



IFN Weekly Poll: Will India’s need for infrastructure funding finally open the doors to Islamic finance?

This week IFN takes a look at India; at the possibility of finally seeing Islamic finance take off in the country. The Ministry of Finance earlier this year announced that the national budget would focus on the development infrastructural amenities in the country, spending an additional INR700 billion (US\$10.54 billion) on roads, railways, ports and other projects next year. With a view to unblock the country’s infrastructure pipeline, could this see a spur of Shariah compliant transactions in its financial landscape? NABILAH ANNUAR explores.

Sitting on the fence, the poll results were split 50-50 indicating that the country’s infrastructure financing needs equally may or may not open the doors to Islamic finance in the country. According to industry estimates, the urban population in India would reach 500 million by 2017, hence the necessity to connect the infrastructural gaps is a large part of the country’s immediate demands.

Acknowledging the fact that many projects were stalled by a lack of private funding, India’s recent budget included US\$10.5 billion in increased commitments through private sector enterprises for infrastructure investment. According to the country’s Planning Commission, India is facing a funding gap of US\$300 billion in meeting its infrastructure funding requirements until 2017.

“India does need the funding; however, I feel it’s not the most important issue at hand for [the] Indian government. The more important issues are internal to the economy like regulatory hindrances, supply and raw material bottlenecks, taxation issues, corruption and ‘red-tapism’ among others. The current Indian government’s priority would be these issues and opening up [the] Islamic finance sector would be the last thing on its mind. Also opening up [the] Islamic finance sector in India would need lots of political willpower and farsightedness, which is unexpected in [the] current political environment,”

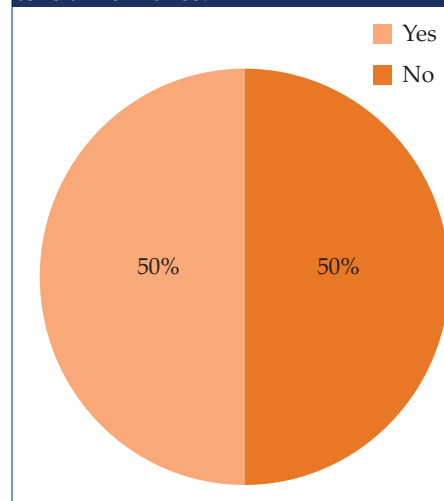
said Mohammad Asif, the director of New Delhi-based boutique consulting firm, JaZaa Financial Advisory.

Sharing the same sentiment, Saif Ahmed, the managing partner at Bangalore-based Infinity Consultants opined that Islamic finance is a far-fetched idea for the country. “Though India has a huge need for infrastructure funding and is courting cash-rich GCC economies under the new government, I only see limited scope for this to translate into Islamic finance development in India as most of the funds being courted are large GCC-based sovereign funds, which mostly don’t require Shariah compliance to make investments. Secondly, structuring a Sukuk for the first time would be a huge challenge given India’s complicated legal and regulatory framework and the various issues related to taxation, foreign investment and repatriation of profits. Lastly, when we talk about ‘opening the doors’, what I envision is the growth of large-scale services that would be available to 200 million Indian Muslims who currently have very little access to Islamic finance. Cracking this market and coming up with products that are both Shariah and legally compliant in the Indian market is something I believe that is only limitedly related to India opening up its infrastructure space to Islamic investments.”

Aiming to improve the environment for private infrastructure investment and to cement its initiative to improve the country’s public facilities, the budget proposed the creation of a ‘National Investment in Infrastructure Fund’ (comprising an initial annual allocation of US\$3.25 billion) to invest in public sector infrastructure finance companies which, in turn, will be able to leverage their higher credit rating to access domestic and international debt markets.

The government’s infrastructure initiatives also move hand in hand with the Republic’s Infrastructure Leasing & Financial Services’s efforts when it

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signed an agreement with the Islamic Corporation for the Development of the Private Sector (ICD) earlier in March this year. The cooperation agreement will essentially see the ICD and IL&FS joining hands in evaluating and structuring infrastructure opportunities, as well as achieving financial closure of projects.

“There is a definite need for funding in the infrastructure sector in India. The multi-billion dollar fund to be set up by India and the UAE has already set the ball rolling to fill the huge funding gap. However, given that Islamic finance is at a relatively nascent stage in India, there is a tremendous requirement for opening of mindsets and markets towards unexplored funding methodologies. Then, there is [a] distinct possibility that Islamic finance may command [a] high mind space if appropriate thrust and balance is put behind this by relevant market participants,” said Jeet Sen Gupta, a partner at Juris Corp.

Evidently, both the government and the private sector are pushing for infrastructural development in the country. However, whether Islamic finance would have an instrumental part to play in the scheme of things still remains as a sceptical premise.☺