

Infrastructure Finance and Capital Markets: IsDB's perspective

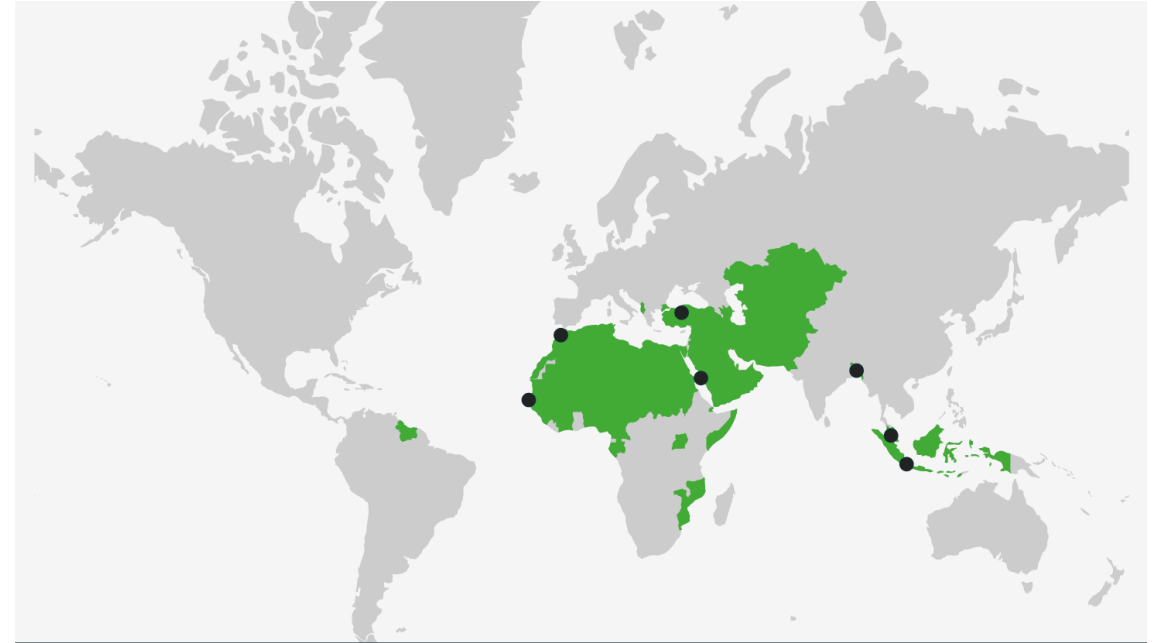
13th Meeting of the OIC Exchanges Forum



26th September 2019

IsDB's infrastructure development purview

- Economic and Social Infrastructure in IsDB member countries
 - ✓ Energy
 - ✓ Transport
 - ✓ Water and Sanitation
 - ✓ Healthcare
 - ✓ Education
 - ✓ Social Housing
- Sovereign vs. PPP
 - ✓ Value for Money – IsDB's downstream advisory
 - ✓ Risk Allocation
- Applies only Islamic modes of financing for Infrastructure Development
 - ✓ Ijara
 - ✓ Istisna'

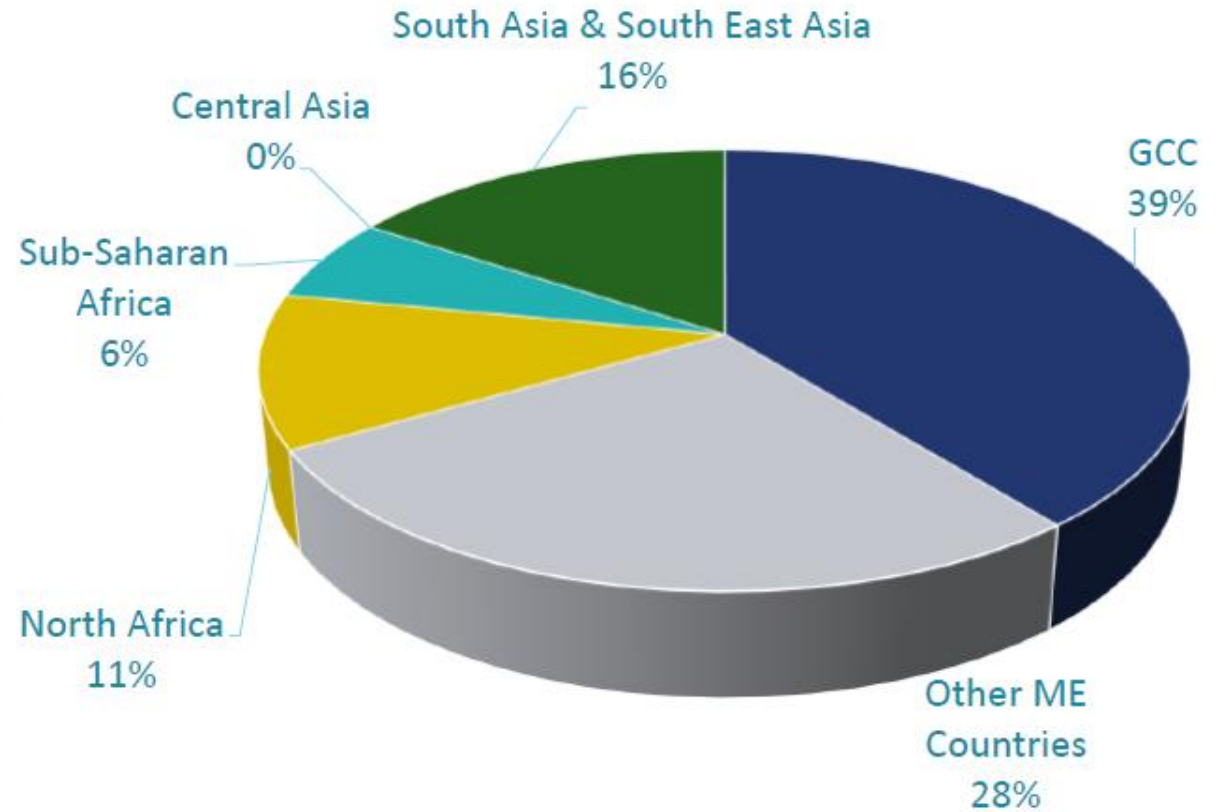
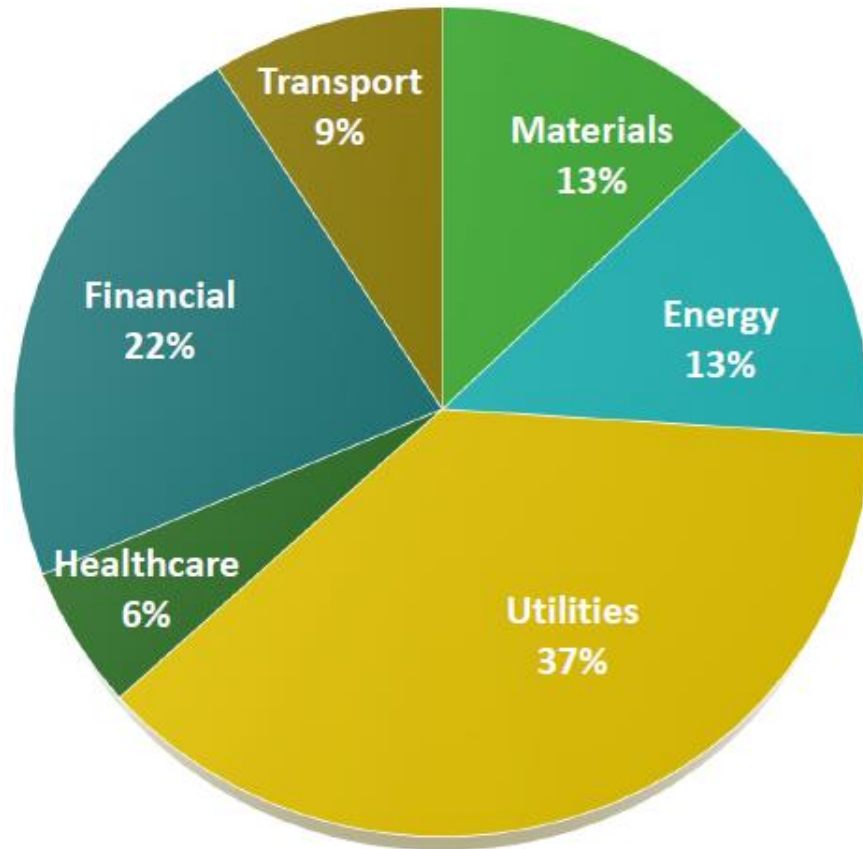


IsDB's geographical and sectoral exposure

Number of transactions: 57

Number of countries: 20

Total approvals: USD 4.3 bn



Some projects from the portfolio

Triconboston Wind IPP

Country	Pakistan
Sector	Utilities
Total Project Cost	USD 316 million



AIBD Dakar Airport Project

Country	Senegal
Sector	Transport
Total Project Cost	EUR 606 million



Manisa PPP Hospital Project

Country	Turkey
Sector	Healthcare
Total Project Cost	EUR 236 million



Doraleh Seaport Terminal Project

Country	Djibouti
Sector	Transport
Total Project Cost	USD 396 million



DEWA 800MW PV Solar Project

Country	UAE
Sector	Utilities
Total Project Cost	USD 924 million

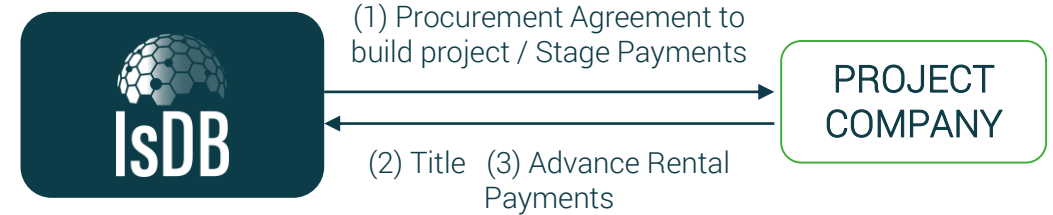


Ijara mode of financing – floating rate financing

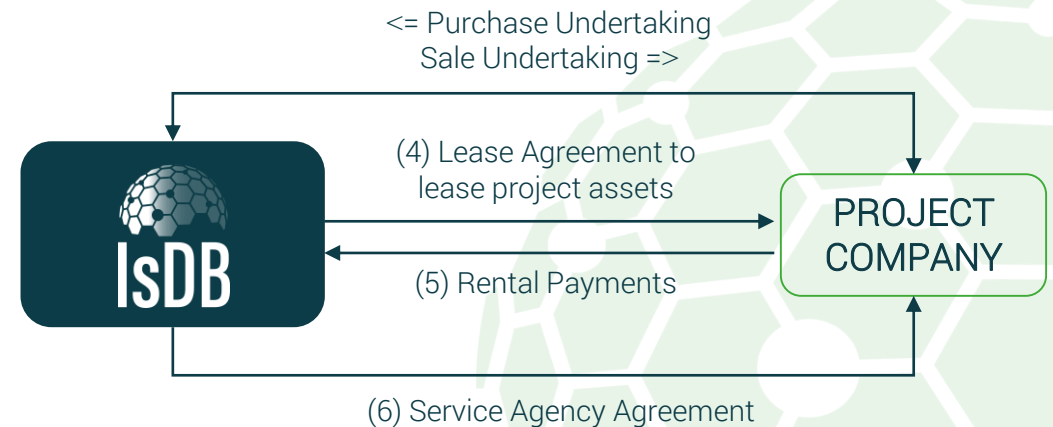
Ownership over the project asset

- Land purchased / owned by the private company / Developer
- Land owned by the Govt - superficies right vs. allocation of land
 - Superficies Right Agreement with possible restrictions on transfers from Concessionaire
- Actual vs. notional ownership

STEP 1: construction



STEP 2: post-completion



Challenges with Ijara for PPP projects – the case in Turkey

Restrictions related to infrastructure asset ownership under PPP

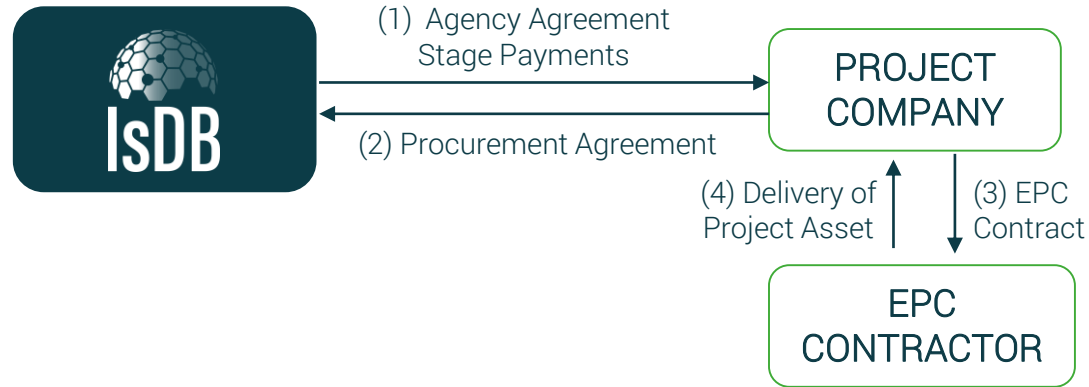
- Build-Lease-Transfer (BLT) – Healthcare
 - Health PPP Regulation – restriction for transfers of superficies rights – consent of MoH and MoF
- Build-Operate-Transfer (BOT) – Energy and Transportation
 - Superficies right vs. allocation of land
 - Superficies Right Agreement with restrictions on transfers
 - Allocation not an ownership
- Actual vs. notional ownership
 - Financial Leasing Law covers only actual ownerships
- Incentives and tax exemptions provided under the Financial Leasing Law (considering actual ownership) are not applicable for notional ownership
- Tax implications applicable to parties other than IsDB

Taxation

- Actual vs. notional ownership (Financial Leasing Law)
 - Tax implications applicable to parties other than IsDB
 - Incentives and tax exemptions provided under the Financial Leasing Law (considering actual ownership) are not applicable for notional ownership
1. Title Deed Charges
 - Charges Law allows exemption for registration at the end of the financial lease period but no exemption for other registration under Ijara
 2. Corporate Tax
 - Corporate Tax Law exempts revenues from the sale of the asset at the end of the lease period of “sale and lease back” transaction
 3. Stamp Tax
 - Exemption in Financial Leasing Law, however not for Ijara and specifically for Procurement and Agency agreements
 4. Value Added Tax
 - VAT Law exempts transfer of immovable but not rents payable and transactions related to movable assets

Istisna' mode of financing – fixed rate financing

STEP 1:
construction



STEP 2:
post-completion



Ownership over the project asset

- No transfer of asset ownership
- Fixed Istisna' Price
- Fixation on the first disbursement

MEMORANDUM

Main legal issues and obstacles associated with the compliance of the Ijara structure with Turkish PPP projects in general

Infrastructure funding gap – the role of institutional investors and banks

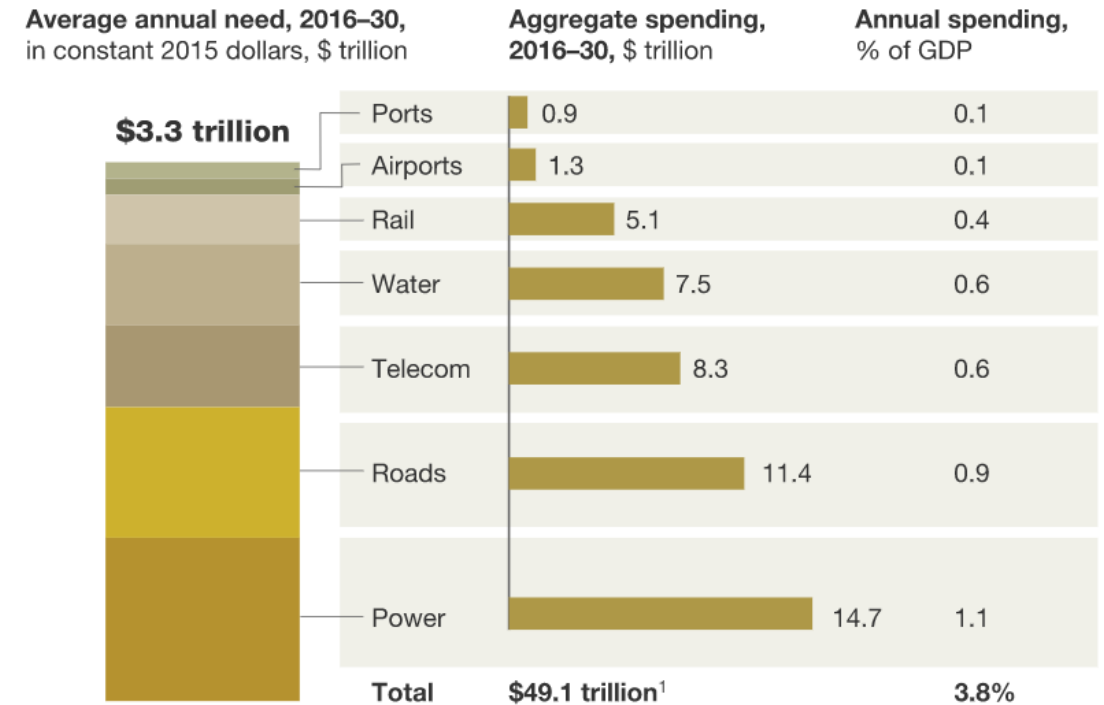
Global infrastructure funding gap

- Today, the world invests some USD 2.5 trillion a year in the transportation, power, water, and telecom systems on which businesses and populations depend
- From 2016 - 2030, the world needs to invest about 3.8% of GDP (an average of USD 3.3 trillion) a year in economic infrastructure just to support expected rates of growth - emerging economies account for some 60% percent of that need
- The size of the gap triples if we consider the additional investment required to meet the new UN SDGs

Role of institutional investors and banks

- Institutional investors and banks have USD 120 trillion in assets that could partially support infrastructure projects
- Some 87% of these funds originate from advanced economies, while the largest needs are in middle-income economies
- Matching these investors with projects requires solid cross border investment principles and instruments
- The role of fixed income and particularly an Infrastructure Project Sukuk could mobilize more private capital in infrastructure

To keep pace with projected growth, the world needs to invest **\$3.3 trillion** in economic infrastructure annually through 2030.



Source: "Bridging Global Infrastructure Gaps" report by McKinsey Global Institute, 2016

Challenges with Project Sukuk – the case in Turkey

Foreign currency issuances in Turkish capital markets

- No clarity under the applicable laws
- *De facto* restricted by the opinion letter issued by Directorate General of Financial Sector Relations & Exchange dated 22nd April 2005 addressed to the Capital Markets Board
- Clarity needed in the Debt Instruments Communique issued by the Capital Markets Board of Turkey

Establishment of Asset Lease Company (ALC)

- Article 12 of Lease Certificates Communique specifies the corporations that can qualify for incorporating ALC
- Among others, corporations with long term investment grade rating
- Project companies established for a specific implementation of an infrastructure PPP project cannot establish an ALC unless with investment grade rating

Non-recourse issuances

- Asset treated as collateral – in case of defaults ALC has to sell the collateral to meet payment obligations to sukuk holders
- Conflict with some PPP modalities (BOT, BLT, BOOT)
- BoD have to protect the interests of certificate holders (sukuk holders)

MEMORANDUM

Main legal issues and obstacles associated with the Sukuk Regulatory Environment in Turkey and related capital markets legislation in conjunction with Infrastructure Financing Framework in Turkey

Conclusion

- Investments and maintenance of roads, rail, ports, airports, electricity generation, transmission and distribution enhance economic activity, production, trade while clean water is essential for public health - **infrastructure is a core element of the UN SDGs**
- It is estimated that infrastructure typically has a socioeconomic rate of return of around 20% through individuals and businesses
- Infrastructure construction immediately creates jobs
- It is an imperative that we all find solutions for more investments in economic and social infrastructure



Thank you for your attention !

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