Islamic Finance
Scalable and sustainable funding source for social infrastructure
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Acknowledgments
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Industry supporters
This Whitepaper
How it was developed

Deloitte and IRTI-IDB Group Executive Workshop | 11 : “Responsible Investment: Sources of financing Social Infrastructure”.

The event is jointly organized with IRTI-IDB Group and supported by the Chartered Institute for Securities & Investment (CISI), and was held on November 28, London, UK.

Key sessions:

Key Speakers:
• Peter Casey, Advisor, IFSB and ESCA
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• Khalid Howladar, Managing Director and Founder, Acreditus
• Tallat Hussain, Environmental Counsel, White & Case
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Islamic finance: Scalable and sustainable funding source for social infrastructure

This whitepaper brings together the collective views of the industry forum organized by Deloitte Middle East (ME) and supported by Deloitte UK, held last November in London.

The event was hosted by the Chartered Institute of Securities and Investment (CISI) and supported by the Islamic Research and Training Institute (IRTI).

Key discussed themes:
• Sustainability and investment opportunities
• Creating an enabling regulatory environment
• Human capital and collaborative initiatives
Executive Summary

Islamic Finance: Scalable and sustainable funding source for social infrastructure

- This whitepaper examines the key enablers of building an effective Islamic finance investment structure as a source of social infrastructure financing.

- The whitepaper discusses the industry trends and the value proposition of an alternative Sharia’-complaint funding model which resembles sustainable finance, and shares guidelines and principles of responsible investment and sound governance practices.

- Governments are attempting to use increased infrastructure funding as a tactic for economic stimulus, tightened credit markets are posing an obstacle to raise debt finance, and lastly, governments’ budgets are constrained.

- Our contributors have addressed key regulatory, practice and capability building requirements.
Sustainability and investment opportunities
Creating financial systems that are more responsive to the real economy

• In 2016 the IDB and its development partners launched the US$ 2.5 billion Life and Living Fund (LLF), the largest development initiative of its kind in the Middle East.

• In a period extending from launch to 2021 the LLF will provide up to US$ 2.5 billion of concessional financing aimed at saving and improving lives.

• In the next few years, millennials will inherit the largest transfer of generational wealth to date and are potentially set to control US$ 24 trillion by 2020.
Creating an enabling regulatory environment
Islamic finance and social infrastructure: A regulator’s perspective

• **Sukuk** offer instruments well suited to infrastructure financing, including the possibility of linking returns to the achievement of social goals.

• It is certainly possible that Islamic banks could use the vehicle of restricted investment accounts to match willing, value-driven investors with **social infrastructure projects**

The capital market possibilities

Sukuk allow investors to choose specific investments which fit their values, and many Sukuk have in fact supported infrastructure projects, for example power stations or airports. In general, Sukuk have been structured to be economically as close as possible to conventional bonds, but this does not have to be the case.

Returns can be linked to project performance, whether in pure economic terms or in terms of the achievement of social goals.
Financing social infrastructure projects
A case for sustainable Islamic finance standards

• The ICMA Green Bonds Principles (GBP) have provided issuers with a voluntary framework since 2014. In that time period issuance of green bonds has risen to over US$150 billion and the GBP have achieved the status of best practice.

• A framework for environmental and social finance through instruments such as Sukuk is needed to define environmentally sustainable or socially responsible assets or project categories to which the proceeds of Sharia’ compliant instruments such as green Sukuk would be dedicated

A framework for green Islamic finance instruments

Nonetheless, a framework for green Islamic finance instruments can build on the principles for environmental, social and sustainability bonds in order to ensure the alignment of the issuances with investor expectations (e.g., environmental and/or social benefits of the investment). The GBP and SBP provide proven examples that can be made to conform for Islamic financing structures to instill confidence in sustainable Islamic finance products based on a coherent and coordinated system supported by MENA countries and others. In turn, this should facilitate a broadening of the investor base for Sharia’-compliant financing of environmental and social assets and programs. With these objectives, a strong case can be made for standards of “green financial conduct” to springboard forms of sustainable Islamic finance, such as green Sukuk, from the marginal to the mainstream.
Human capital and collaborative initiatives

Human capital development

• The industry must also make a concerted effort to create pathways for graduates, including *graduate schemes, internships and placements*. Graduates must become a part of the recruitment armory of Islamic finance.

• The success of infrastructure projects in using Islamic finance has inspired project benefactors (equity investors) in countries such as Bangladesh, Djibouti, Indonesia, Kazakhstan, Malaysia, Mali, Morocco, Nigeria, Pakistan, Saudi Arabia, Turkey, and Uzbekistan to continue to pursue Islamic finance, along with conventional finance, in undertaking yet to come infrastructure projects.” WB and IsDB Report, 2017”

Developing human capital in Islamic finance

Nurturing Islamic finance talent means to invest in supporting people, in training, engagement and creating a culture which fosters skills, creativity, inclusion and innovation. CEOs and Islamic finance leaders must pilot this change, and make talent development best practices a strategic priority. This requires implementing a framework which supports people and innovation – not just a symbolic gesture, but also a forceful stance crystallizing real development in human capital.
## Conclusion

### Key takeaways

The institutions offering Islamic financial services (IIFSs) should consider addressing the following considerations and objectives:

<table>
<thead>
<tr>
<th>Sharia’ Compliance</th>
<th>Process and Guidelines</th>
<th>Regulatory &amp; Risk</th>
<th>Human Capital &amp; Leadership</th>
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<td>• Achieve Sharia’ compliance through a corporate purpose culture, embracing the essence of Sharia’ objectives in business and investment, which correspond with those of the UN SDGs, to achieve sustainable social prosperity.</td>
<td>• Consider developing voluntary process guidelines of products such as those of the ICMA’s Green Bond Principles (GBP) and the Social Bond Principles (SBP). • This will help rationalize and harmonize transactional controls and reduce costs and operational risks.</td>
<td>• Address regulatory requirements regarding asset ownership, tax, bankruptcy laws and investment legislation, and identify key business and financial risks. • This will help create subsidiaries, affiliates, and alliance partners</td>
<td>• Identify investment and sector specific skill sets required in developing the social Sukuk. • Develop a matrix reporting structure, and the required skills, experience, and expertise.</td>
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