

# Small Scale Infrastructure financing – World's best practices

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# Is there a need for small scale infrastructure financing (SSIF)?

- ◇ Fast economic development need airports, seaports, motorways, railroad network etc?
- ◇ How about the infrastructure need for people and goods to reach their final destinations: local feeder roads
  - farm → home → local industry/storage → national transportation network
- ◇ Small crop bulking stations for the storage of crops before they are sent to larger warehouses
- ◇ Small-scale power generators to fill the gaps remaining in the national power grid.
- ◇ Small-scale processing facilities such as a powered hammer mills to provide the first stage of processing for industrial value chains.
- ◇ Small-scale social infrastructure such as health centres, clinics and (primary community) schools for key services to be readily accessible to communities.

# How to resolve this situation

Due to the very nature of infrastructure financing (Initial high sunk cost and long service life, the sources for SSIF is the same

- Public sector budget
- Official development assistance (ODA)
- Private sector

# Why SSIF is low?

- Decentralization of Governments – Local economic development → Bottom up approach
  - Fiscal transfers are minimal from the Federal governments
  - Donors are not interested → local knowledge is minimal plus their preference to deal with the federal government;
  - Operating budgets are higher → very little is left for the development
  - inadequate small-scale infrastructure is the major impediment for enhancing local revenue
- Although local government and entrepreneur may be willing to shoulder risk but Private sector is not willing to invest in Infrastructure due to:
  - high market and project development costs,
  - Financial market are not developed ,
  - difficulty to access pre-investment financing,
  - high commercial risks given the low effective demand and limited knowledge about best practice and scaling up

# What is the cost for no action

- ◇ Urbanization: Large scale migration of necessary labor force to larger cities and ultimately to developed countries -
- ◇ Demographic shift → Fall of the cultural heritage
- ◇ Income disparity → social unrest

# Best Practices

- Area based local strategies
- Public-private partnerships (local action groups)
- Bottom up approach
- Multi-sectoral and integrated
- Innovative
- Cooperation
- Networking

# How Islamic finance can support SSIF

1. Akhuwah – brotherhood
2. Endowment
3. Risk-sharing and equity participation

## How to capitalize

- Diversification is the key – SSIF development funds
  - Sovereign wealth funds
  - Pension funds
  - Private equity funds



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