Contribution of Islamic Finance to the 2030 Agenda for Sustainable Development
(with special reference to infrastructure finance)

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Annual estimated gaps
- US$2.6 trillion (aggressive investment growth)
- US$3.4 trillion (conservative investment growth)
# Sources of Financing SDGs

<table>
<thead>
<tr>
<th>Public</th>
<th>Private</th>
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<tbody>
<tr>
<td><strong>Domestic</strong></td>
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<tr>
<td>• Government Revenue (tax/duties)</td>
<td>• Non-governmental organizations</td>
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<td>• Natural resource concessions</td>
<td>• Philanthropy/social responsibility</td>
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<td>• User fees</td>
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<td>• Public borrowing</td>
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<tr>
<td><strong>International</strong></td>
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<td></td>
<td>• Multilateral infrastructure funds</td>
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<td>• Official development assistance (ODA)</td>
<td>• Remittances</td>
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<tr>
<td>• Climate Finance</td>
<td>• Foreign pension funds</td>
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<tr>
<td>• Multilateral development banks (MDBs)</td>
<td>• International bank loans</td>
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<td>• Sovereign wealth funds</td>
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### SDG Status & Infrastructure Investment Needs in Selected OIC MCs

#### Country Groups

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<th>Country Groups</th>
<th>Mean SDG Index</th>
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<tbody>
<tr>
<td>10 Highest Scoring Countries</td>
<td>80.8</td>
</tr>
<tr>
<td>44 OIC Member Countries</td>
<td>50.1</td>
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<tr>
<td>10 Lowest Scoring Countries</td>
<td>32.9</td>
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#### Projected Investment Gaps in Sustainable Infrastructure (2017-2030)

- **Bangladesh**: $129.7 billion
- **Egypt**: $111.7 billion
- **Indonesia**: $102.5 billion
- **Morocco**: $37.4 billion
- **Nigeria**: $283.4 billion
- **Pakistan**: $216.8 billion
- **Saudi Arabia**: $55.4 billion
- **Senegal**: $22.0 billion
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 (*maslahah*) 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 Banking Assets**: $1,451.1 billion
  - Assets Share: 72.4%
- **Takaful/RetiFul Assets**: $37.7 billion
  - Assets Share: 1.9%
- **Other Islamic Financial Institutional Assets**: $106.4 billion
  - Assets Share: 5.3%
- **Value of Sukuk Outstanding**: $341.9 billion
  - Assets Share: 17.1%
- **Islamic Funds under Management**: $66.4 billion
  - Assets Share: 3.3%

Assets (US$ bn.)

Assets Share (percentage of total)
• 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 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 NBFI sector and contribution to 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 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)
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
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
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