



WORLD BANK GROUP

Finance & Markets

Global Islamic Finance Center

*Using Islamic Finance
Instruments for Infrastructure and
Socially Responsible Investments*

*COMCEC
Financial Cooperation Working Group
9th Meeting*

*Ankara, Turkey
October 26, 2017*

Muharrem Cevher

Financial Sector Specialist

The World Bank Global Islamic Finance Development Center

Istanbul, Turkey

mcevher@worldbank.org

Disclaimers

©2017 The International Bank for Reconstruction and Development / The World Bank 1818 H Street NW Washington DC 20433/ Telephone: 202-473-1000/ Internet: www.worldbank.org

E-mail: feedback@worldbank.org

All rights reserved.

This work is a product of the staff of the International Bank for Reconstruction and Development/The World Bank. The findings, interpretations, and conclusions expressed in this work do not necessarily reflect the views of the Executive Directors of the World Bank or the governments they represent.

The World Bank does not guarantee the accuracy of the data included in this work. The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of the World Bank concerning the legal status of any territory or the endorsement or acceptance of such boundaries.

Rights and Permissions

The material in this publication is copyrighted. Copying and/or transmitting portions or all of this work without permission may be a violation of applicable law. The International Bank for Reconstruction and Development / The World Bank encourages dissemination of its work and will normally grant permission to reproduce portions of the work promptly.

For permission to photocopy or reprint any part of this work, please contact the World Bank.

Islamic finance principles and the sustainable development goals...

Islamic Finance Principles

Prohibition of Riba

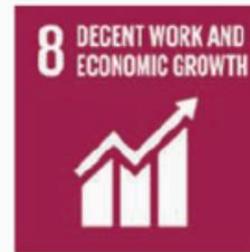
Prohibition of Speculation

Prohibition of Financing Illicit Sectors

Profit and loss sharing principle

Asset backing principle

Sustainable Development Goals



New growth opportunities for Islamic finance in 2010s...



Infrastructure
Projects



Socially Responsible
Investments



Environment-friendly
Projects



Shariah-Compliant
Risk Management



Addressing Liquidity
and Capitalization of
IFIs

Why is Islamic Finance Suitable for Infrastructure Projects?

Emphasis on tangibility

Partnership- and equity-style financing

Profit and loss sharing

Socially responsible investments

Sukuk: A Viable Financing Alternative for Infrastructure Investment



- Asset – backed nature of *Sukuk*



- The link between infrastructure asset`s revenue and sukuk investor`s return



- Infrastructure financing is a leading reason for sukuk issuance



- Sukuk enables risk-sharing in high-risk infrastructure investments



- Sukuk offers flexible structures for different phases of infrastructure projects



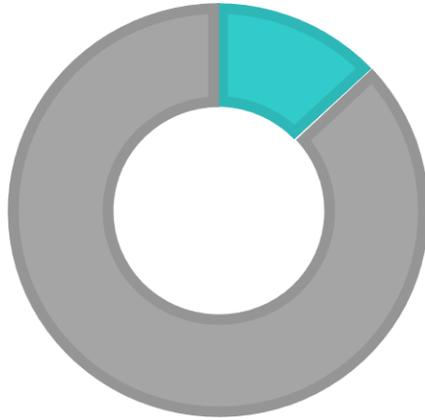
- Sukuk might enhance Public-Private-Partnership structures



- A wider investor base for *Sukuk*

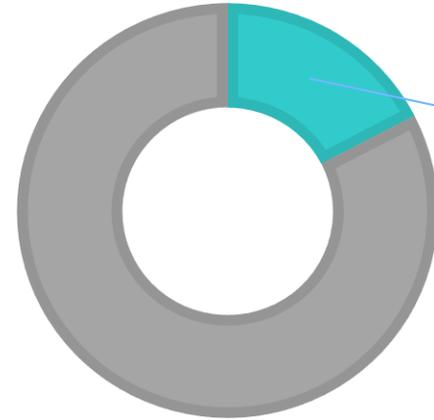
Recent Status of Infrastructure Sukuk Issuances

Infrastructure Sukuk as % of Total Sukuk Issuances (2009 -2011)



**Infrastructure Sukuk :
\$20,8 Billion;
13%**

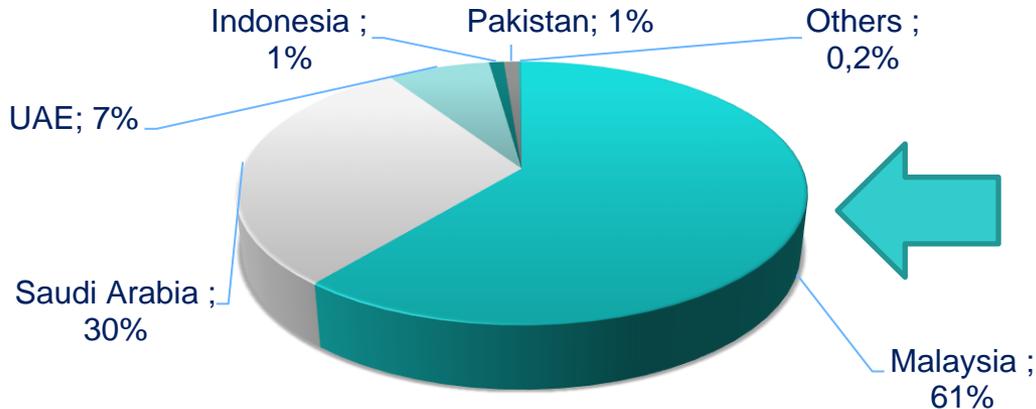
Infrastructure Sukuk as % of Total Sukuk Issuances (2012 – 3Q2015)



**Infrastructure Sukuk :
\$73,1 Billion;
17%**

Total Sukuk Issuances: \$160 Billion (2009 -2011)

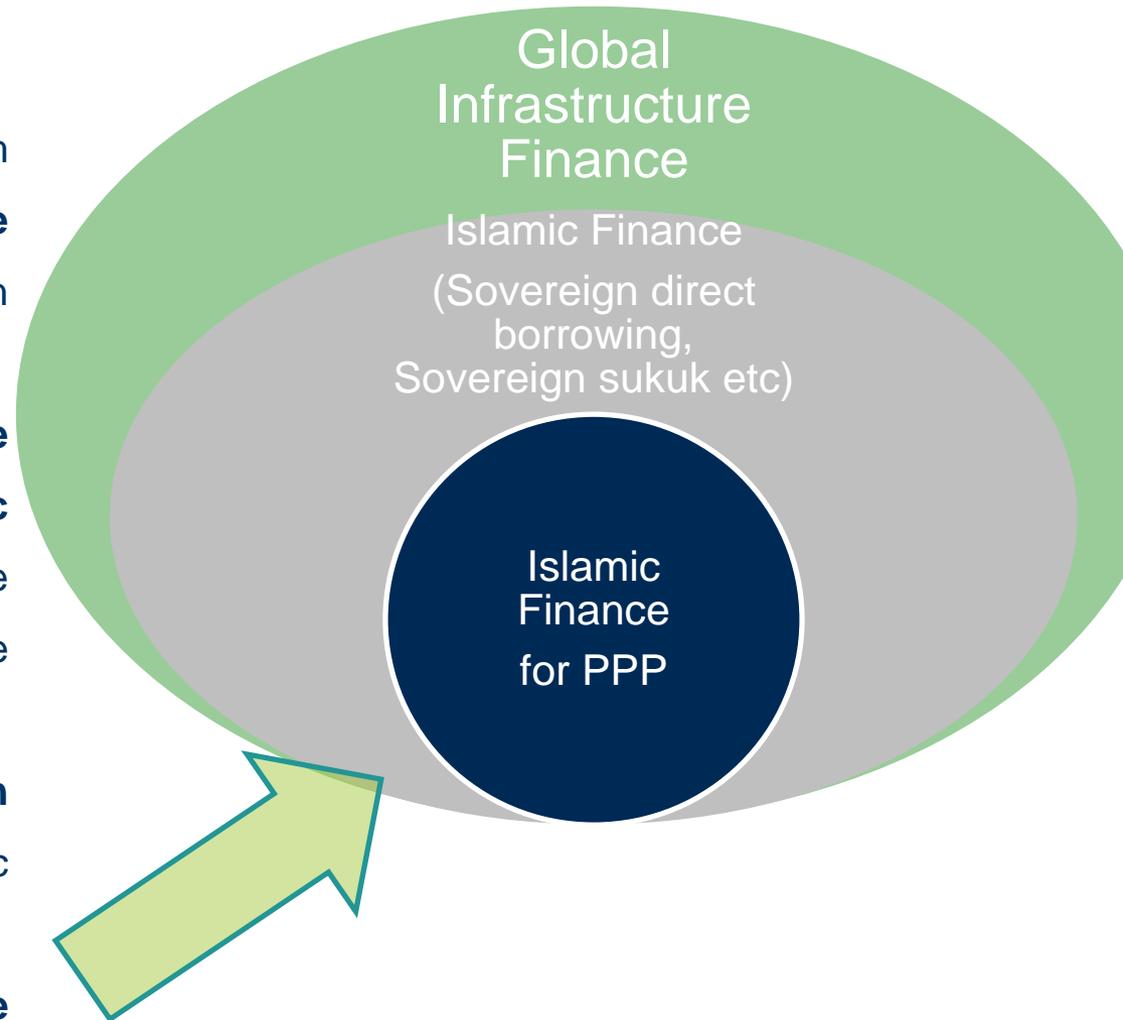
Total Sukuk Issuances: \$420 Billion (2012 – 3Q2015)



Infrastructure Sukuk Issuances by Country (2012 – 3Q2015)

Global Infrastructure Finance, Islamic Finance & PPP

- By 2030, **US\$ 54 – 70 trillion additional** infrastructure capacity is needed.
- **Significantly higher contributions** from both public and private sources **are required** to close the annual \$1 trillion investment gap.
- **Fiscal pressures** have **reduced the contribution of traditional, public sources** of investments, creating the need to explore private sources more vigorously.
- **Islamic financial institutions can contribute** to both private and public sources of infrastructure investments.
- **Islamic finance for PPP is a niche segment** of global PPP space



Infrastructure Sukuk & PPP in Islamic Finance

The risk-sharing aspect of *Sukuk* gives them a clear advantage as a funding instrument for infrastructure.

Sukuk spreads the risk more broadly as all investors share the same manner

Sukuk is used more flexibly over time as payments are tied to underlying returns rather than to fixed schedules.

Sukuk resembles Public-Private Partnership (PPP) financing whereby investors finance the assets, own them—leading to true securitization—and then transfer them back to the government at maturity.

Socially Responsible Investing and Islamic Finance – Convergence?

Socially responsible investing (SRI) is any investment strategy which seeks to consider both financial return and social good. In the USA, estimated total volume of assets held by explicitly SRI investors now exceeds US\$3 trillion, having increased by more than 30 percent just since 2005.

Commonalities

Share an ethical investment philosophy

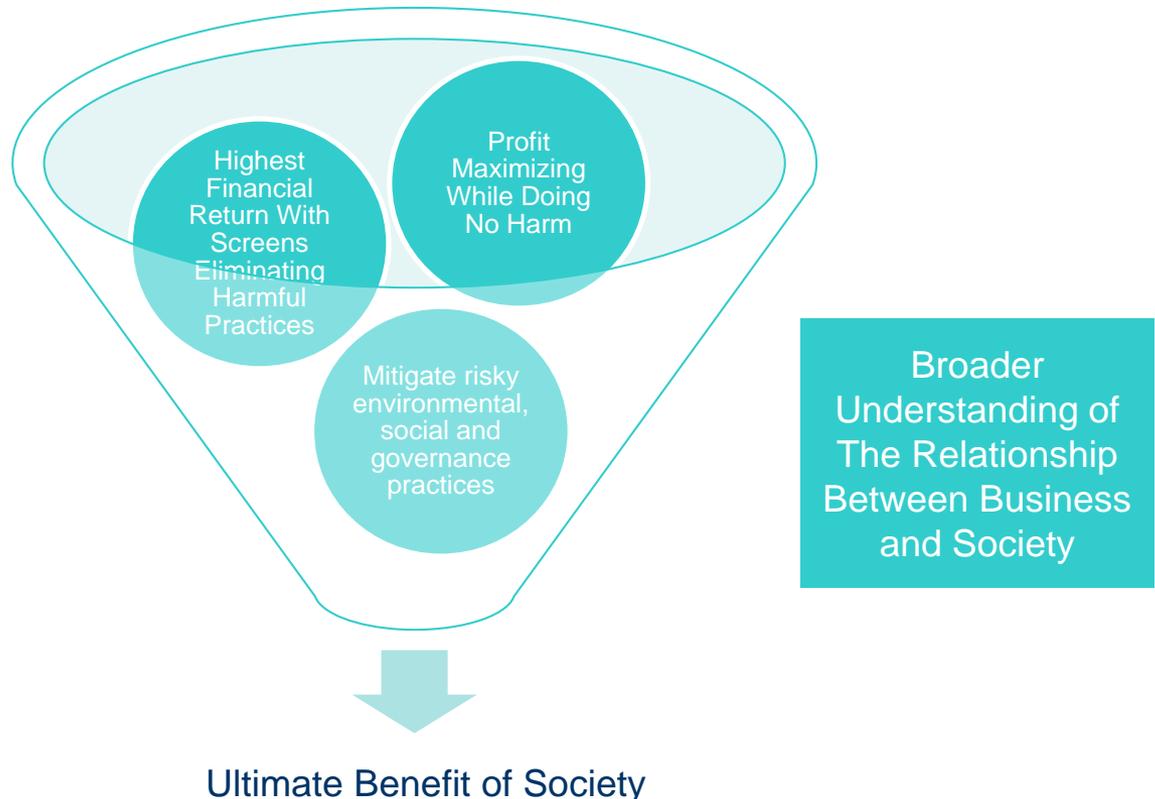
Pay attention to social return as well as economic return

Focus on real economies activities to improve living conditions and well-being

Consider the same set of businesses such as tobacco, alcohol, gambling, pornography non-permissible

Focus on protection of natural and environmental resources

Create more profound effect on organizational culture and behavior and mankind as whole



...Sukuk as an instrument to facilitate Socially Responsible Investments

Sukuk is well-suited to serve as a means of raising funds for socially responsible investments.

Sukuk provides investors with a high degree of certainty that their money will be used for a specific purpose

The structuring of Sukuk is a rigorous process overseen by several stakeholders that ensures that Sukuk does not finance any activity considered harmful to the society (a kind of built-in SRI due diligence process).

Many more SRI investment products exist on the equity side of the capital markets than on the fixed income side. Sukuk addresses lack of supply of fixed-income products for SRI.

Once conventional SRI investors realize the potential of SRI Sukuk as a new fixed income alternative for their portfolios, the number issues of this type should increase dramatically and investor base for sukuk broadens as well.

SRI Sukuk: The Case of Vaccine Sukuk

- ❑ International Finance Facility for Immunization (IFFIm), a multilateral development institution, has expanded the boundaries of Islamic finance for a **socially responsible purpose** with its debut sukuk transaction in 2014.
- ❑ In its attempt to issue SRI sukuk, the IFFIm was motivated to raise funds to be utilized for **vaccinations**. For this transaction, a **mubaraha** structure was preferred due to the ease of implementation.
- ❑ The offering received a **high demand** in the market. As a result, the IFFIm increased the deal size to \$500 million from original \$300 million. Also, the pricing was sealed at the tight end of price guidance implying a **lower cost** compared to its vaccine bond issuance took place in 2013.
- ❑ Following the successful sukuk debut, the IFFIm tapped the market for another \$200 million SRI sukuk issuance in less than a year.
- ❑ These issuances gave the Islamic investors an opportunity to invest in a **high-quality socially responsible investment**.
- ❑ With vaccine sukuk issuances, the IFFIm **expanded its investor base** to the Islamic investors.
- ❑ Vaccine sukuk promises **portfolio diversification** opportunity with attractive risk-adjusted returns and socially responsible goals.



Vaccine Sukuk was warmly received by the markets and won numerous awards from Euromoney's "**best innovation in Islamic finance**" to the Financial Times's "**best achievement in transformational finance**", the term used for financing that effects real change in the world outside.

SRI Sukuk: The Case of Vaccine Sukuk

Term Sheet: Details of Both IFFIm's Sukuk Issuances are Listed Below

	27 th November 2014	17 th September 2015
Date	27 th November 2014	17 th September 2015
Issuer	IFFIm Sukuk Company I Limited	IFFIm Sukuk Company II Limited
Obligor	International Finance Facility for Immunization Company	International Finance Facility for Immunization Company
Obligor Rating	Aa1/AA/AA+(Moody's, S&P, Fitch)	Aa1/AA/AA+(Moody's, S&P, Fitch)
Issue Size	US\$ 500 million	US\$ 200 million
Profit Rate	US\$ 3 month LIBOR + 15bps	US\$ 3 month LIBOR + 14 bps
Type	Floating Rate, Senior Unsecured Trust Certificates	Floating Rate, Senior Unsecured Trust Certificates
Maturity	3 years – due 2017	3 years – due 2018
Sukuk Structure	<i>Murabahah</i>	<i>Murabahah</i>
Format	Regulation S, standalone documentation	Regulation S, standalone documentation
Governing Law	English Law	English Law
Global Coordinator	Standard Chartered Bank	Standard Chartered Bank
Joint Lead Managers	Barwa Bank, CIMB, NBAD, NCB Capital and Standard Chartered Bank	ENBD Capital, Maybank, NBAD & NCB Capital and Standard Chartered Bank
Co-Lead Managers	n/a	Crédit Agricole CIB and Morgan Stanley

THANK YOU...