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 $\rightarrow$ Fall of the cultural heritage

◊ Income disparity $\rightarrow$ 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