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Municipal Sukuk Potential Infrastructure Funding

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Roadmap

I. POTENTIAL FOR MUNICIPALITY FINANCING

II. CASE STUDY

III. POLICY RECOMMENDATION



I. Potential for municipality Financing

Features and Characteristics of Municipality Financing

- **Small Scale Economy;** Working out what income the municipality will get and balancing this with the planned expenditure.
- **Safeguarding;** Putting in place controls to ensure that the income, capital and assets are safeguarded against misuse, damage, loss or theft.
- **Monitoring (Financial Reporting);** Monitoring actual budget through regular financial reporting.
- **Auditing (Accountability);** Reporting financial results to all stakeholders.

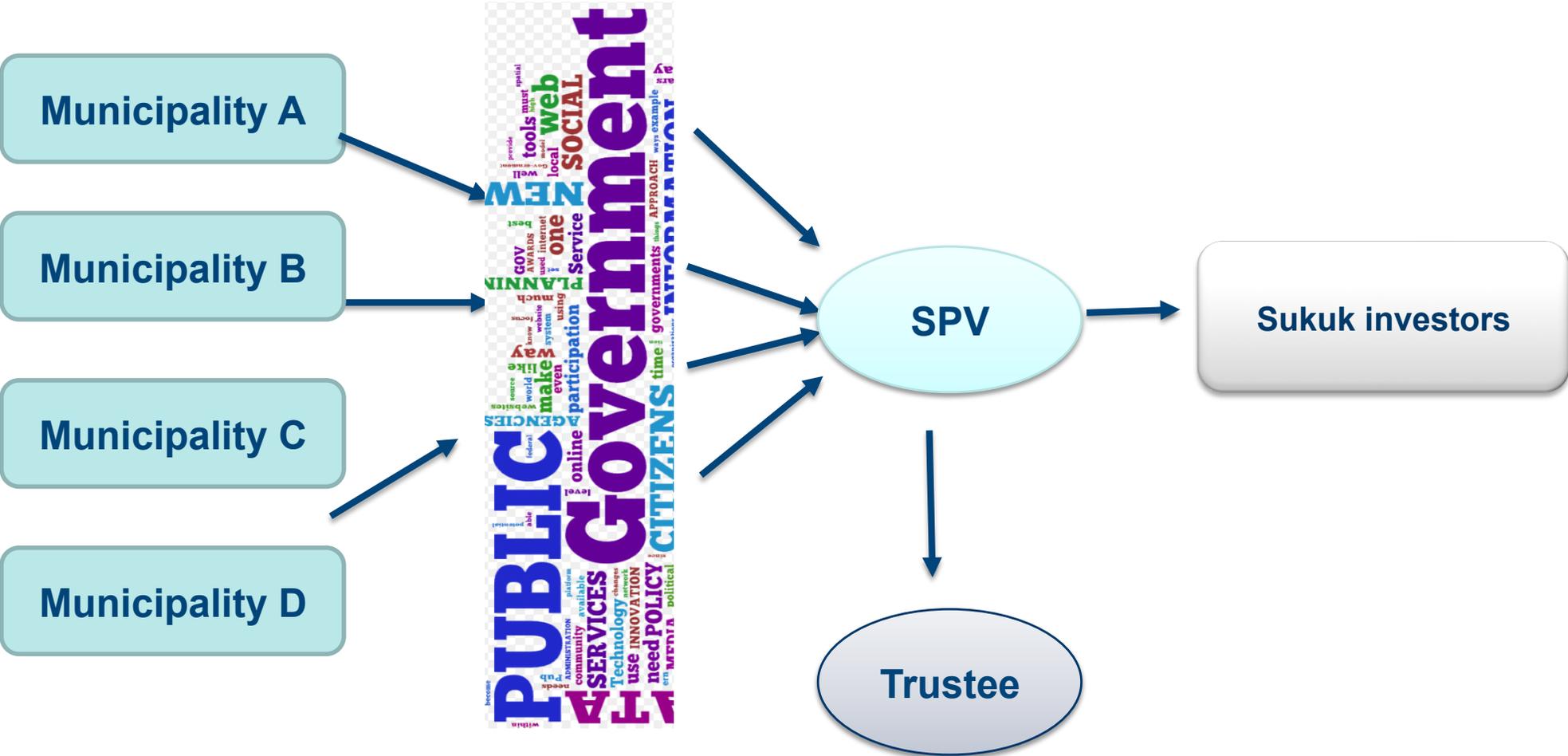
Municipalities Fund flow



Sukuk for Municipal Financing

- Sukuk is well suited for the ‘pooling’ of assets into one or more tranches against which funding can be raised.
- It provides a capital market solution to municipal financing.
- Use of sukuk provides a means to harness and mobilize funds that may not otherwise be intermediated – Attract FDI
- Broaden investor base - Muslim nations seeking to improve basic services while avoiding interest based debt

Pooling of projects



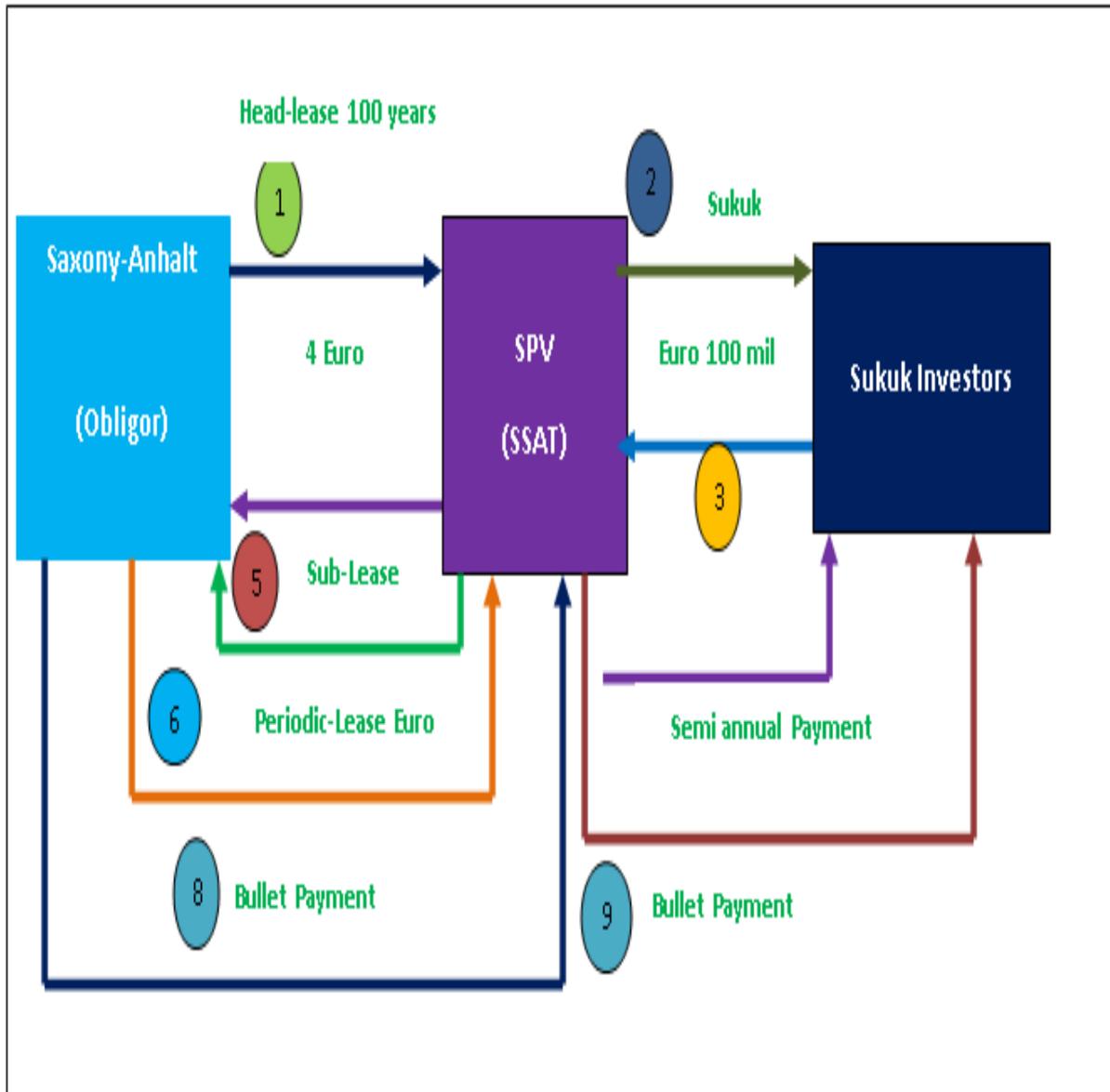
Problems for Municipality Financing

- Taxation issues
- Difficulty in pooling of assets
- Maturity mismatch for the pool of assets
- Local currency – Foreign currency lending



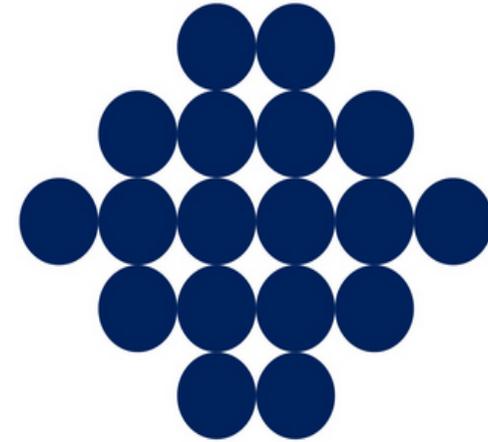
II. Case Studies

The Saxony-Anhalt Sukuk Ijarah



- The German state of Saxony-Anhalt
- € 100 mio
- 2004 July – 5 years
- Listed in Luxemburg
- Sold to Malaysia, Turkey, US and UK
- SPV in Netherland
- Backed by Ministry of Finance buildings
- One of poorer former East German states

ILLERBANK - Turkey



ILBANK

Status;

- Development and investment bank in status of special-budget joint-stock company

The Objectives;

- Meet the financing needs of municipalities, provincial authorities etc.
- Develop projects concerning locally-provided common services
- Provide consultancy services on urban projects of a technical nature and in the conduct of infrastructure works

Funding;

- Initiate a tender and infrastructure financing
- Solid waste management

III. Policy Recommendations

Policy recommendations

- Enhanced regulation and supervision to reduce information asymmetries to promote risk-sharing
- Pooling of assets
- Requires intermediation role by credible entity to securitize and manage pooling
- Local – foreign exchange lending – Need to develop local *Sukuk* market

THANK YOU...

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