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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

User fees
Property taxes
Licenses
Govt Transfer
Other revenue

Maintenance
Operating Expenses
Communal Services
New Infrastructure
Other Community Cost
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

Municipality A
Municipality B
Municipality C
Municipality D

SPV

Sukuk investors

Trustee
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 Netherlands
- Backed by Ministry of Finance buildings
- One of poorer former East German states
ILLERBANK - Turkey

**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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