

***Thoughts from Islamic Capital Markets for  
Sustainable Development in Asia and the Pacific.***

*First High-Level Follow-up Dialogue on Financing for  
Development in Asia and the Pacific.*

**Incheon, Republic of Korea 30-31 March 2016**

**Obiyathulla Ismath Bacha**

## **The Problem.**

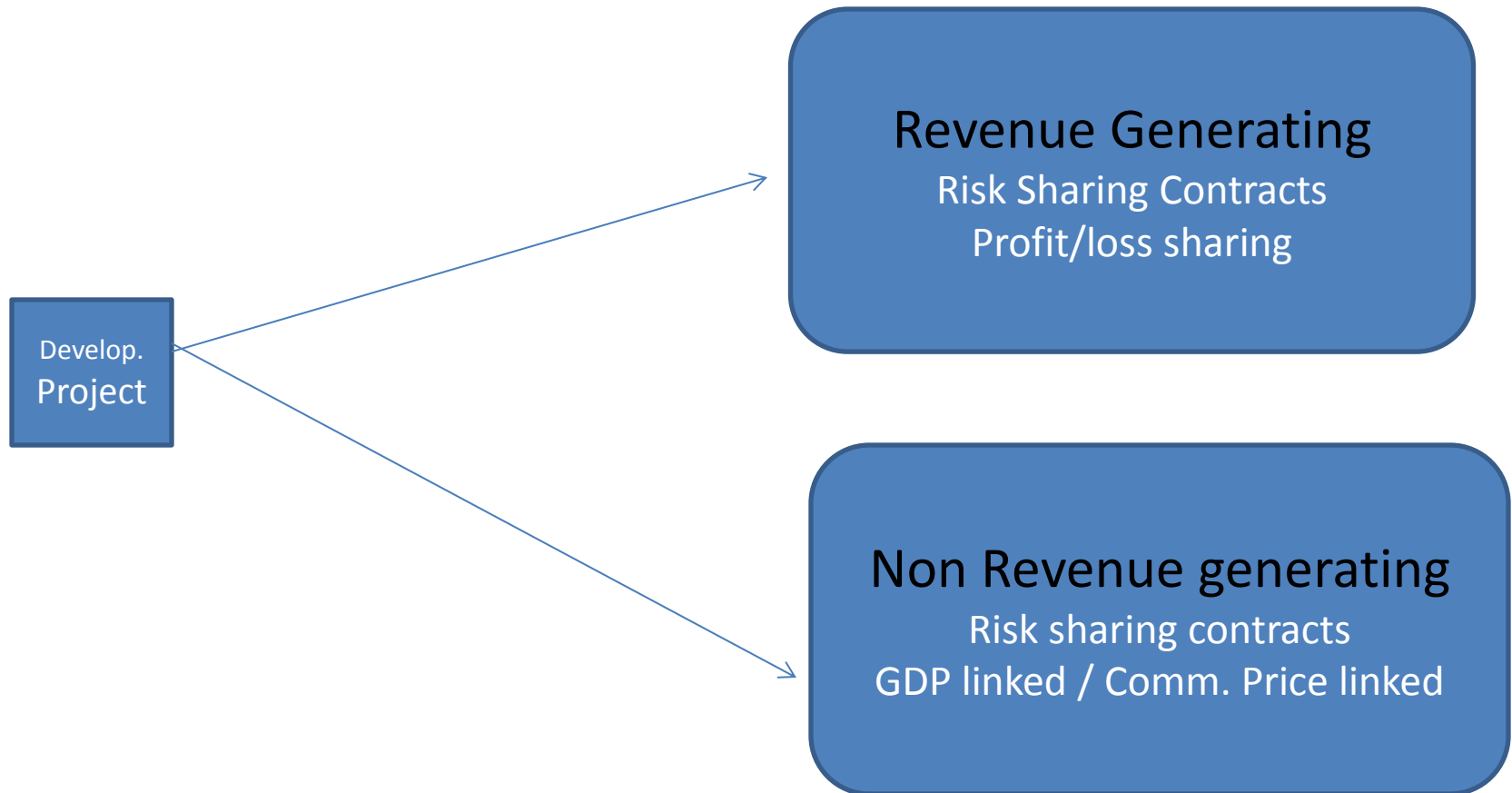
### **How do we fund new development without more debt?**

- The world now appears to have worked itself into a corner.
- Infrastructure is needed for growth, job creation, poverty alleviation and overall competitiveness, yet, many nations have hit very high levels of debt and need to deleverage.
- deleveraging will mean cutbacks, additional strain on societies and sacrificing new growth.

## **Potential solution.**

- The risk sharing instruments of Islamic Finance, offer a way out.

- Infrastructure projects two broad categories, revenue generating and non-revenue generating.

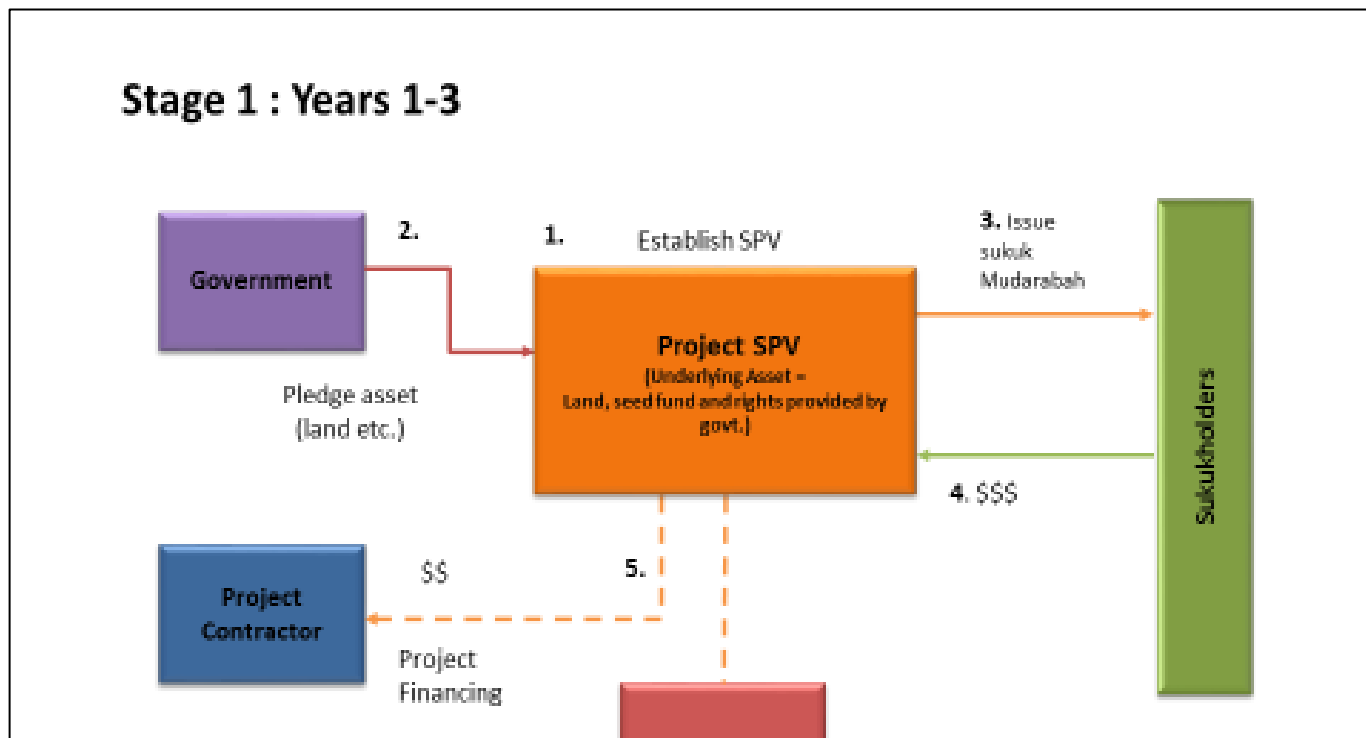


- Mudarabah and Musharakah are essentially quasi equity contracts. Financier provides the funding and agrees on a profit sharing ratio (PSR).
- The risk-sharing, terminality, specificity of claim and limited dilution are important advantages that the Mudarabah has relative to debt.
- Aligns 'repayment' to ability to pay. "stabilizer"
- Avoids pro cyclical behavior.
- Avoids leverage and macro – economic vulnerability to sudden stops/external shocks.

## Using Mudarabah to Fund Infrastructure Project – Illustration

- A developing country is in need of a new power generation plant to serve a region that has been suffering brownouts. The government has negotiated with a foreign contractor who has the expertise to design and build the plant.
- The total investment needed for the project is \$750 mil.
- The government will provide land and other basic infrastructure and will also provide seed funding of \$20 million. The total value of the government's investment is \$75 million or 10% of needed total investment.
- Construction will take 3 years with production/revenue beginning in early year 4.

# Figure 3. The sukuk issuance process.



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