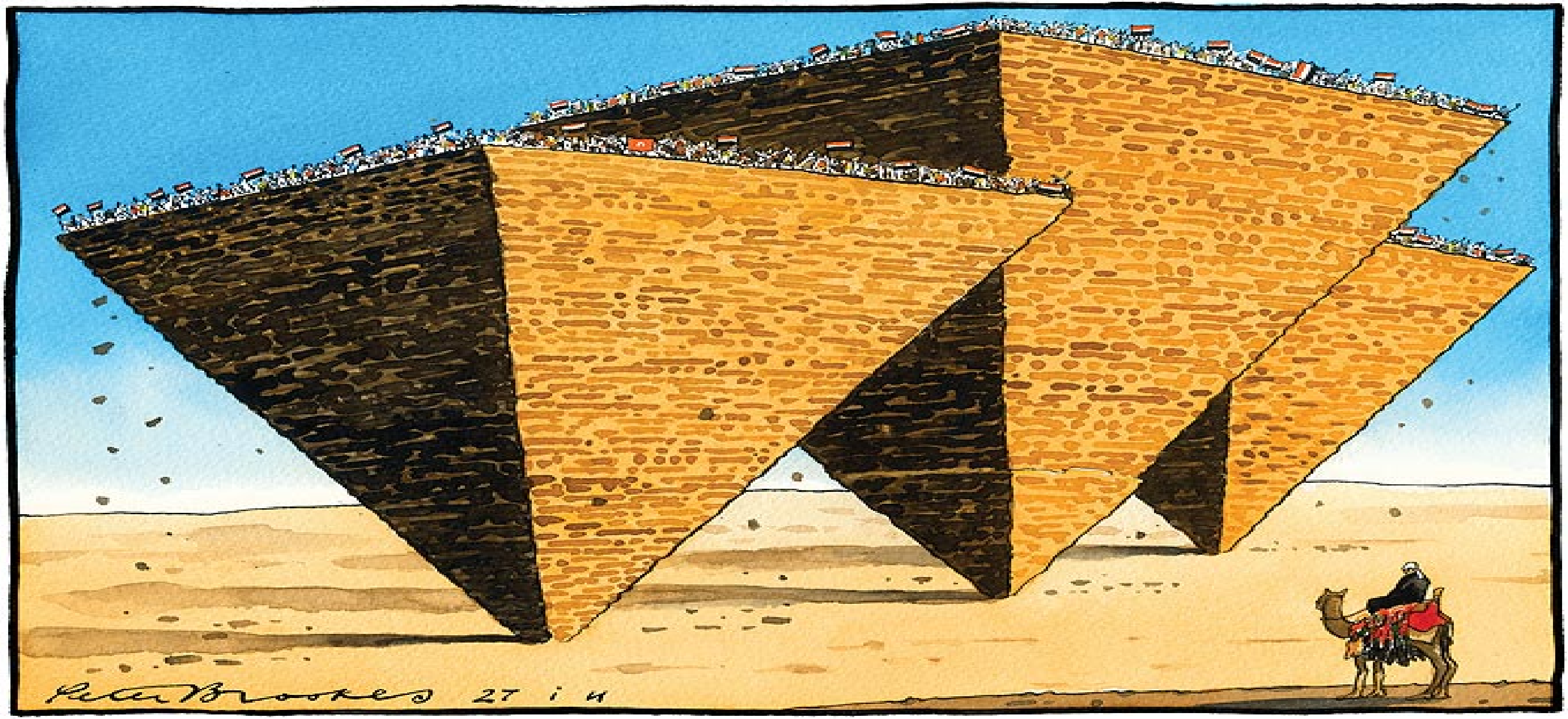
Sustainable Development Goals (SDGs)

SDGs require the delivery of robust and efficient infrastructure

PPP based Infrastructure is a Catalyst for SDGs

- Governments Challenges:
  - Sufficient level of Funds;
    - Requirements are trillions, but resource are in the billions;
    - Private Sector ability to bridge the gap;
  - Sectorial and Market experience to navigate complex projects.
- IDBs Experience with PPPs:
  - On time, on budget and to standard project execution;
    - No compromise on all aspects of due diligence.
      - Focus on the partnership created and risk shared are appropriate.
  - Development impact is significant.
- The Governments role is critical for the success of PPP:
  - Enabling Environment;
  - Oversight

PPP is about a mind-set change



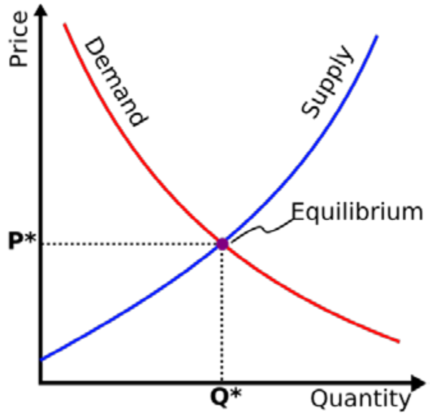
Islamic Finance

- Islamic Finance VS Conventional Finance
  - Money
    - A contractual arrangement representing wealth.
  - Finance
    - Management of Money
  - Islamic Finance
    - Management and application of Money in a Sharia compliant manner:
      - Financial Inclusion and shared prosperity

Islamic finance essentially is an expression of an economic philosophy for **sustainable management** and **utilization** of available economic resources/money. It is defined to be "Islamic" when the terms and conditions of such financing are in accordance with the principles of'Sharia', which is a set of moral codes laid out in the Quran and teachings of the Prophet PBUH.

Basic Sharia principles

- **Money can not Grow in value on its own:**
  - It is a conceptual contract representing wealth;
  - Interest on money, a guaranteed return, is prohibited under Sharia.
- **Money has to be backed by an Asset:**
  - The Real Economy
  - Asset can increase in value
    - A Profit is allowed under Sharia
  - Thus the Money attached to Assets can grow in value
    - Profits so created may be shared
      - Same for Losses
- **Only Sharia Compliant Assets to be funded:**



Islamic Finance supports the Real Economy

- Derivatives, Options and non-asset backed structures are off-limits:
  - Innovation to ensure Sharia compliance
- Only Real Assets can be financed:
  - Infrastructure, Goods and Services;
  - The growth (or Loss) of such assets is to be shared.

Experts argue that the ‘third world debt’ most of which is not asset-backed, and is accumulated/compounded interest (which just keeps growing) would not have been such a burden, if the lending was based on Islamic Finance principles.

- Therefore, Islamic Finance has a significant and important role to play in supporting SDGs

Financing the SDGs

- All types of Money is required to meet SDGs:
  - Public, Private; Conventional, Islamic; Cash, Contingent.
- Strong sustainable development financing framework:
  - IDB believes that Islamic Financing provides just that.
- Significant Islamic financial capital available:
  - How to use it more to support the SDGs?

Current Islamic Finance Investments

- 2015 Estimates: USD 2 Trillion
  - Growing at a rate of 10% to 15% per annum.
  - 2020 Estimates: USD 5 Trillion

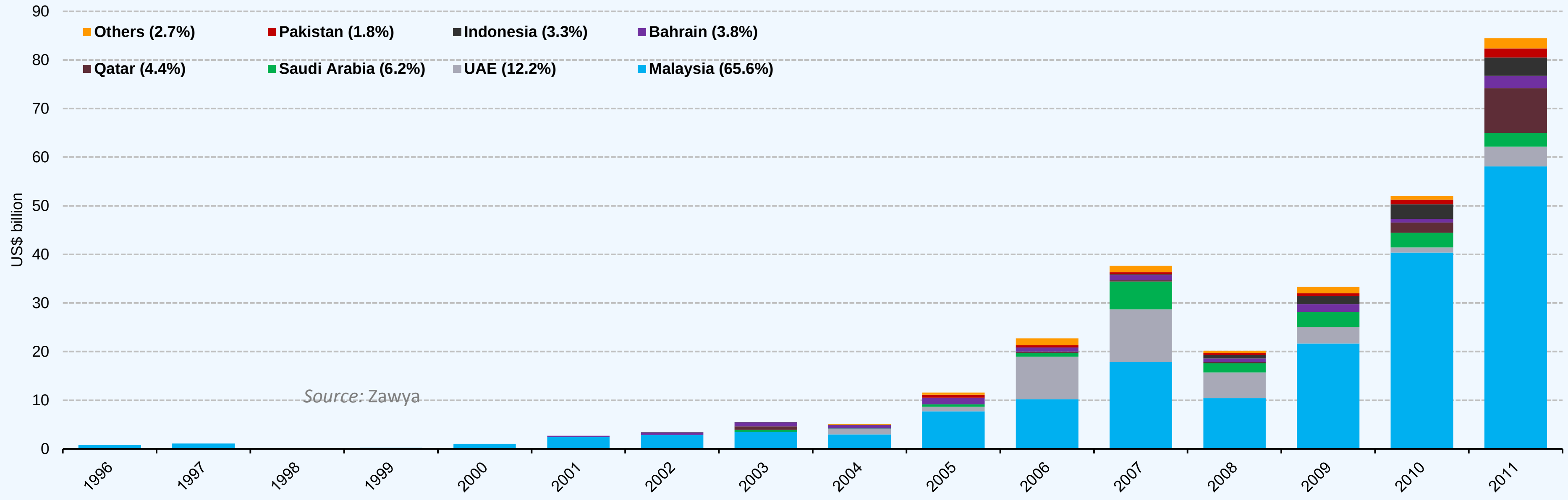
- IDB Group alone supported in 2015:
  - Infrastructure: USD 5.0 Billion
  - Trade: USD 4.9 Billion
  - Insurance: USD 3.5 Billion

Current Islamic Financial Capital is much more and are available for good investment opportunities

Significant potential of Islamic Resources

- Sovereign Wealth Funds:
  - Aggregate Resources estimated in the trillions;
  - Different Asset Classes:
    - Cash, Short, Medium, fixed income, equity etc.
- Zakat resources:
  - A charitable giving, compulsory on each Muslim, at 2.5% of wealth:
    - Informal global collections estimated at USD 10 Billion a year:
    - Potentially USD 230 to 560 Billion a year, if channeled in an organized manner.
- Sukuk:
  - Represents a proportionate beneficial ownership in an underlying pool of assets;
    - Green Sukuk for R/E pool of Assets; Vaccine Sukuk Experience.
  - Returns are reflective of the returns generated by the assets that underlie the Sukuk;
  - Issuers are Governments/Corporates, mobilizing Islamic funds from the Capital Markets;
  - Growing at 25% per annum over the last 10 years.

Sukuk potential remains largely unutilized



- Malaysia alone accounts for two-thirds (65.6%) of the total sukuks issued between 1996-2011 – almost twice the GCC where almost one-third of the total issues come from;
- North Africa and Sub-Saharan Africa are largely missing the opportunity to tap into the pool of Islamic funds for its development needs through Sukuk market.

Other Islamic resources

- **Waqf (Endowments):**
  - A religious endowment, typically a real asset:
    - Land, Building, Equipment etc
      - To be used for creating a Waqf Investment vehicle such as a pool of commercial real estate to serve a specific purpose;
        - Returns used for social causes such as education and health
    - IDB supports USD 150 to 180 million of Waqf investments each year.

The IDB Vision 1440 H (2020), "A Vision for Human Dignity", aims to promote Solidarity Based Financing to help develop the institutions of Zakat and Waqf, to channel the resources as key instruments for promoting poverty alleviation and reducing income gaps, as well as fighting disease, promoting health and **promoting sustainable development**.

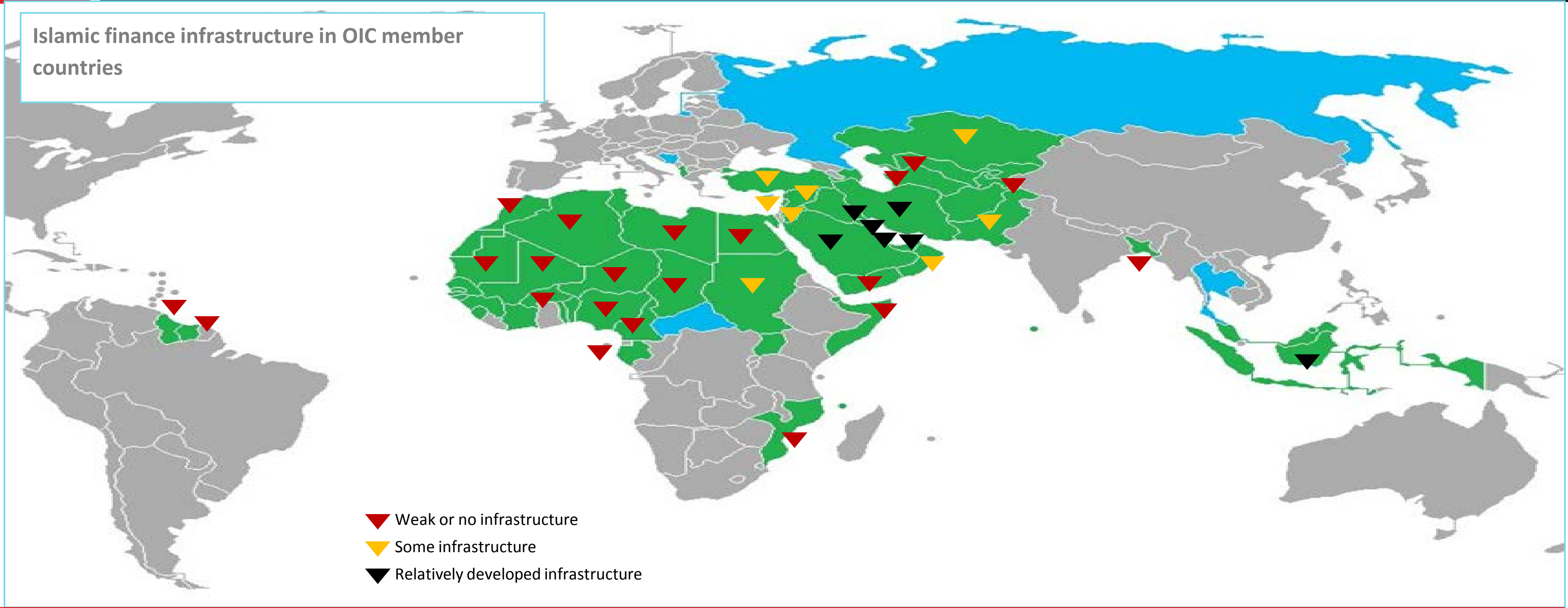
PPP + Islamic Finance = Support to SDGs

- PPP:
  - A better and more cost effective way to deliver public infrastructure;
  - Mobilizes the Private Sector;
  - Arguably, the impact on GDP is higher than Public Sector
- Islamic Finance:
  - Principles support the Real Economy, Inclusion and Shared Prosperity;
  - Has grown and has significant resources to utilize in the future

PPP and Islamic Finance together can have a powerful impact in achieving SDGs’

If, this is the case, then what are the impediments and their solutions.

Core Issue:
Globally, Islamic finance infrastructure is inadequate



Enabling legislative, regulatory, legal, accounting, tax, human capital, and Shariah business frameworks are not in place. This, in turn, increases the operational risks, and creates a negative incentive for IFIs to offer Islamic financial services in the region.

What can Governments do?

- Strengthening the Regulatory Framework:
  - Loans Vs. Asset Financing;
  - Impact of Double taxation.
- Standardize the Legal and Regulatory Framework:
  - Legislation and case law.
- Support Product Innovation:
  - Considerable amount of Islamic capital is available, but not enough products.
- Human Capital:
  - Lack of training opportunities;
  - Lack of specialized expertise.
- Public Awareness and Education:
  - Benefits & Challenges;
  - Misconceptions and clarifications
    - Not only for Muslims etc.

Government Intervention and Results

Singapore and Hong Kong Examples

- **Government Support:**
  - Accommodate Islamic Finance activities within existing regulatory framework;
  - Harmonize tax treatment with conventional products;
  - Monetary Authority of Singapore Sukuk issuance caters for capital and liquidity requirements of IFIs.
- **Results:**
  - Singapore:
    - Increase in numbers of IFIs and Products;
    - More resources mobilized through Islamic Financial Products (e.g. outstanding Sukuk issuance rose to $3.8 billion in 2014 from $400 million in 2009).
  - Hong Kong:
    - USD I Billion Sukuk issues in 2014;
      - USD 4.7 Billion Orders.

Success Stories

Lives and Livelihood Fund

- A USD 2.5 Billion Fund for the poorest:
  - Joint Venture between Bill & Melinda Gates Foundation to permanently improve millions of lives
    - Improving Health
    - Increase Agriculture Productivity
    - Basic Infrastructure

Islamic Solidarity Fund for Development

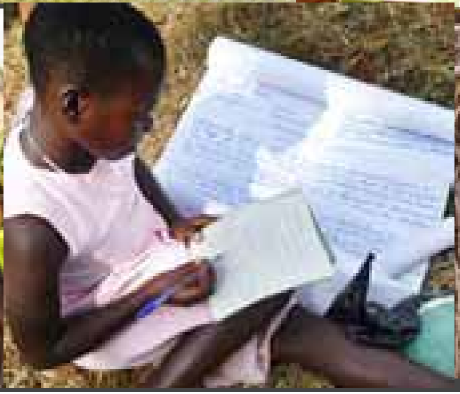
- A Trust Fund targeted at USD 10 Billion:
  - IDB + Member Countries
  - Income from Investments to Support the Cause
  - Investments could be supporting the cause itself
    - Alleviating Poverty by sustainably improving Health, Education and Infrastructure.
      - Microfinance
      - Sustainable Villages
        - Education, Water, Health etc
      - Vocational Literacy Program for Poverty Reduction
        - 200,000 out of School Children
        - Enhancing Employment related skills

Conclusions

- PPP are pro-SDGs and a smart way of developing public infrastructure for an economy thru an efficient private sector;
- Islamic Financial Products are well suited to support sustainable development and should be an important element of a holistic financial framework for the SDGs;
- Islamic Finance promotes financial inclusion and its resilience has been tested during the financial crisis;
- Full potential of Islamic Financing has not yet been exploited, which can potentially generate significant pools of funds for SDGs;
- Governments need to play an important role to play in driving Islamic Finance to the mainstream.








Thank You

IDB; Providing Resources- Fighting Poverty- Restoring Dignity