Islamic Capital Markets and the SDGs
I. SDGs
The SDGs present a major opportunity for transformation

Global development agendas serve as a guide for countries to determine their national development path.
Financing Needs to Realize the SDGs

Estimated Annual Investment Requirements by Core SDG Sectors

Source: UNDP Calculations based on UNCTAD, 2014

[Chart showing estimated annual investment requirements by core SDG sectors]
The key components of financing sustainable development

Financing sustainable development

When a project is presented, apply the “Cascade”. You should ask: “Is there a sustainable private sector solution that limits public debt and contingent liabilities?” If the answer is...

Promote such private sector solutions
- The World Bank could play an important role in supporting the government to advance appropriate private sector solutions. i.e. through analytical support, technical assistance for relevant reforms and capacity building, project identification and preparation support, project structuring, and support to the government in negotiations with the private sector.

Ask whether its because of:
- Policy or regulatory gaps or weaknesses? If so, provide WBG support for policy and regulatory reforms.
- Risks? If so, assess the risks and see whether WBG instruments can address them.

Source: World Bank, 2018
Several business themes provide major opportunities in a world economy heading for the SDGs.
II. Trends in Global Islamic Capital Markets
Total Islamic financial assets now exceed US$ 2 trillion

Global Islamic Finance Assets (US$ Billion)
In tandem, the Sukuk market has also expanded substantially.

Global Sukuk Supply & Demand (US$ Billion)

Demand for sukuk has been surpassing the level of sukuk issuances worldwide.

Source: Thomson Reuters
Infrastructure Sukuk as % of Total Sukuk Issuances (2009 - 2011)

- Infrastructure Sukuk: $20.8 Billion; 13%
- Other Sukuk: $139.2 Billion; 87%

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

- Malaysia: 61%
- Saudi Arabia: 30%
- UAE: 7%
- Indonesia: 1%
- Pakistan: 1%
- Others: 0.2%

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

- Infrastructure Sukuk: $73.1 Billion; 17%
- Other Sukuk: $346.9 Billion; 83%

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

- Malaysia: 61%
- Saudi Arabia: 30%
- UAE: 7%
- Indonesia: 1%
- Pakistan: 1%
- Others: 0.2%

Source: MIFC
III. Islamic Capital Markets—Economic Growth & Development Nexus
Islamic finance can support sustainable development objectives.

Source: On the Sustainable Development Goals and the Role of Islamic Finance, Mohieldin et al, 2015
Islamic Capital Markets can be viable sources of long-term development finance.

- Shariah-Compliant Activities
- Money as Potential Capital
- Sanctity of Contract
- Risk-Sharing
- Prohibition on Speculative Transactions
- Prohibition of Interest
- Asset-Backed Instruments

Islamic Banking

Islamic Capital Markets

Takaful
Can sukuk be used for infrastructure investment?

Source: Naveed, Sukuk: asset securitization based on shari’a principles, 2015
Sukuk: A viable instrument for development finance

1. Asset–backed nature of *sukuk*

2. The link between underlying asset`s revenue and *sukuk* investor`s return

3. Infrastructure financing is a leading reason for *sukuk* issuance

4. *Sukuk* enables risk-sharing in high-risk development projects

5. *Sukuk* offers flexible structures for different phases of development projects

6. *Sukuk* might enhance Public-Private Partnership structures

7. A wider investor base for *Sukuk*
## Role of Sukuk in financing economic development

<table>
<thead>
<tr>
<th>Usage</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal support</td>
<td><strong>Sudan</strong>: Over $100 million of Sukuk issued in 2012 to raise funds for the government</td>
</tr>
<tr>
<td>Liquidity management</td>
<td><strong>Bahrain, Gambia and Brunei</strong>: Short-term Sukuk as tools of liquidity management</td>
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<tr>
<td>Education</td>
<td><strong>Osun State, Nigeria</strong>: Local currency, sub-sovereign Sukuk issue ($62 million equivalent) for the construction and rehabilitation of 24 schools in 2013</td>
</tr>
<tr>
<td>Health</td>
<td><strong>World Bank</strong>: Global Sukuk for $500 million raised by International Financial Facility for Immunization to fund the supply of vaccines to some of the world’s poorest nations in 2014</td>
</tr>
<tr>
<td>Infrastructure</td>
<td><strong>Saudi Arabia</strong>: Global Sukuk for $1.7 billion to finance electricity projects in 2010. <strong>Malaysia</strong>: Global Sukuk for $300 million to finance the Klang Valley Rapid Mass Transit Project</td>
</tr>
<tr>
<td>Environment</td>
<td><strong>Malaysia</strong>: The World’s first green sukuk launched in 2017 to finance sustainable, climate-resilient growth</td>
</tr>
</tbody>
</table>
Components of a sound financial sector

- Consumer/Investor Protection
- Effective Regulations
- Financial Literacy
- Financial Innovation

Mobilize Savings and Allocate Investments

Legal framework to enhance trust, confidence in financial contracts and transactions
Policy interventions to unlock the potential of Islamic finance for sustainable development

- Enhance corporate governance and risk management
- Strengthen the regulatory and supervisory framework
- Promote standardization of products and documentation
- Improve bankruptcy and insolvency regimes
- Raise public awareness (financial literacy)
- Increase the number of skilled professionals
Sustainable development of Islamic capital markets

Markets require a robust enabling environment

ICM Ecosystem

- Talent Pool
- Legal and Regulatory Framework
- Shariah Governance Framework
- Tax Framework
- Gov’t Support
- Diverse Pool of Players
- Strong Intermediation Institutions
Technological Disruption
Not just any digital connectivity will do

<table>
<thead>
<tr>
<th>Voice</th>
<th>Simple Data</th>
<th>Broadband</th>
<th>Faster Broadband</th>
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</table>

<table>
<thead>
<tr>
<th>Analog Voice</th>
<th>Digital Voice + Simple Data</th>
<th>Mobile Broadband</th>
<th>Faster and Better</th>
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</thead>
<tbody>
<tr>
<td>N/A</td>
<td>&lt;0.5 Mbps$^1$</td>
<td>63+ Mbps$^2$</td>
<td>300+ Mbps$^3$</td>
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</tbody>
</table>

$^1$ Peak data rate for GSM/GPRS, latest Evolved EDGE has peak DL data rates capable of up to 1.2 Mbps; $^2$ Peak data rate for HSPA+ DL 3-carrier CA; HSPA+ specification includes additional potential CA+ use of multiple antennas, but no announcements to date; $^3$ Peak data rate for LTE Advanced Cat 6 with 20 + 20 MHz DL CA; LTE specification includes additional potential CA + Additional use of multiple antennas, but no announcements to date

Source: Disruptive Tech Forum, World Bank, 2017
Financing sustainable development: “Digitization” is disrupting every part of financial services

<table>
<thead>
<tr>
<th>Digitization Of:</th>
<th>Money</th>
<th>Cash Transfers</th>
<th>Identity</th>
<th>Origination / Lending</th>
<th>Payments</th>
<th>Capital Markets Infrastructure</th>
<th>Supply Chain/Invoicing</th>
<th>Savings and Insurance</th>
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<td>Drivers</td>
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<td>● Ecommerce</td>
<td>● Govt efficiencies</td>
<td>● KYC, security</td>
<td>● Big data (KYC automation)</td>
<td>● Global trade</td>
<td>● Search for global returns</td>
<td>● Data analytics &amp; underwriting</td>
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<td>● Convenience</td>
<td>● Govt policy programs</td>
<td>● SIM reg., govt payments</td>
<td>● Need for transparency + efficiency</td>
<td>● Ecommerce</td>
<td>● Convenience of personal investments</td>
<td>● Falling interest rates &amp; invest income</td>
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<td>● Govt action (e.g. India)</td>
<td>● Fraud reduction</td>
<td>● E-services, elections</td>
<td>● Convenience</td>
<td>● Business &amp; leisure travel</td>
<td>● Democratization of share ownership</td>
<td>● Business need for efficiency &amp; transparency</td>
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<td>● Transport</td>
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<td>● Falling costs biometrics</td>
<td>● Digital identity</td>
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<td>● Govt push for transparency &amp; tax compliance</td>
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<td>Opportunities</td>
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<td>● Account service providers; cash collection networks; regulatory advice to govt</td>
<td>● Govt payment contractors (govt may unintentionally create largest payment banks)</td>
<td>● Govt platforms for digital ID followed by innovative private-sector led applications</td>
<td>● Digital lenders, marketplaces, originators, Scale SME Lending, Robo advice</td>
<td>● Money transfer operators, cross border payment networks, FX operators</td>
<td>● Back office operations, main exchanges (stock, currency, bonds, derivatives)</td>
<td>● Back office operations, exchanges, value chain securitization</td>
<td>● Direct insurance, online brokers &amp; advisors, data and analytics, aggregators</td>
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<td>Location</td>
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<td>● Global - populous countries first</td>
<td>● Markets with cash transfer programs</td>
<td>● Country specific and global (ID4D is global, regional, country specific)</td>
<td>● Global - focus on large demographics</td>
<td>● Global - main trade corridors</td>
<td>● Financial market capitals (NY, London, Tokyo)</td>
<td>● Regional &amp; cross border</td>
<td>● Global, regional and country specific</td>
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<td>Impact</td>
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<td>1.5 Bn wallets in 6 years</td>
<td>Over 300m accounts</td>
<td>1.5 Bn people without ID</td>
<td>$34 Bn in China alone</td>
<td>$3.6Trn value globally p.a.</td>
<td>$20Trn p.a. global flows</td>
<td>&gt;$1Trn p.a. in LAC alone</td>
<td>&gt;5 Trn GWP, &gt;15 Trn AUM</td>
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<td>Examples</td>
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<td>Source: World Bank Group, 2017</td>
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Exponential changes in IT are disrupting industries and creating new opportunities.

**Why Blockchain?**

- **Blockchain & Distributed Ledger Technologies**
  - **Applications:**
    - Finance (e.g. remittances; P2P Payments)
    - Record Keeping
    - Identity Management
    - Smart Contracts
    - Sharing Economy (P2P market)
    - Crowdfunding
    - Governance
    - Supply Chain Auditing
    - Protection of Intellectual Property
    - Land Titling Registration
  - **Characteristics:**
    - Transparent
    - Robust
    - Decentralized
    - Cost Effective
    - Immutable
Financing sustainable development: Fintech will become critical
Examples of WBG work in Islamic finance

- First green sukuk, in 2017 in Malaysia for $59M
- Issuance of various IF instruments, incl sukuk, which raised $700M in 2015
- Doraleh Container Terminal Project, Djibouti
- Technical Assistance to various governments

- Financing package for Iraqi power company for $375 million
- Establishment of IFC Sukuk Company; issued $100M in trust certificates in 2015
- Queen Alia Airport Project, Jordan
- Hajj terminal and Madinah airport in Saudi Arabia

- Provision of a $427M Sharia-compliant investment guarantee for infrastructure projects
- Political risk insurance worth $450M in 2015
Equity index linked bonds

The index composition follows a 3-step methodology to select companies from the overall investment universe (developed country companies assessed by VigeoEiris):

**Step 1: Exclusion of companies**

**Step 2: Selection of companies contributing to the SDGs**

**Step 3: Final selection based on suitability for equity index investing**

50 Companies (rebalanced annually)
Index composition

The index consists of 50 companies. The graph shows the current index composition mapped against each companies’ contribution to each of the 17 SDGs.

Source: VigeoEiris, Solactive (For illustrative purposes only.)
IFC’s Social Bond Program

Projects will generally involve support for low-income populations in the areas of:

- Smallholder farming
- More affordable health, education, utilities or housing services
- Goods and services
- Access to telecommunication and payment platforms
- Lending to financial intermediaries; proceeds of which must be on-lent to women-owned enterprises

Sources: IFC Social Bond Program Presentation, 2017
We share a common goal: eliminating extreme poverty by 2030 and boosting shared prosperity. We must work in partnership to be successful.
Thank You

worldbankgroup.org/sdgs

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Mahmoud-Mohieldin on LinkedIn

Mahmoud Mohieldin
Senior VP