The Islamic Development Bank Group

Together We Build A Better Future

Islamic Finance and Socio Economic Development: Role of Capital Markets

Who we are?

1981	1994	1999	2008	2015
IRTI	ICIEC	ICD	itfc	ISFD

Inception

1975G

› 22 Member Countries

› Authorized: ID 2 billion
› Subscribed: ID 0.75 billion
› Paid-up capital: ID 0.28 billion

41 Years After

2016G

› 57 Member Countries

› Authorized: ID 100 billion
› Subscribed: ID 50 billion
› **Paid-up capital: ID 4.9 billion**

IDBG – Mandate

Mandate

- Foster socio-economic development in member countries and Muslim communities in Non-MCs
- Promote comprehensive human development in the Muslim World
- **Promote & Expand the Islamic Financial Industry**
- Offer development financing (public & private) with the aim of alleviating poverty
- Build capacity and promote technical cooperation
- Facilitate integration of IDB Member Countries among themselves and with the World

Specialized Entities of the IDB Group

Islamic Research & Training Institute (IRTI)

- Research and training arm of the IDB,
- Development of the Islamic Financial Services Industry (IFSI) to support socio-economic development of MCs.
- Activities: training, research, advisory, capacity building, etc.

The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC)

- Boost trade among OIC MCs,
- Offer Shari'ah-compliant export credit insurance & re-insurance
- Provide political risk insurance to encourage investment flows.

Islamic Solidarity Fund for Development (ISFD)

- Dedicated facility to fight poverty in MCs
- Target Endowment of US$ 10 billion

Islamic Corporation for the Dev. Of the Private Sector (ICD)

- Promote private sector development in MCs,
- Facilitate access to Islamic capital markets,
- Mobilize additional financial resources for private sector,
- Promote entrepreneurship, and encourage cross- country investments.

International Islamic Trade Finance Corporation (ITFC)

- Advance trade across the Islamic World,
- Encourage intra-trade across OIC MCs,
- Help businesses to better access trade finance, and
- Provide them with the necessary trade-related capacity building

Main Products and Services of IDB Group

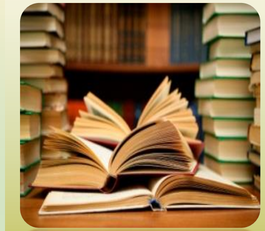
Scholarship Programs

Special Assistance

Trade Financing & Promotion of Intra-Trade

Capacity Development & Technical Cooperation

Insurance of Investment & Export Credit



Science & Technology Program

Project Financing

Fund / Asset Management

Islamic Economics & Finance Research and Training

Development of the Islamic Financial Services Industry

New IDB Group 10 Years Strategy (2015-2025)

The objective of 10-Year Strategy is to foster inclusive growth in line with current and emerging challenges with special focus on Solidarity, Connectivity and Islamic Finance .

The significant role of Capital markets to facilitate resource mobilization in supporting all five strategy is very clear.

Overarching Vision

IDBG Vision

Strategic objectives

INCLUSIVENESS: Become a preferred partner for MCs economic and social development

CONNECTIVITY: A strong catalyst For South-South Cooperation

IFS GROWTH: The leading reference in Islamic Finance

Strategic pillars[1]

- Economic and social infrastructure
- Private Sector Development
- Inclusive Social Development
- Cooperation between Member Countries
- Islamic Financial Sector Development

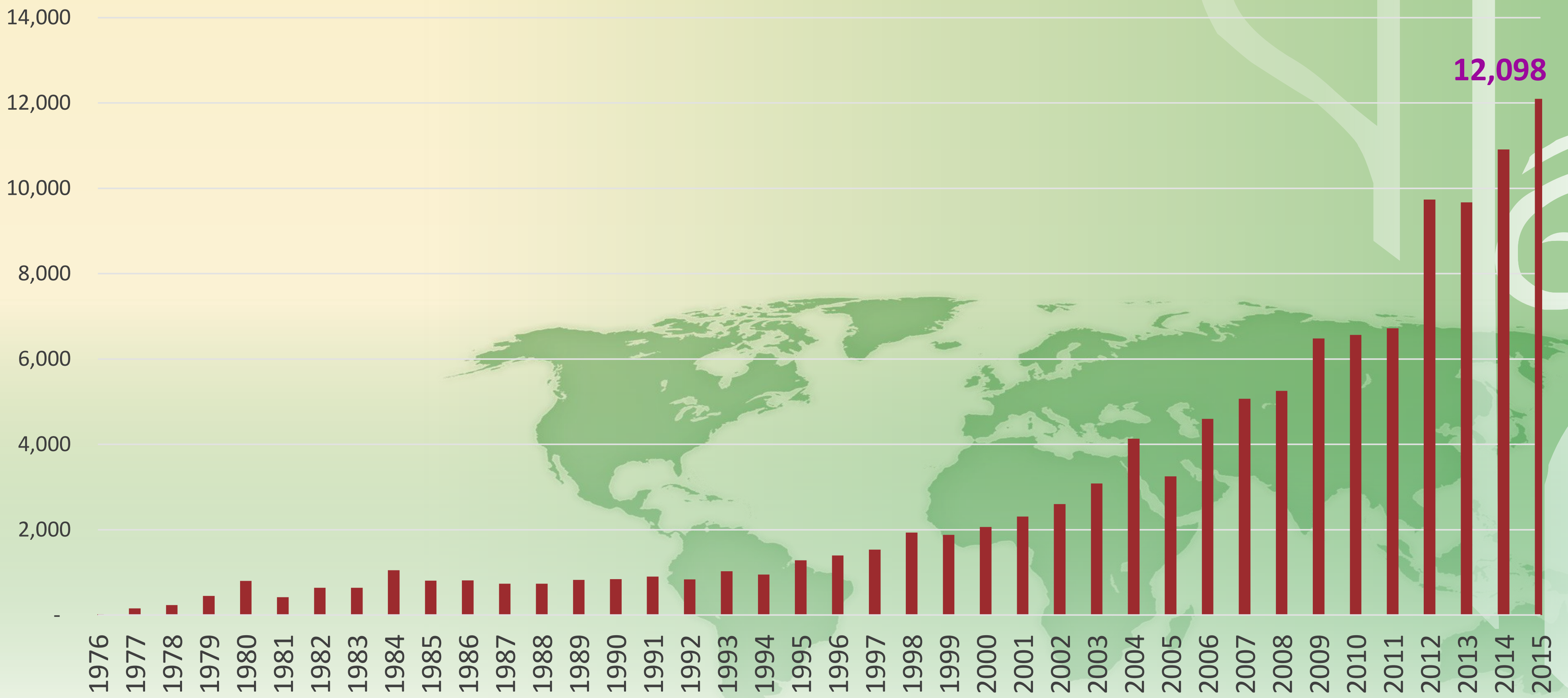
Guiding Principles

- Selectivity
- Resource Mobilization
- Manage for Result
- Financial Sustainability
- Group Synergy
- Build Capabilities in Strategic Pillars
- Link Strategy to Budget & Resources

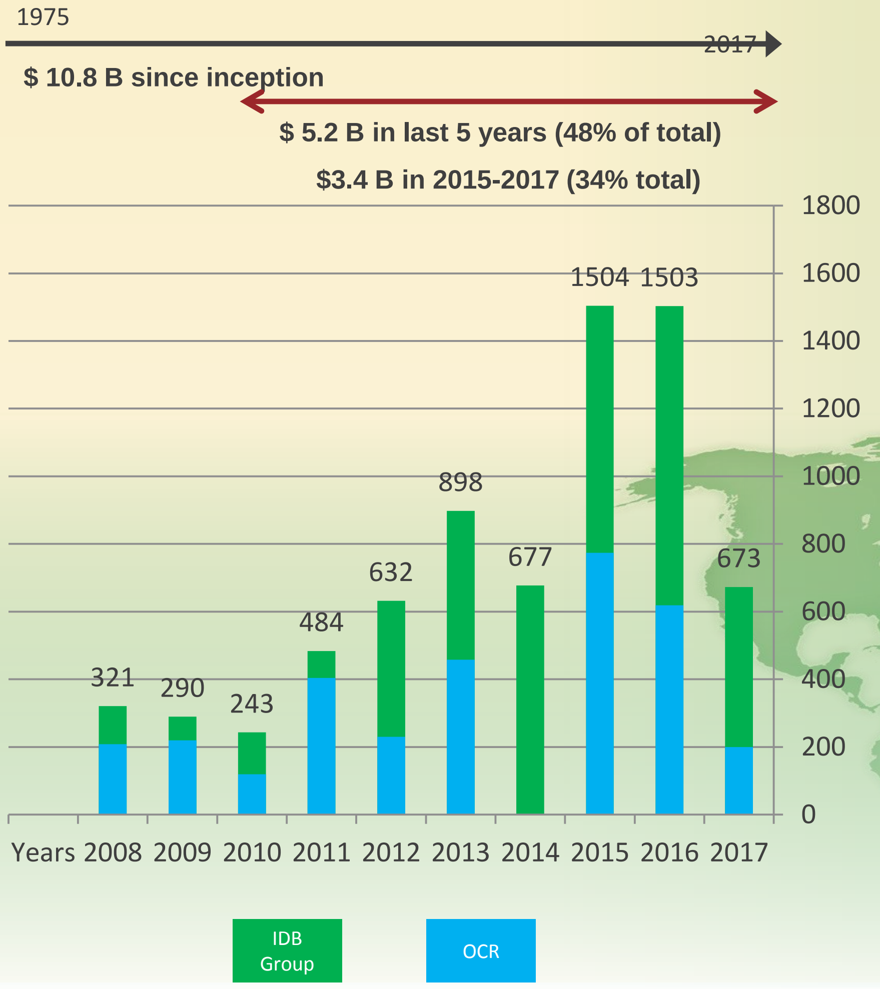
Capacity Development[1]

[1] Capacity development is integrated in each strategic pillar

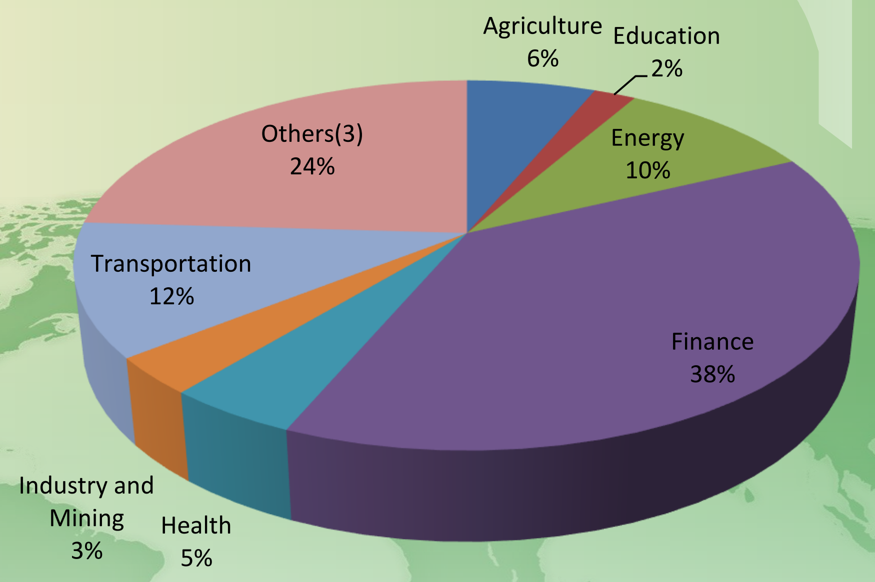
Trends in IDBG Annual Net Approvals US $ MILLION



IDB Group Approvals



Sectoral Distribution



International Development Landscape

Sustainable Development Goals (SDGs) - (2016-2030)

- Integrates (1) economic development, (2) social inclusion, and (3) environmental sustainability
- Development Preserves and ensures efficient usage of natural resources
- Inclusive and sustainable Development - to leave no one behind

Financing for Development (F4D)

- Resource Mobilization
- Innovative Financing Mechanisms
- South-South Cooperation
- Private Sector

Climate Change/Adaptation

Addressing Sectoral Vulnerabilities

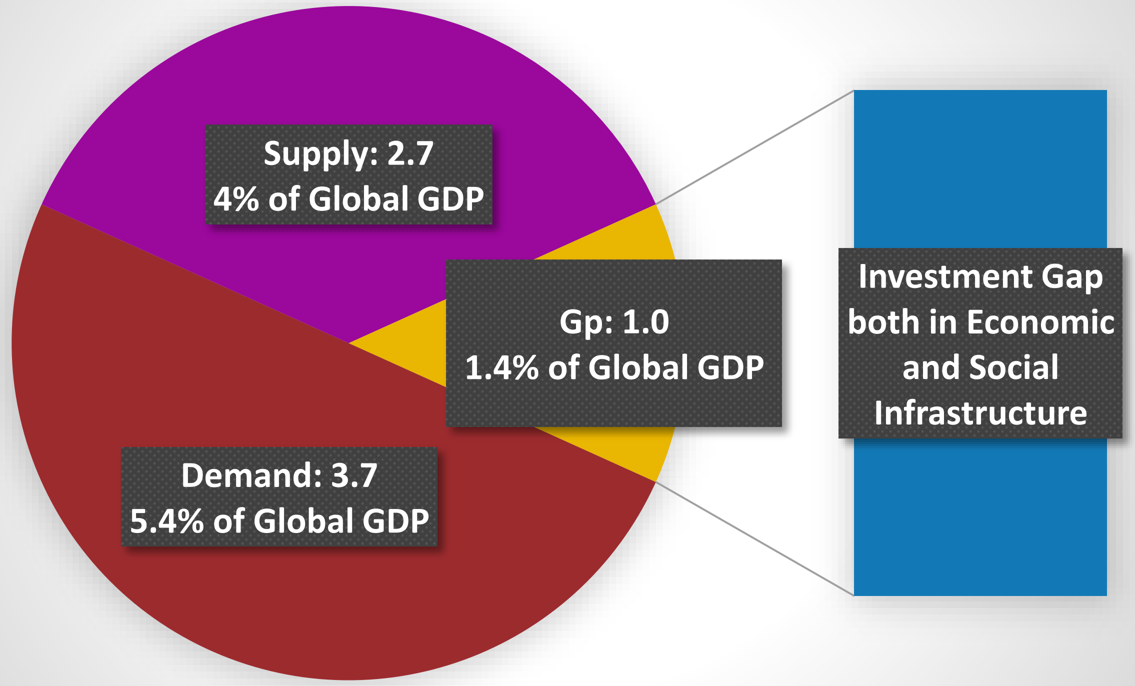
- Agriculture
- Water
- Ecosystems
- Low Lying Coastal Regions
- Human Health

Introduction

The global need for implementing SDG is significant. For example, the global infrastructure demand is estimated at about US$ 3.7 trillion (5.4% of global GDP) (2015-2030). This indicates that the high infrastructure demand is not being met with traditional financing mechanism.

To reach the needed trillions, the flows must come from new financial mechanisms.

"Billions to trillions" is shorthand for realizing that achieving SDGs requires more than money. It needs a global change of mindsets, further collaboration for resource mobilization.



Source: The Global Infrastructure Gap, World Economic Forum

There is a strong emphasis on using domestic revenues to finance the SDGs. This is a paradigm shift from the 20th century development model in which the rich countries provide grants or aid to poor countries to finance social sector activities .

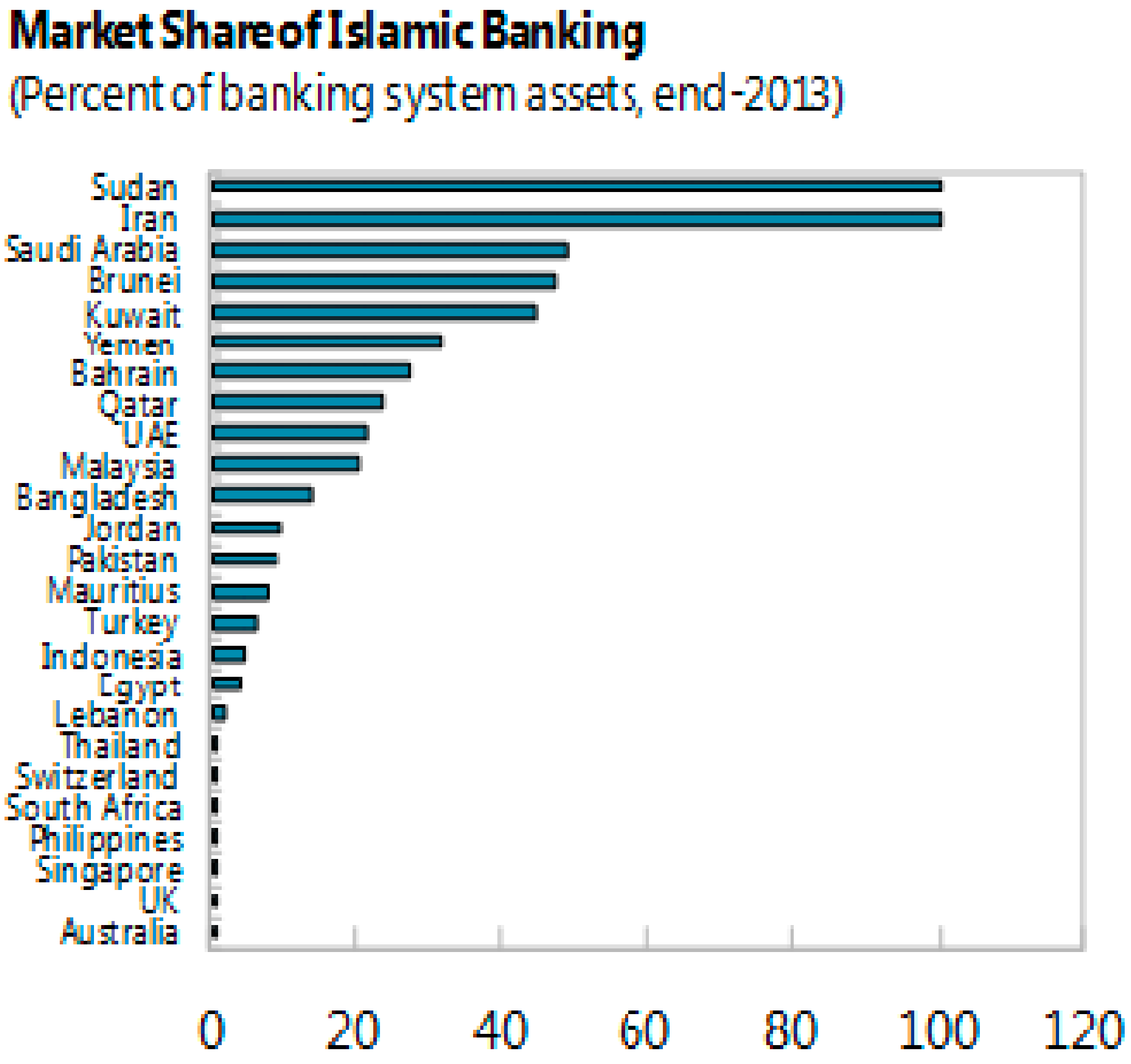
As the funding goes beyond the available public financial resources. It is, therefore, important to explore alternative and complementary innovative financing mechanisms such as Islamic Finance for implementing SDGs.

As a system, Islamic finance helps stimulate economic activity and entrepreneurship towards inclusive economic development, financial and social stability, and comprehensive human development.

Islamic Finance as the Alternative Finance

Mobilizing financing resources to support SDGs will impose different challenges to MCs according to their income level and the depth of their financial system particularly the state of Islamic finance.

Due to importance of Islamic Finance and its potential role to mobilizing additional resources, its products are also considered by non-Muslim providers and users, where they are competitive and contribute to promoting sustainable development.



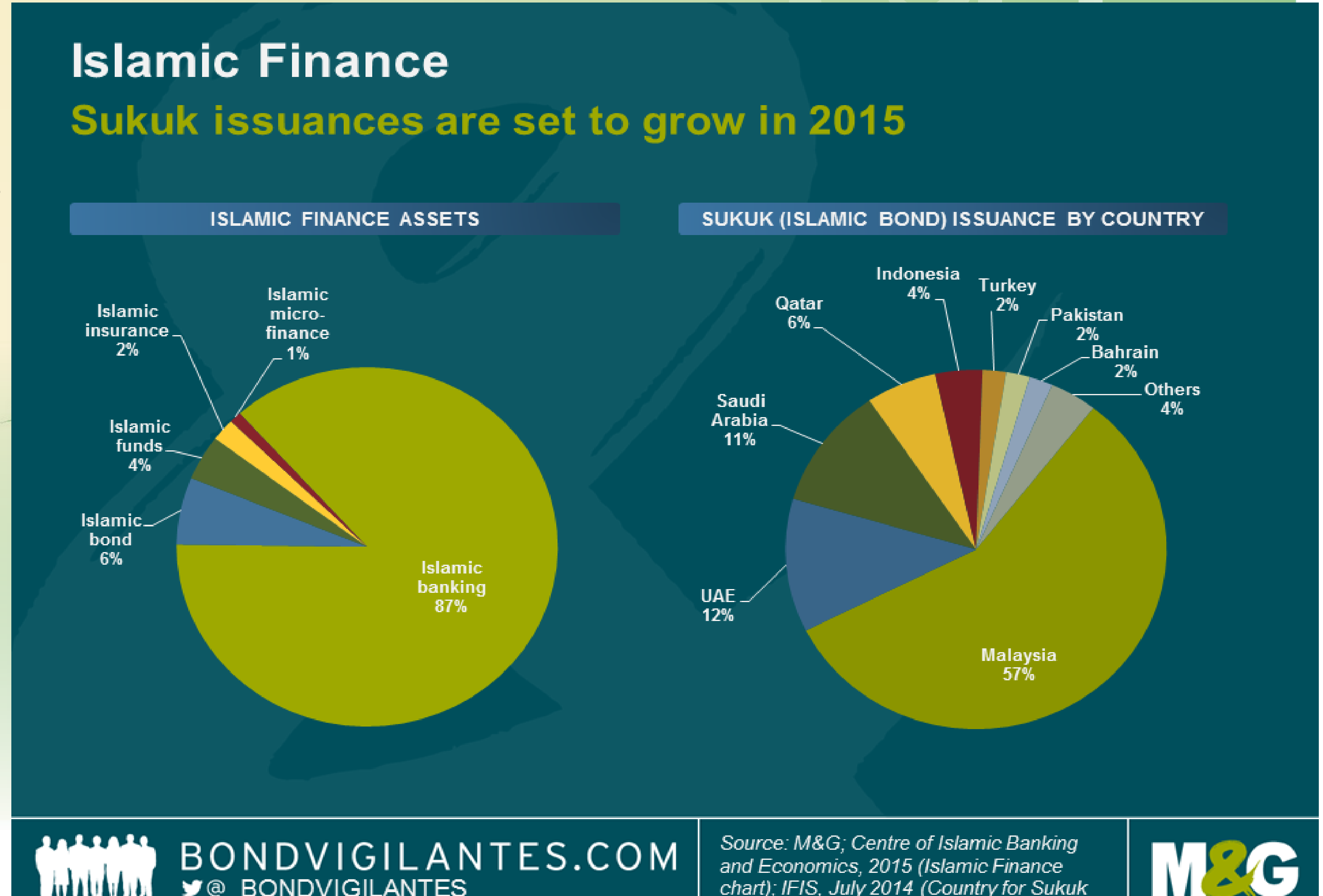
According to the most recent World Islamic Banking Competitiveness Report, global Islamic banking industry assets amounted to **USD $2 trillion in 2014**, growing at a rate of approximately **20%** and has the potentiality to cater the most of the banking and finance needs of modern economies.

As a system, Islamic finance has strong potential in promoting both social and economic development. For example, while Zakat and Awqaf have great potential to support small size and social infrastructure, sukuk (Islamic bonds) can successfully finance largescale infrastructure (water and sanitation projects, sustainable and affordable energy, transport, roads and shelter.

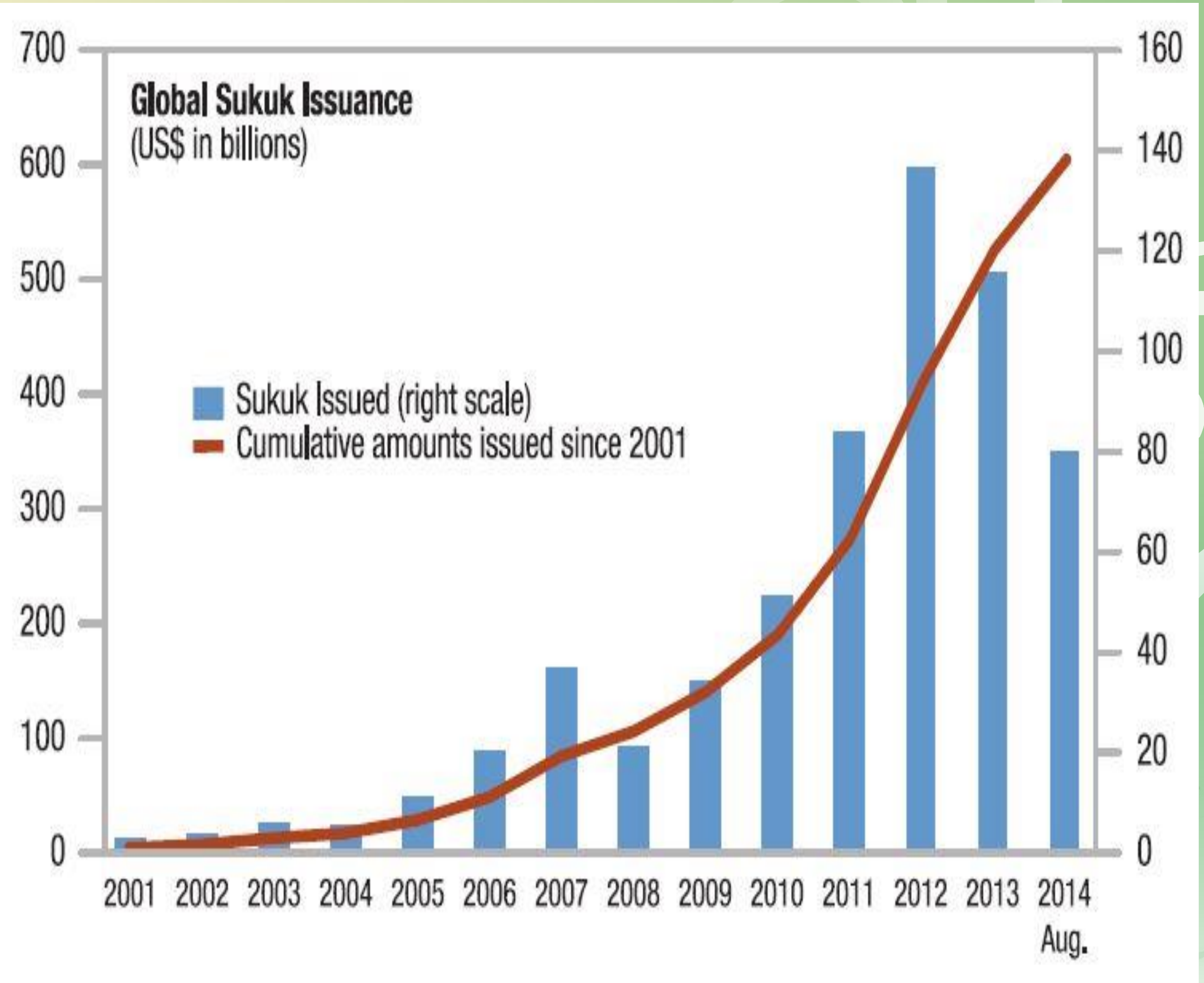
Unfortunately, large pool of Waqf assets in many MCs are dormant and not being used for socio-economic development purposes properly. The effective way of using these assets can enhance productive capacities of MCs in supporting socioeconomic programs

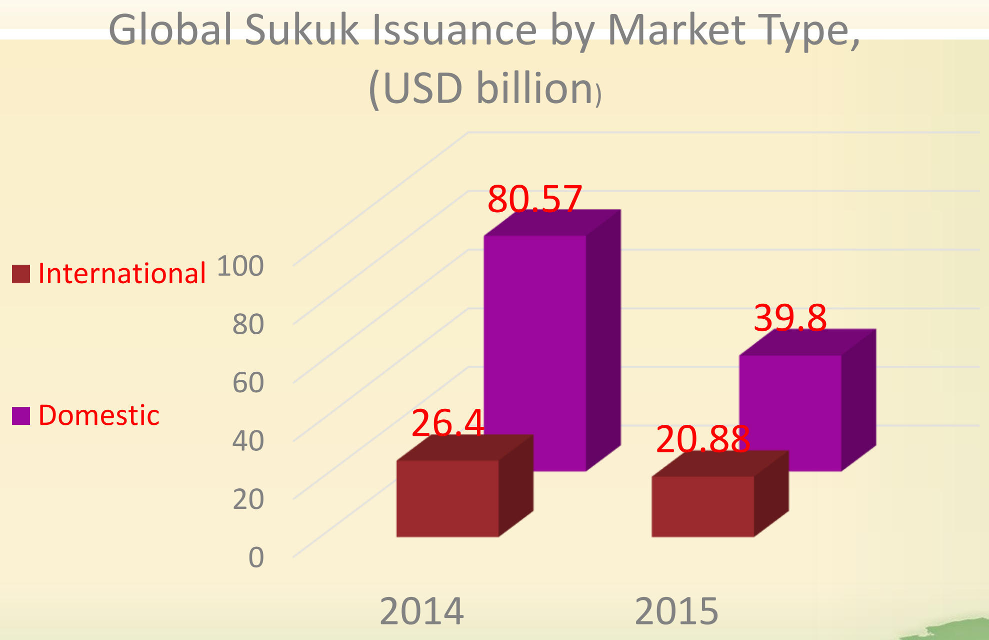
For example, Indonesia has 1400 sq. km of waqf land valued at US$ 60 billion. If these assets yield a return of 5% per year, then US$ 3 billion could be used for various socio-economic targets of SDG in the country.

In terms of financing large development projects, the Dubai-based CIBE has estimated that global Islamic financial assets will reach USD2.5 trillion, of which an expected USD150 billion will be Sukuk (Islamic bonds) issuance (2015).

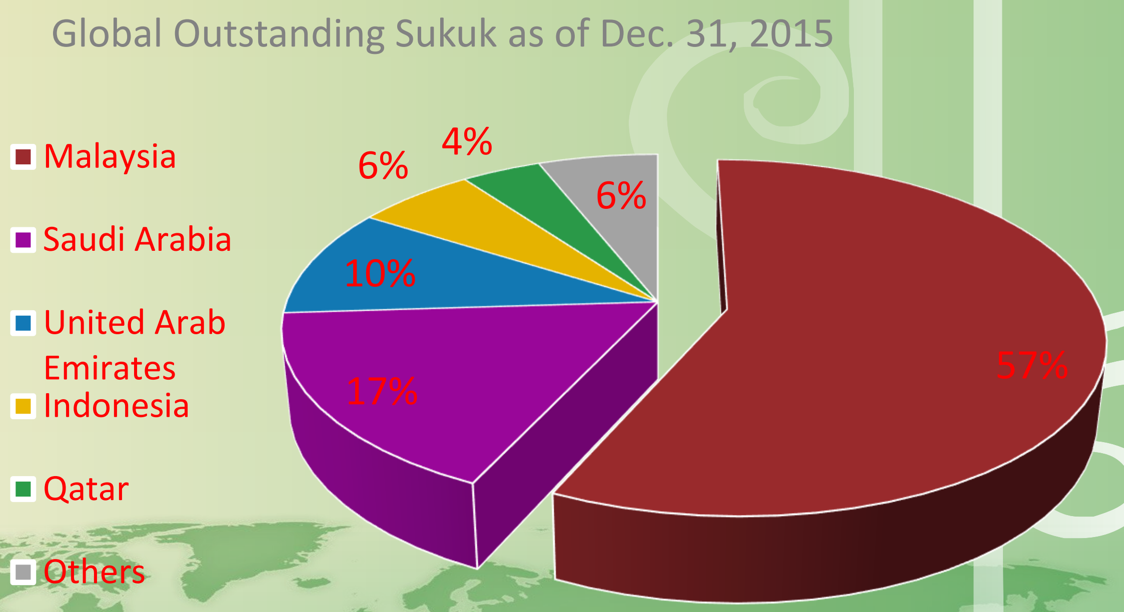


The emergence of Sukuk has been a significant development in Islamic capital markets in recent years. Funds raised through Sukuk can be allocated in an efficient and transparent way to infrastructure initiatives and other large-scale projects related to SDGs.





IIFM Sukuk Report, International Islamic Financial Market, 2016



IIFM Sukuk Report, International Islamic Financial Market, 2016

Oman is a new entrant in the sovereign Sukuk market, with Kuwait, Saudi Arabia, Cote d'Ivoire and Jordan amongst others entered the market in early 2016.

Low oil and commodity prices most likely will have a positive effect on the bond and Sukuk markets as the governments are more comfortable to raise 'cheaper' funding through bond and Sukuk issuance than continuing to use their foreign reserves to mitigate budget deficits.

Role of Capital Markets in Mainstreaming Islamic Finance

To fully benefit from great potential of Islamic Finance, new partnerships between Islamic finance and other financial service providers should be explored.

In this context, Financial and capital markets play an important role to mainstream Islamic finance into the financial system that really enhances efficient financial intermediation and therefore improves efficiency of resources mobilization and volume of investments, in the course of economic growth and development.

In fact Capital markets are responsible for promoting efficiency in allocating investments, and hence contributing to the productivity growth by:

(i) improving the management of risk;

(ii) identifying productive projects and efficient firms;

(iii) promoting corporate governance;

(iv) mobilizing savings, and

(v) mitigating the adverse effects of financial shocks.

Capital markets shall play critical role in mobilizing resources specifically through developing a supportive legal and regulatory framework and "proactive" policy targets to:

(i) mainstream Islamic finance into national and regional financial systems;

(ii) accelerate the implementation of Shariah and prudential standards and rules to facilitate the creation of a more stable, efficient, and internationally integrated Islamic financial services industry; and

(iii) create a common platform to enhance constructive dialogue.

Role of IDBG in Mainstreaming Islamic Finance

IDBG is always ready to play its catalytic role in supporting the efforts of Capital markets in its MCs to explore the relevant policy, legal, regulatory and institutional interventions necessary to expand the role of Islamic finance in in socioeconomic development.

IDBG gives high priority to these three key areas;

(i) creating a common platform to enhance the dialogue among MCs with the aim of promoting practical knowledge on Islamic Finance;

(ii) identify successful case studies and good practices anywhere in the world and have exchange of visits and technical cooperation among member countries in the form of reverse linkage initiative; and

(iii) support creating widely accepted Shariah compliant products to support inclusive development.

How IDB is working on Islamic Capital Markets Products for Infrastructure Finance in Turkey

- **IDB's overall objective is to:**
  - Bring the Participation Banks under a umbrella of IDB, jointly promoting common innovative financing structures to support infrastructure projects under one large Islamic tranche; and
  - Develop innovative project-Sukuk based financing for PPP projects in order to engage the international and domestic capital markets and channel the much needed funding for infrastructure finance in the country.
- **The value addition of IDB will be:**
  - *In addition to scaling up the Islamic tranche and create greater visibility for the Participation banks, IDB by virtue of large Islamic window will be able to effectively utilize it's A-B Finance structure to attract banks from outside of Turkey to participate in the individual transactions. Regional institutions in Kuwait, Qatar, UAE and Bahrain along with European banks looking to finance infrastructure projects are excellent target participants in IDB's resource mobilization efforts.*
  - *As a direct consequence of mobilizing the Islamic financing in Turkey, IDB will be able to focus on developing capital markets in Turkey to fund the infrastructure assets in conjunction with the commercial banks. Project sukuks are extremely challenging given the risk profile of the transactions, where the capital market investors will only participate if the structure is well designed, duly rated by a rating agency and the underlying instruments have liquidity in the market.*

Ijara Based Sukuk Structure:

IDB is currently working with all relevant agencies such as Turkish Treasury, Capital Markets Board, CBRT and Borsa Istanbul to make the necessary legal and regulatory changes for structuring, issuance, offering and listing (both in turkey and abroad) of an Ijara base structure for Project Sukuk with floating rate. The main challenges are:

- Land title transfer and equipment ownership in relation to development of the Concession Asset (owned by the Treasury whereas the Project Company obtains usufruct rights only by virtue of the Servitude Right Agreement).
- Taxes and other regulatory implications of Ijara financing is not quite clear, which makes the Ijara Facility non-competitive and presumably uncertain
- Possible restrictions on foreign currency issuances
- Primary listing in foreign currency on local stock exchange in Turkey

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Thank You